

Fuel Subsidy Removal and Its Negative Impact on Small and Medium Scale Enterprises

Anthonia Onyinye Ilodigwe

Abstract

Fuel subsidy has been a leverage that has aided SMEs operations in Nigeria as it has helped in reducing the amount of resources spent on fuel by SMEs. Thus, the removal has no doubt negatively affected the activities and operations of SMEs across the country. This study investigated the negative impact of fuel subsidy removal on SMEs in Anambra State. The study adopted a mixed method research that used structured questionnaire and In-depth Interview (IDI) in collecting data from 105 SMEs systematically selected from the 21 Local Government Areas in the state. Data collected for the study was processed using Statistical Package for Social Sciences (SPSS). The result of the quantitative data was analysed using descriptive statistics (frequency tables, charts and graphs) while the qualitative data was analyzed using thematic analysis. The study hypothesis was tested using Chi-square inferential statistics. The study found that fuel subsidy removal has a very high negative impact on SMEs in Anambra State. The study also found that the negative impact of fuel subsidy removal on SMEs include increase in production cost, reduced profit as a result of high overhead costs, low sales and income resulting from low patronage and financial strain in the general activities of SMEs. The study thus recommends that strategic planning and policies that can combat the negative effect of fuel subsidy removal should be put in place by the Federal Government as this will help SMEs thrive and still carry out their operations without many difficulties irrespective of fuel subsidy removal.

Keywords: fuel subsidy, fuel subsidy removal, SMEs, negative impact

1. Introduction

Oil in Nigeria was first discovered around 1956 and, since then, Nigeria has been ranked by Organization of the Petroleum Export Countries (OPEC) among the world's largest crude oil reserves and producer of crude oil (United Nation Environmental Programme UNEP, 2017). Despite Nigeria being among the world's top producers of crude oil, the country has been facing challenges

in refining crude oil domestically in recent times. This is as a result of several factors such as corruption, poor maintenance of infrastructure, etc. (Adeola, Akingboye, Ore, Oluwajana, Adewole, Olawade & Ogunyele, 2022). The challenges resulting from crude oil and petroleum refining has led to increase in the overall cost of fuel in the country (Ogbuigwe, 2018). In order to enable its citizens and organisations to purchase fuel at an affordable price, the government of Nigeria decided to subsidize the cost of fuel by paying some part of the money to fuel producers while the citizens and organisations pay the other part each time they purchased fuel at the filling stations (Soremekun, 2023).

Fuel subsidies have been a significant and contentious issue in Nigeria for many years. Nigeria has a long history of fuel subsidies dating back to the 1970s when the government began regulating fuel prices to keep them artificially low for consumers (KPGM, 2023). This was done to provide affordable fuel to the Nigerian population. Over the years, fuel subsidies became a burden on the Nigerian economy. The government was spending a significant portion of its budget on subsidizing fuel, leading to fiscal challenges. The fuel subsidy system in Nigeria was plagued by corruption and fuel smuggling, where subsidized fuel was often illegally sold in neighboring countries for a higher price (McCulloch, Moerenhout & Yang, 2021).

Several Nigerian administrations attempted to reform the fuel subsidy system to reduce the burden on the government and increase transparency. These efforts were met with resistance and protests from the public. In 2020, the Nigerian government announced plans to fully deregulate the downstream sector of the oil industry, which included the removal of fuel subsidies. This move aimed to allow market forces to determine fuel prices and reduce government spending on subsidies (Iroanusi, 2021).

Fuel subsidies have historically been implemented to stabilize fuel prices, control inflation, and ease the financial burden on the populace. For SMEs, fuel subsidies have helped reduce operating costs, making transportation more affordable and ensuring the availability of energy at a reasonable price for production and distribution activities (Adeniran, 2016).

Small and Medium Enterprises are the lifeblood of Nigeria's economy, contributing significantly to job creation, economic growth, and poverty reduction. These enterprises operate across diverse sectors, including agriculture, manufacturing, retail, and services, providing essential products and services to both urban and rural communities. The functions of SMEs have been greatly enhanced by fuel subsidy over the years because it helps in reducing the cost of operations of SMEs. The recent removal of fuel subsidy by the federal government necessitated the present study which is aimed at

investigating the negative impact it has on SMEs in Anambra State.

Statement of the problem

Small and medium scale businesses in Nigeria from time past have been very significant to the growth of Nigerian economy through their operations and activities. The impact of SMEs cannot be overemphasized because they can be found in every part of the country and their existence contributes to GDP, social and political growth and development of the country. However, SMEs are faced with lots of challenges in Nigeria, the latest being the total removal of fuel subsidy by the Federal Government of Nigeria. SMEs, unlike large enterprises and corporations, leverage on opportunities and resources presented by the subsidization of fuel to grow and sustain their businesses. In the situation where fuel subsidy, a major leverage to SMEs, is removed, it poses a great threat and risk to the existence of SMEs. Because the power or energy problem of the nation is yet to be fixed, these SMEs heavily depend on private power generation to run their business and, in the process, they pay heavily to carry out their business activities.

The removal of fuel subsidy automatically led to increase in the price of fuel which directly led to increase in cost of production or rendering services. Also, SMEs in Nigeria depend heavily on physical distribution for their marketing unlike large industries in technologically advanced nations that adopt electronic online marketing; hence, removal of fuel subsidy increases their marketing expenses, leading to reduction in their profit. The challenges being faced by SMEs in Nigeria, in spite of their huge contributions to the country's economic growth, and the impact fuel subsidy removal has on SMEs made this study to investigate the negative impact of fuel subsidy removal on SMEs in Anambra State.

Research Questions

1. What is the level of the negative impact fuel subsidy removal has on SMEs in Anambra State?
2. What are the negative impacts of fuel subsidy removal on SMEs in Anambra State?

Research Objectives

1. To ascertain the level of negative impact fuel subsidy removal has on SMEs in Anambra State.
2. To find out the negative impacts of fuel subsidy removal on SMEs in Anambra State.

Study Hypothesis

1. Fuel subsidy removal is likely to have high negative impact on small scale businesses than medium scale businesses in Anambra State.

LITERATURE REVIEW

Concept of Fuel Subsidy

Fuel subsidy is a government policy in which the government provides financial assistance to reduce the cost of fuel for consumers. This is typically done by selling fuel at a price lower than the market rate, with the government covering the price difference through subsidies. The main goals of fuel subsidies are to make fuel more affordable for citizens and to stabilize domestic prices. However, fuel subsidy can have economic, environmental, and fiscal implications, as they often lead to increased government spending and can encourage over consumption of fuel.

Fuel subsidy removal

Fuel subsidy removal refers to the government's decision to eliminate or reduce subsidies on petroleum products, such as gasoline and diesel. This can have significant economic and social implications. On one hand, it can reduce the burden on the government's budget and promote more efficient resource allocation. On the other hand, it often leads to higher fuel prices, which can result in increased costs for consumers and businesses, potentially causing inflation and impacting lower-income individuals and organisations disproportionately. The decision to remove fuel subsidies is a complex policy choice that government might have weighed carefully, taking into account various economic and political factors.

Small Scale Enterprise

SMEDAN (2013) described a small scale enterprise as an enterprise engaging between 10 to 49 employees with asset base of 5 million naira but with less than 50 million naira (excluding land and buildings.) The levels of technology and skills are relatively high when compared with micro enterprises. Organizational and control systems are better structured when compared with the micro scale enterprises. Small scale enterprises may be incorporated companies or partnership firms. Small scale enterprises have the potentials as sole proprietorship or partnership. They also have better potential to source funds from the formal sector such as deposit money banks or other financial institutions when compared with the microfinance enterprises. They may be members of professional groups and trade associations. This category of enterprises is also found in all sectors covered by Micro Enterprises including service sectors such as schools, hospitals, publishing organizations and

professional firms for lawyers, accountants, architects, etc. According to Central Bank of Nigeria, small scale enterprises are enterprises in which total investment (including land and capital) does not exceed N500,000 and/or annual turnover does not exceed N5 million.

Medium Scale Enterprise

Medium scale enterprises are enterprises that have between 50 to 199 workers and an asset base of 50 million naira and not less than 500 million naira excluding land and buildings (Ufua, Olujobi, Ogbari, Dada & Edafe, 2020). They are involved and found in key sectors such as manufacturing, information and communication technology, transportation, building and construction, multiple and departmental stores, etc. They have highly developed technology and resources. They have access to many sources of finance ranging from commercial banks to development banks. They can also easily go to the capital market to source for additional capital such as equity and debenture. According to CBN, medium scale enterprises are enterprises with a labour size of between 101-300 workers or a total cost of over N50 million but not more than N200 million, including working capital but excluding cost of land.

Impact of fuel subsidy removal on businesses

The impact of fuel subsidy removal on SMEs can vary depending on several factors, including the industry, location, and the overall economic environment. However, below are some impacts fuel subsidy removal can have on SMEs.

Increased Operating Costs: Fuel subsidy removal often leads to higher fuel prices, which can directly increase operating costs for SMEs that rely on transportation, such as logistics, delivery, and manufacturing companies.

Inflation: Rising fuel costs can contribute to overall inflation, affecting the purchasing power of consumers and potentially reducing demand for certain goods and services from SMEs.

Profit Margins: As a result of fuel subsidy removal, SMEs may see their profit margins squeezed as they absorb higher fuel costs or pass them on to consumers, potentially impacting competitiveness.

Transportation and Logistics: SMEs that heavily rely on transportation may face challenges in managing their supply chains and distribution networks efficiently, leading to increased costs and potential delays.

Energy-Intensive: Energy-intensive SMEs like manufacturing enterprises may face increased production costs, potentially impacting their global competitiveness and contribution to their country's growth and development.

Empirical Review

Goddey, Iheagwara and Otu (2014) investigated the effects of fuel subsidy removal on small business performance in South-East Nigeria. Two research questions were raised as a guide to this study while data generated through the questionnaire were analyzed using the Nonparametric Kruskal Wallis test. The statistical software package MINITAB version 16.0 was used for the analysis. The use of Bartlett's test of homogeneity of variance shows variation in the data, and the test for normality assumption rejected the null hypotheses which lead to the use of non-parametric methods. The study found that fuel subsidy removal has significant impacts on the financial performance of small businesses in Nigeria, and fuel subsidy removal has a significant impact on the market performance of small businesses in Nigeria.

Ozili and Obiora (2023) investigated the implications of the 2023 fuel subsidy removal in Nigeria using the discourse analysis methodology. The study found that the negative implications of fuel subsidy removal included decreased economic growth in the short term, increased inflation, increased poverty, increased fuel smuggling, increased crime, and increase in the prices of petroleum products and loss of jobs in the informal sector.

METHODOLOGY

This study adopted mixed methods research design. Questionnaire schedule which is a quantitative instrument for data collection and a structured interview guide which is a qualitative research instrument were used to collect data for the study. Again, the study population was made up of Managing Directors and CEOs of 105 SMEs (Small and Medium Scale Enterprises) selected from all the 21 local government areas of the state using simple random probability sampling techniques (hand drawing and balloting). Also, 5 participants that were not administered questionnaires were purposively selected for the In-Depth Interview. Quantitative data collected from the study were processed using Statistical Package for Social Sciences (SPSS version 25) while the data collected for the interview were sorted before been used for analysis. The quantitative data collected for the study were analysed using descriptive statistics (tables, graph and charts) while thematic analysis was used to analyse the qualitative data collected from the interview sessions. The study hypothesis was tested using Chi-square inferential statistics. Further, the quantitative and qualitative data collected from the field were further complemented in order to arrive at the findings of this study.

DATA PRESENTATION AND ANALYSIS

Table 1: Distribution of SMEs used in the study

Enterprise	Frequency	Percent
Small Scale Enterprise	53	50.48
Medium Scale Enterprise	52	49.52
Total	105	100

Field survey, 2023

Data presented in table 1 shows that 53(50.48%) of enterprises used for the study were small enterprises while 52 (49.52%) of the enterprises used were medium scale enterprises.

Research question 1: What is the level of the negative impact fuel subsidy removal has on SMEs in Anambra State?

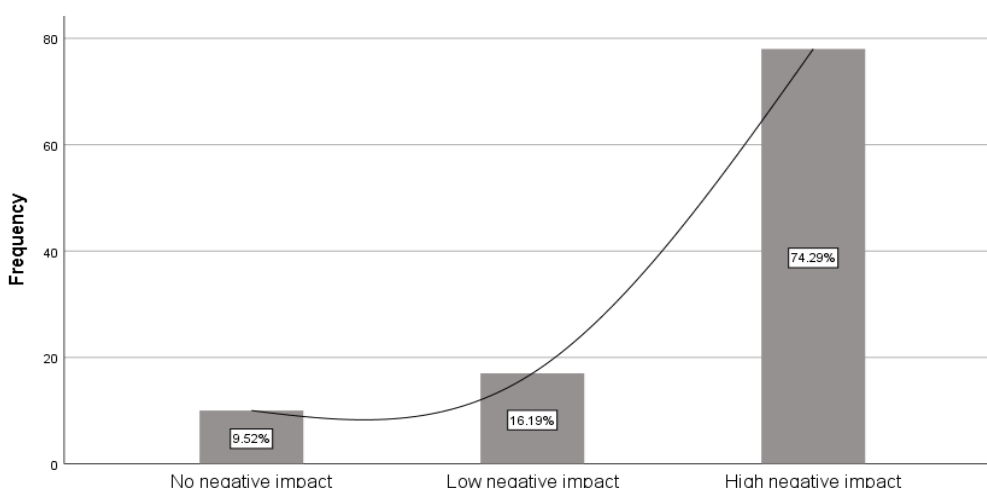


Fig 1: Graphical representation of the level of negative impact of fuel subsidy removal on SMEs

Figure 1 shows the level of negative impact fuel subsidy removal has on SMEs in Anambra state. Data from the figure shows that 78 (74.29%) of the respondents indicated high negative impact, 17 (16.19%) indicated low negative impact while 10 (9.52%) indicated no negative impact. Data presented in the figure also shows that the line trend of the impact of fuel subsidy removal on SMEs went high towards negative effect in Anambra State and this implies that fuel subsidy removal has high negative effect on SMEs. The result in Figure 1 aligns with the response of an IDI respondent who opined that:

The impact of fuel subsidy removal can be felt in every sector of Nigeria but to small organisations like us that compete with larger organisations, the impact is more. Apart from the cost paid for fuel for generators, other costs, especially transportation during distribution, is on a very high side and this has greatly

affected our operations. A litre of fuel is over 600 Naira and I will tell you that it is really telling on the organisation (32 years, Male, Managing Director, Onitsha North).

This response implies that fuel subsidy removal affects both the transportation and production costs of SMEs, making it difficult for them to carry out their daily activities.

Another respondent stated that:

The activities of our organisation have not been easy since the removal of fuel subsidy. Definitely, it is obvious that the production cost of everything is up. The price for raw materials is no longer the same and the amount that is supposed to be spent on fuel has also increased. All these put together makes production not to be the same because if plans are not accurate, the organisation will really suffer. Electricity bill is also on the high side and when there is power failure, we pay heavily for diesel (35 years old, Male, CEO, Awka South).

This response implies that fuel subsidy removal has a serious negative impact on the activities of SMEs, especially in the area of electricity cost.

Another respondent also said that:

The removal of fuel subsidy has really affected our business operations even in a short period of time that the subsidy was removed, the impact is already felt and it is not small. The impact is something that have really affected our activities it is massive (47 years old, Female, Director, Idemili North).

This response means that the impact of fuel subsidy removal on SMEs in Anambra is massive and it affects their operations and activities.

Research Question 2: What are the negative impacts of fuel subsidy removal on SMEs in Anambra State?

Table 2: Respondents' views on the negative impact of fuel subsidy removal on profitability of their organisation

Responses	Frequency	Percent
Leads to increased production cost	11	10.48
Leads to reduced profit as a result of high overhead costs	13	12.38
Leads to low sale and income as a result of low patronage	7	6.67
Leads to financial strain in general activities	9	8.57
All of the above	65	61.90
Total	105	100

Field survey, 2023

Table 2 shows that majority of the respondents agreed that the negative impact of fuel subsidy removal on SMEs profitability in Anambra State include

increase in production cost, reduced profit as a result of high overhead costs, low sales and income resulting from low patronage and financial strain in the general activities of SMEs. This result partly supports the response of an IDI respondent who explained that:

The removal of fuel subsidy is not a welcome development to me because a lot of things were not put in place before it was removed abruptly. This is seen in the high cost of living and the challenges companies face in carrying out their production activities and day-to-day operations. The cost of production is really on a high side and one of the major contributors is gas for generator and vehicles (40 years old, Male, CEO, Nnewi North).

This IDI’s response shows that some of the major negative effects of fuel subsidy removal on SMEs is increase in production and operational cost. Another respondent saw the negative impact of fuel subsidy removal on SMEs as decrease in profit when she opined that:

The major negative impact of this whole fuel subsidy removal is the decline in my daily earnings. The removal of fuel subsidy has brought about economic hardship no doubt and this has led to reduced patronage from my clients. Most people have reduced how they feed, how they make use of their purchased items and this has really affected the level of income and profit I make on a daily basis (29 years old, Super Market Owner, Njikoka).

Test of Hypothesis

The study hypothesis was tested using χ^2 inferential statistics at 0.5 level of significance.

H0: Fuel subsidy removal is not likely to have high negative impact on small scale businesses than medium scale businesses in Anambra State.

Table 3: Cross-tabulation between SMEs and level of negative impact of fuel subsidy removal

			Level of negative impact of fuel subsidy removal			
			No negative impact	Low negative impact	High negative impact	Total
SMEs	Small scale	Count	4	8	41	53
	Enterprise	% within SMEs	7.5%	15.1%	77.4%	100.0%
	Medium scale	Count	6	9	37	52
	enterprise	% within SMEs	11.5%	17.3%	71.2%	100.0%
Total		Count	10	17	78	105
		% within SMEs	9.5%	16.2%	74.3%	100.0%

$\chi^2=.654$ $df=2$, $p=.721$

Table 3 shows that there is no significant relationship between SMEs and level of negative impact of fuel subsidy removal. Since p-value (.721) is greater than 0.05, the alternative hypothesis was rejected. This implies that fuel subsidy

removal is not likely to have high negative impact on small scale businesses than medium scale businesses in Anambra State. Thus, both small and medium scale businesses are negatively affected by fuel subsidy removal.

DISCUSSION OF FINDINGS

The study investigated the impact of fuel subsidy removal on SMEs in Anambra State. Through the first research question asked, the study found that fuel subsidy removal has a high negative impact on SMEs. Through the second research question, it was found that the negative impact of fuel subsidy removal on SMEs profitability in Anambra State include increase in production cost, reduced profit as a result of high overhead costs, low sales and income resulting from low patronage and financial strain in the general activities of SMEs. This result partly supports the findings of Goddey, Iheagwara and Otu (2014) who found that fuel subsidy removal has significant impacts on the financial performance of small businesses. The hypothesis tested showed that fuel subsidy removal is likely to have high negative impact on small scale businesses than medium scale businesses in Anambra State.

CONCLUSION AND RECOMMENDATIONS

The study, based on its findings, concludes that there are several ways in which fuel subsidy removal impacts negatively on the activities and operations of SMEs and this negative impact greatly affect SMEs in Anambra State. Thus, the study recommends that the negative impact of fuel subsidy removal on SMEs can be eradicated if strategic planning and policies that can combat the negative effect of fuel subsidy removal are put in place by the Federal Government as this will help SMEs thrive and still carry out their operations without much difficulty.

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Writer's Brief Data



Anthonia Onyinye Ilodigwe is affiliated to the Department of Sociology, Chukwuemeka Odumegwu Ojukwu University, Anambra State, Nigeria. Email: ilodigwetonia@gmail.com