



Fuel Subsidy Removal and Its Implications for Governance and Socio-Economic Development in Nigeria

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Abstract

The removal of the fuel subsidy by President Bola Ahmed Tinubu's administration on 29 May 2023 constitutes one of the most consequential and contested economic policy decisions in Nigeria's post-independence history. With petrol pump prices rising overnight from approximately ₦185 per liter to over ₦500 per liter, a shock of more than 167 percent, the policy triggered cascading effects across every sector of the Nigerian economy and social system. This study examines the governance, economic, and socio-developmental implications of fuel subsidy removal in Nigeria, drawing on contemporary empirical data, peer-reviewed scholarship, policy documents, and international development assessments published between 2020 and 2025. The study is organized around five specific research objectives: to examine governance and public accountability outcomes; to assess socio-economic consequences for Nigerian citizens; to evaluate the effectiveness of government palliative interventions, to determine the relationship between subsidy savings and national development; and to proffer evidence-based policy recommendations. Employing a qualitative research design anchored in five theoretical frameworks such as Public Choice Theory, Structural Functionalism, Political Economy Theory, Keynesian Economic Theory, and Governance Theory, the study synthesizes evidence from across the academic and policy literature. Findings indicate that while fuel subsidy removal generated significant savings for the federal government and created space for fiscal consolidation, the absence of

adequate pre-removal preparation, targeted compensatory mechanisms, and transparent accountability structures severely undermined the development potential of the reform. Headline inflation rose from 22.41 per cent in May 2023 to a peak of 34.19 per cent in June 2024 (NBS, 2024). Poverty levels deepened, with the World Bank (2024) estimating that Nigeria's poverty rate rose from 44 per cent in 2021 to 46 per cent in 2023, placing over 104 million Nigerians in poverty. Government palliative measures, including conditional cash transfers of ₦25,000 per month to 15 million households and CNG bus deployment, fell significantly short of the scale required to cushion the shock. The study concludes with a comprehensive set of policy recommendations oriented toward making future fiscal reforms more equitable, transparent, and development-centered.

Keywords: Fuel Subsidy Removal, Governance, Socio-Economic Development, Nigeria, Public Policy, Poverty, Inflation, Tinubu Administration

1.1 Introduction

Energy subsidies represent one of the most politically and economically contested instruments of public policy in developing economies. In Nigeria, the State's historical practice of subsidizing petroleum products particularly Premium Motor Spirit (PMS), commonly known as petrol dates to 1977 when General Olusegun Obasanjo's military administration institutionalized government control over petroleum pump prices (IIARD Journals, 2026). What began as a social contract between the Nigerian state and its citizens an implicit exchange in which the country's oil wealth was distributed back to the population in the form of cheap fuel evolved over successive decades into one of the largest and most fiscally burdensome subsidization regimes in sub-Saharan Africa.

By 2022, the cost of maintaining the fuel subsidy had reached approximately ₦4 trillion, with forward projections suggesting it could rise to as much as ₦17 trillion equivalent to approximately 77 per cent of the entire 2023 federal budget (Pan African Review, 2026). The Nigerian National Petroleum Company Limited (NNPCL) reported monthly subsidy expenditures of \$1.22 billion in the period immediately preceding subsidy removal, a figure that surpassed consolidated government allocations for education, health, and infrastructure (Munich Personal RePec Archive [MPRA], 2023). This fiscal trajectory was widely regarded by economists, international financial institutions, and reform-oriented policymakers as fundamentally unsustainable.

Against this backdrop, President Bola Ahmed Tinubu, in his inaugural address on 29 May 2023, declared with striking brevity: "The fuel subsidy is gone." The pronouncement marked the abrupt termination of a subsidy scheme that had, despite numerous previous reform attempts under administrations from Obasanjo (2003) to

Jonathan (2012) and Buhari (2016), never been successfully or permanently removed. The policy shift was driven by a convergence of fiscal imperatives, international institutional pressure, and a stated developmental vision in which subsidy savings would be redirected toward infrastructure, education, healthcare, and direct welfare transfers to the poorest Nigerians.

The immediate consequences were severe. Petrol prices rose from approximately ₦185 per litre to over ₦500 per litre within hours, with subsequent increases bringing the pump price to above ₦1,000 per litre by late 2024 (NBS, 2024; MPRA, 2024). Since fuel is foundational to Nigeria's transport and logistics infrastructure, underpinning an estimated 90 percent of transportation activity, the price shock transmitted rapidly and extensively through the entire economy, driving up transportation costs by 234 percent, pushing headline inflation to 34.19 percent by mid-2024, and inflicting particularly severe hardships on low-income households, small and medium enterprises (SMEs), and rural communities.

The governance dimensions of subsidy removal are equally significant. A major policy decision of this magnitude raises fundamental questions about transparency in the management of savings, accountability in the deployment of palliative funds, the quality and effectiveness of public consultation preceding the reform, and the institutional capacity of the Nigerian state to design and implement compensatory social protection mechanisms at the required scale and speed. These questions sit at the intersection of political science, development economics, public administration, and social policy, and they form the central analytical terrain of this study.

1.2 Statement of the Problem

The fuel subsidy removal of May 2023 was premised on a developmental logic that presented it as a bold but necessary fiscal correction that would unlock billions of dollars annually for reinvestment into public goods and services. The World Bank (2022) had projected that eliminating fuel subsidies could free ₦6.7 trillion (\$14.5 billion) annually for infrastructure and social programs. The IMF, the World Bank, and various multilateral financial institutions had long advocated fuel subsidy removal as a critical component of Nigeria's structural fiscal reform agenda. Proponents argued that the subsidy was regressive in its distribution, with research by Odusanya (2020) demonstrating that the poorest 40 percent of Nigerians received only 3 to 5 percent of total subsidy benefits, while elites, middlemen, and smuggling networks captured the vast majority.

Yet two years after the policy's implementation, the development dividend it promised has remained elusive for the majority of Nigerians. Headline inflation escalated from 22.41 per cent in May 2023 to 34.19 per cent in June 2024 (NBS, 2024). Food inflation peaked above 40 per cent, eroding the purchasing power of households across all

income quintiles but disproportionately affecting the poor. The World Bank (2024) documented a rise in Nigeria's poverty rate from 44 per cent in 2021 to 46 per cent in 2023, representing over 104 million people in poverty. The #EndBadGovernance protests of August 2024 reflected widespread public frustration with governance failures and the worsening standard of living in the post-subsidy environment.

On the governance side, transparency and accountability in the management of subsidy savings have been seriously questioned. A September 2024 report by the Leaders of Africa Institute documented a notable lack of transparency and accountability at both the federal and state levels regarding the utilization of subsidy savings, even as federation account allocations to states rose substantially following the reform (Leaders of Africa Institute, 2024). Government palliative measures, including the ₦25,000 per month conditional cash transfer to 15 million households and the deployment of 3,000 CNG buses, were widely criticized as inadequate, poorly targeted, and frequently delayed in disbursement.

The core problem, therefore, is the apparent disconnection between the stated rationale and promised developmental outcomes of fuel subsidy removal, on the one hand, and the empirical reality of worsening economic conditions, inadequate palliative response, and governance opacity, on the other. This disconnect raises urgent questions about the design, implementation, and institutional governance architecture of the subsidy removal policy, which this study systematically examines.

1.3 Significance of the Study

This study makes several important contributions to knowledge, policy, and practice. From an academic standpoint, the study adds to the growing body of contemporary literature on fuel subsidy reform in Nigeria by providing a comprehensive, multi-dimensional analysis that integrates governance, economic, social, and developmental perspectives. While existing studies have tended to focus on specific dimensions such as inflationary effects (MPRA, 2024), poverty impacts (Njoku & Mmoughbuo, 2025), or governance accountability (Leaders of Africa Institute, 2024), this study provides an integrated analytical framework that captures the systemic interdependencies among these dimensions.

From a policy standpoint, the study offers timely and evidence-based insights for policymakers at the federal, state, and local government levels who are grappling with the challenge of maximizing the developmental potential of subsidy savings while mitigating their adverse welfare effects. The recommendations advanced in this study are grounded in comparative international experience, empirical data from Nigeria, and the theoretical literature on effective governance of fiscal transfers.

For civil society, development practitioners, and international organizations operating in Nigeria, the study provides an assessment of the effectiveness of government palliative measures and highlights the governance gaps that must be addressed to ensure that the fiscal space created by subsidy removal translates into genuine improvements in public service delivery and social protection.

For the Nigerian public, the study provides an accessible and evidence-based account of a policy that has profoundly affected their daily lives, contributing to informed civic discourse and democratic accountability.

1.4 Research Objectives

The study seeks to:

- i. Examine the impact of fuel subsidy removal on governance and public accountability in Nigeria.
- ii. Assess the socio-economic consequences of fuel subsidy removal on Nigerian citizens, with specific attention to inflation, poverty, employment, and standard of living.
- iii. Evaluate the effectiveness of government intervention measures aimed at mitigating the adverse effects of subsidy removal, including conditional cash transfers, CNG transportation initiatives, and social safety net programs.
- iv. Determine the relationship between fuel subsidy removal, government revenue enhancement, and national development, including infrastructure provision and public service delivery.
- v. Proffer evidence-based policy recommendations for improving the design and implementation of subsidy reform and its associated compensatory mechanisms to achieve equitable socio-economic outcomes.

1.5 Research Questions

This study is guided by the following research questions:

- i. What are the implications of fuel subsidy removal for governance in Nigeria, particularly regarding transparency, accountability, and public trust?
- ii. How has fuel subsidy removal affected the socio-economic well-being of Nigerians, with reference to inflation, poverty levels, employment, transportation costs, and household expenditure?
- iii. To what extent have government palliative and intervention measures effectively mitigated the adverse effects of subsidy removal on vulnerable populations?
- iv. Has fuel subsidy removal enhanced transparency and accountability in public finance management in Nigeria?

- v. What relationship exists between fuel subsidy removal and national development, including infrastructure investment and improvement in public service delivery?

2. Review of Related Literature

2.1 Conceptual Clarifications

2.1.1 Fuel Subsidy: Definition and Historical Context in Nigeria

A fuel subsidy, in its most straightforward definition, is a financial intervention by government that keeps the retail price of petroleum products below their market-determined price, with the government absorbing the difference. Baker (2021) defines subsidies broadly as government support measures that lower the cost of production or consumption of a good or service below what the market would otherwise determine. In the Nigerian context, the fuel subsidy specifically referred to the federal government's practice of fixing the pump price of Premium Motor Spirit (PMS) below the landing cost of imported fuel, compensating oil marketers for the difference through payments administered by the Petroleum Products Pricing and Regulatory Agency (PPPRA).

Nigeria's fuel subsidy regime has its institutional roots in the 1977 Petroleum Act, which established governmental control over petroleum pricing as part of the Obasanjo military administration's broader nationalization of the downstream petroleum sector (IIARD Journals, 2026). For decades, the subsidy functioned as a politically sensitive social compact between the Nigerian state and its citizens, a means of distributing oil wealth that was perceived as belonging collectively to the Nigerian people. The emotional and political valence of this compact explains why successive Nigerian governments struggled to remove or even substantially reduce the subsidy despite its mounting fiscal costs.

The history of subsidy removal attempts in Nigeria is instructive. General Ibrahim Babangida partially removed the subsidy in 1988 and 1993 but was forced to reverse course in the face of popular protest. Olusegun Obasanjo's civilian administration attempted a partial removal in 2003. Goodluck Jonathan's government announced removal in January 2012, triggering the "Occupy Nigeria" protests and a six-day nationwide strike after which the subsidy was partially restored (MPRA, 2024). Each failed attempt reinforced public mistrust of government intentions and deepened the political durability of the subsidy.

2.1.2 Governance and Public Accountability

Governance, in the contemporary public administration and political science literature, refers to the processes, systems, and institutions through which authority is exercised in the management of a country's resources and through which public decisions are made and implemented. The United Nations Development Programme (UNDP) defines good governance as encompassing participation, rule of law, transparency, responsiveness,

consensus orientation, equity, effectiveness and efficiency, accountability, and strategic vision (UNDP, 2024).

Public accountability, a core component of good governance, refers to the obligation of public officials and institutions to provide information about their decisions and actions, to justify them to those affected, and to face consequences when they fall below required standards (Ite, 2017). In the context of fuel subsidy removal, accountability relates specifically to how the Nigerian government has managed, reported, and deployed the fiscal savings generated by the policy and whether these savings have been transparently channeled toward the public goods and social protection commitments that justified the reform in the first instance.

2.1.3 Socio-Economic Development

Socio-economic development is a multidimensional concept encompassing improvements in economic growth, living standards, access to public services, reduction of poverty and inequality, and enhancement of human capabilities. Sen's (1999) capabilities approach, widely influential in development studies, frames development as the expansion of people's substantive freedoms that are directly undermined when fuel price shocks reduce purchasing power, restrict mobility, increase food prices, and reduce access to education and healthcare. This conceptual framing is highly relevant to the Nigerian subsidy removal context, as the policy's welfare effects have been most acutely experienced precisely in these capability dimensions.

2.1.4 The Rationale for Fuel Subsidy Removal in Nigeria

The economic case for fuel subsidy removal in Nigeria rests on several well-documented foundations. First, the fiscal unsustainability argument: by 2022, subsidy expenditure reached ₦4 trillion per year, with projections of ₦17 trillion in 2023 representing 77 per cent of the federal budget. Monthly subsidy costs of \$1.22 billion exceeded consolidated government spending on health, education, and infrastructure (MPRA, 2023). This level of expenditure was widely regarded as fiscally catastrophic, crowding out productive public investment and contributing to a fiscal deficit that, combined with foreign exchange distortions, was driving the naira toward collapse.

Second, the regressive distribution argument: economic modeling consistently demonstrated that the poorest segments of the Nigerian population benefited least from fuel subsidies. Odusanya (2020) found that the bottom 40 per cent of Nigerian households received only 3 to 5 per cent of total subsidy benefits. The bulk of subsidy benefits accrued to wealthier households with higher vehicle ownership rates, to commercial transporters and fuel distributors, and to smuggling networks exploiting the price differential between Nigeria and its neighbors (MPRA, 2024). The International Monetary Fund (IMF, 2024)

similarly argued that Nigerian fuel subsidies were regressive and recommended their replacement with direct, well-targeted welfare transfers.

Third, the market distortion and infrastructure decay argument: artificially low fuel prices contributed to inefficient fuel consumption patterns, undermined the business case for investment in Nigeria's domestic refining capacity, encouraged the persistence of petroleum product smuggling into neighboring countries, and created a pricing environment that deterred private sector participation in the downstream petroleum sector. Ozili and Obiora (2023) noted that realistic pricing of petroleum products could incentivize private investors to establish domestic refineries reducing import dependence, creating employment, and improving energy security.

Fourth, the climate transition argument: fuel subsidies directly contradict Nigeria's commitments under the Paris Agreement and its nationally determined contributions (NDCs) to reduce carbon emissions. The Overseas Development Institute (ODI, 2024) notes that the removal of fossil fuel subsidies is critical to limiting temperature increases and supporting low-carbon energy transitions, though it acknowledges that subsidy reform can have profound social and economic implications for vulnerable households if managed without adequate compensatory mechanisms.

2.1.5 Historical Attempts at Subsidy Reform

The difficulty of reforming Nigeria's fuel subsidy regime is well documented in the political economy literature. Omotola (2016, 2025) situates the subsidy debate within a broader framework of distributive conflict in Nigeria's political economy, arguing that the subsidy functions as a redistributive mechanism in a context characterized by extreme inequality, weak social protection, and deeply entrenched patron-client networks. Each attempt to remove or reduce the subsidy has triggered a political crisis that revealed the profound tension between fiscal necessity and the social contract.

The 2012 "Occupy Nigeria" episode is particularly instructive. President Goodluck Jonathan's announcement of full subsidy removal on 1 January 2012 resulted in immediate petrol prices rising by 120 per cent, sparking the largest civil protest movement since Nigeria's return to democracy in 1999. A six-day nationwide strike organized by the Nigeria Labour Congress (NLC) and Trade Union Congress (TUC) paralyzed the country and forced the government to partially restore the subsidy (MPRA, 2024). The episode demonstrated that technocratically sound economic reforms can fail catastrophically in the absence of adequate political preparation, public communication, and credible commitment to reinvesting savings in ways that citizens can observe and verify.

The Buhari administration's 2016 attempt to remove the subsidy through a policy of "deregulation" similarly faltered, as the government retained *de facto* administrative control over pump prices and the subsidy effectively continued under different

nomenclature (Omotola, 2025). It was against the backdrop of these repeated failures that the 2023 removal under Tinubu was regarded as historically unprecedented, the first time in Nigeria's history that a head of state formally and definitively declared the subsidy terminated, without reversal.

2.1.6 Economic Impacts of the 2023 Fuel Subsidy Removal

2.1.6.1 Inflation and Cost of Living

The inflationary impact of the 2023 fuel subsidy removal has been extensively studied and documented. Prior to removal, Nigeria's headline inflation rate stood at 22.41 percent in May 2023, already elevated by the combination of currency depreciation, supply chain disruptions, and insecurity-related food production constraints (NBS, 2023). Within weeks of the subsidy removal, inflation began a sharp upward trajectory: headline inflation reached 22.79 percent in June 2023, 24.08 percent in July 2023, 25.80 percent in August 2023, and 26.72 percent in September 2023 and continued rising, reaching 34.19 percent by June 2024, with food inflation exceeding 40 percent (NBS, 2024).

MPRA (2024) employed an Autoregressive Distributed Lag (ARDL) econometric model to simulate the inflationary transmission mechanism of petrol price increases in Nigeria, confirming that petrol price increases have a statistically significant positive effect on headline inflation, operating through both direct fuel cost channels and indirect transportation and logistics cost channels. The study found that the wide disparity between minimum and maximum petrol prices in its dataset reflecting the pre- and post-subsidy removal periods corresponded to similarly wide disparities in inflation rates across the same period.

The cost-of-living impact has been particularly severe for low-income households, whose consumption baskets are disproportionately composed of food items and transportation services, precisely the categories most directly affected by fuel price increases. The transportation cost increase of approximately 234 per cent following subsidy removal (Pan African Review, 2026) raised the cost of commuting to work, delivering agricultural produce to market, and accessing health and education facilities, with cascading effects on household welfare across the country.

2.1.7 Impact on Small and Medium Enterprises (SMEs)

Nigeria's SME sector, which accounts for approximately 96 percent of business establishments and contributes roughly 48 percent of national GDP (SMEDAN, 2023), has been severely affected by the fuel subsidy removal. SMEs in Nigeria face a distinctive energy cost structure: due to the unreliability of the national grid, the majority of small businesses depend on petrol and diesel generators for their electricity supply. When petrol prices rose from ₦185 to over ₦500 per liter, the energy cost burden on small businesses

increased dramatically, squeezing profit margins, forcing production reductions, and in many cases leading to business closures.

Hussaini (2020) had previously established a significant negative relationship between energy cost increases and SME performance in Nigeria. The post-subsidy removal environment has validated these earlier findings. Studies documenting the period from June 2023 onward have found widespread reports of reduced production hours, downsizing of workforces, and exit from business among SMEs, particularly in the food processing, manufacturing, and services sectors. The formal minimum wage increase to ₦70,000 approved in 2024, while positive for workers, added further cost pressure on SME employers, compounding the fuel-cost burden.

2.1.8 Revenue and Fiscal Effects

From a fiscal perspective, the subsidy removal has generated significant benefits for the federal government. Federation account allocations to the three tiers of government rose substantially in the period from June 2023 onward, as NNPC revenues, previously suppressed by subsidy deductions, began to accrue more fully to the federation account. The reform promised annual savings of approximately \$7.5 billion, and early fiscal data suggested that federation account distributions did increase markedly, with FAAC allocations rising from an average of approximately ₦700 billion per month in 2022 to above ₦1 trillion per month in late 2023 and 2024 (Pan African Review, 2026).

However, the full fiscal dividend of subsidy removal has been partially offset by several factors. The naira's sharp depreciation following the simultaneous liberalization of the foreign exchange market, falling from approximately ₦450/\$ in January 2023 to ₦1,035/\$ in December 2023, a depreciation of over 50 percent (US Department of State, 2024), increased the naira cost of importing refined petroleum products, partially reinstating the fiscal pressure that subsidy removal was intended to eliminate. Nigeria's high debt profile, estimated at ₦97.34 trillion (\$108.23 billion) as of December 2023 by the Debt Management Office (DMO, 2024), also meant that a significant portion of increased government revenues was absorbed by debt servicing obligations rather than developmental spending.

2.1.9 Social and Welfare Impacts

2.1.9.1 Poverty and Inequality

The poverty impact of the 2023 fuel subsidy removal is one of the most extensively discussed aspects of its social legacy. Prior to the reform, Nigeria was already home to approximately 133 million people living in multidimensional poverty, representing the largest concentration of extreme poverty in Africa (NBS, 2022). The World Bank's Nigeria Poverty and Equity Brief (2024) documented that Nigeria's poverty rate increased from 44

per cent in 2021 to 46 per cent in 2023, suggesting that an additional 4 to 7 million Nigerians were pushed into poverty in the immediate post-subsidy removal period.

Nwokoma (2022) had warned in pre-reform analysis that without robust compensatory measures, fuel subsidy removal risked pushing approximately 7 million Nigerians below the poverty line. This prediction has been largely borne out by post-removal data. The combination of fuel price increases, food inflation, naira depreciation, and inadequate social protection has produced a sustained decline in real household incomes that has been felt across all income groups but has been most devastating for those at or below the poverty line.

The Afrobarometer (2025) survey data from Nigeria paints a stark picture: large majorities of Nigerians offered negative assessments of economic conditions in 2024 and 2025, and a majority of survey respondents indicated support for reinstating the fuel subsidy, reflecting the depth of popular dissatisfaction with the reform's social consequences. The #EndBadGovernance protests of August 2024, which spread across multiple Nigerian cities and were explicitly linked to fuel subsidy removal and the worsening cost of living, further underscored the social and political dimensions of the reform's negative welfare effects.

2.2 Theoretical Framework

This study is grounded in two complementary theoretical frameworks that together provide a comprehensive analytical architecture for examining the relationship between fuel subsidy removal, governance, and socio-economic development in Nigeria.

2.2.1 Public Choice Theory

Public Choice Theory, developed by James Buchanan and Gordon Tullock and elaborated by scholars including Arrow (1951) and Olson (1965), applies the analytical tools of economics, particularly rational self-interest maximization, to political decision-making. The theory argues that political actors, including elected officials, bureaucrats, and interest groups, pursue their own interests rather than the public interest and that political decisions therefore tend to reflect the aggregated preferences of organized, politically influential groups rather than the welfare of the broader population.

Applied to the fuel subsidy context, Public Choice Theory illuminates why successive Nigerian governments maintained the subsidy long after its fiscal unsustainability was apparent. The organized interests that benefited most from the subsidy include fuel importers, marketers, politically connected businesspeople, and the urban middle class, had significantly more political influence than the dispersed majority of Nigerians who were net losers from the regime. Conversely, the theory helps explain the design of palliative measures. Rather than being optimally targeted to the most vulnerable,

the compensation package was shaped partly by the political need to placate organized labor (represented by the NLC and TUC) and to manage elite reactions rather than maximally protect the poor (Obasi et al., 2017).

2.2.2 Structural Functionalism

Structural functionalism, rooted in the sociological work of Talcott Parsons (1951) and Robert Merton (1968), analyzes social phenomena in terms of the functions they perform for the stability and maintenance of the social system as a whole. Applied to the fuel subsidy, this framework enables analysis of the subsidy as a social institution performing multiple functions simultaneously: an economic function (managing fuel prices and controlling inflation), a political function (managing popular discontent and maintaining the social contract), a distributional function (partially compensating for the state's failure to provide adequate public goods), and a governance function (providing a mechanism through which oil revenues were channeled back to citizens).

From a structural functionalist perspective, the abrupt removal of the subsidy without adequate preparation disrupted the equilibrium of the social system by eliminating an institution that had accumulated multiple functional dependencies. The inflationary and poverty consequences of removal reflect the systemic shock that resulted from removing a structural element without first establishing functional equivalents: adequate social protection, improved public transportation, and reliable, affordable electricity that could absorb the social functions previously served by the subsidy.

2.2.3 Governance Theory

Governance Theory, as developed by scholars including Rhodes (1997), Stoker (1998), and Pierre and Peters (2000), analyzes the processes through which collective decisions are made and implemented in society, with attention to the role of institutions, norms, networks, and accountability mechanisms. Contemporary governance theory emphasizes the importance of transparency, participation, rule of law, and accountability as essential components of effective governance that produces developmental outcomes.

Applied to the fuel subsidy removal context, governance theory provides the analytical tools for assessing the quality of the decision-making process preceding removal (including the adequacy of public consultation and legislative engagement), the design and implementation of compensatory mechanisms, the transparency and accountability of fiscal management post-removal, and the responsiveness of government to feedback from citizens, civil society, and organized labor. The governance failures documented in the post-removal period, opacity in the management of savings, inadequate palliative targeting, and limited civil society monitoring are, from a governance theory perspective, key explanatory variables for why the reform's developmental potential has not been realized.

3 Research Method

3.1 Research Design

This study adopts a qualitative research design, which is appropriate for a study that seeks to understand the complex, multi-dimensional, and context-dependent relationships between fuel subsidy removal, governance, and socio-economic development in Nigeria. Black and Champion (1976) argue that qualitative research designs are particularly suitable for studies that aim to explain "how" and "why" questions about social phenomena, rather than simply measuring their frequency or magnitude. Similarly, Amin (2025) notes that qualitative designs allow the researcher to capture the depth and complexity of social processes that quantitative approaches may flatten or miss.

The qualitative design is further appropriate because the study is primarily concerned with understanding the processes of policy implementation, the quality of governance, the mechanisms through which subsidy removal affects households and businesses, and the institutional conditions that shape whether developmental outcomes are achieved—all of which require interpretive and process-tracing methodologies rather than purely statistical analysis.

3.2 Method of Data Collection

Data for this study were generated through secondary research methodology, involving the systematic collection and critical analysis of existing published materials relevant to the research questions. Secondary data sources consulted include peer-reviewed academic journal articles published between 2015 and 2025, policy documents and reports from the federal government of Nigeria, state governments, relevant ministries, departments, agencies, reports from international organizations, including the World Bank, IMF, ODI, and UNDP; civil society research reports, including those from the Leaders of Africa Institute and Afrobarometer; government statistical data from the National Bureau of Statistics (NBS) and the Central Bank of Nigeria (CBN); and reputable media reportage from publications, including The Punch, Vanguard, The Guardian, Daily Post, and Premium Times.

Odo (2022) identifies secondary data analysis as a legitimate and valuable research method in the social sciences, particularly when the phenomena under study are recent and rapidly evolving, making primary data collection difficult or impossible within the constraints of a single study. Obasi (2021) similarly notes that document analysis and secondary data synthesis are appropriate methodological choices for studies that seek to provide comprehensive overviews and analytical syntheses of policy environments. The currency and breadth of available secondary data on the 2023 fuel subsidy removal, including government statistical releases, international organization reports, peer-reviewed

studies, and civil society assessments, make secondary research methodology particularly well suited to this study.

3.3 Method of Data Analysis

Data were analyzed using a combination of content analysis and thematic analysis. Content analysis involved the systematic reading and coding of collected materials to identify key themes, patterns, contradictions, and evidence relevant to each of the study's research questions. Thematic analysis involved the organization of identified themes into a structured analytical framework aligned with the study's research objectives, enabling the synthesis of evidence from diverse sources into coherent, evidence-based findings.

The analytical approach was additionally informed by the five theoretical frameworks described in Section 7, which provided conceptual lenses through which the empirical evidence was interpreted. Where sources presented conflicting evidence or interpretations, the study endeavored to represent the range of perspectives and to draw provisional conclusions that acknowledged the uncertainty inherent in interpreting a policy whose effects are still unfolding.

3.4 Study Area

While this study takes a nationwide focus appropriate to a policy that affects all Nigerians, particular attention is paid to evidence from diverse geopolitical zones and states, including Lagos State (as Nigeria's commercial capital), Kano State (as a major northern commercial hub), Rivers State and the Niger Delta region (as the source of Nigeria's oil wealth), and Akwa Ibom State (as a significant oil-producing state in the South-South). This comparative attention across geopolitical zones ensures that the study's analysis is sensitive to the regionally differentiated impacts of the subsidy removal, which have been shaped by variations in local economies, transport infrastructure, agricultural systems, and governance capacity.

4. Analysis of Findings

4.1 Governance and Public Accountability

The analysis of governance and accountability outcomes following the 2023 fuel subsidy removal yields a predominantly critical assessment. While the decision to remove the subsidy was itself a significant act of political courage given the historical tendency of Nigerian governments to reverse such decisions under popular pressure, the governance framework for managing the reform's fiscal and social consequences has been marked by significant weaknesses.

The immediate declaration of "subsidy is gone" on 29 May 2023, with no prior legislative engagement, no pre-announced social protection package, and no publicly

communicated transition plan, reflects a mode of governance that prioritized bold action over deliberative process. The UNDP's governance framework, which emphasizes participation, consensus orientation, and responsiveness as components of good governance, was conspicuously not applied to the subsidy removal decision. The absence of a consultative process deprived the policy of the social legitimacy that would have been essential for sustaining its implementation in the face of popular hardship.

Transparency in the management of subsidy savings has been a persistent concern. The Leaders of Africa Institute (2024) documented that despite increased FAAC allocations to states and LGAs following subsidy removal, there was "a notable lack of transparency and accountability regarding the utilization of the subsidy savings." Civil society organizations have struggled to track the deployment of subsidy savings due to the absence of publicly accessible, disaggregated fiscal reporting. While the federal government has reported increased aggregate revenue, the specific deployment of these revenues toward the social and infrastructure investments promised at the time of subsidy removal has not been transparently accounted for.

Public perception of government performance following the policy has been deeply negative. Afrobarometer (2025) survey data indicates that large majorities of Nigerians assessed economic conditions negatively in 2024 and 2025, and a significant majority expressed support for reinstating the fuel subsidy suggesting a fundamental disconnection between the government's developmental narrative and citizens' experienced reality. This public trust deficit represents a major governance challenge that extends beyond the subsidy issue itself, affecting the government's capacity to implement further necessary but painful reforms.

4.2 Economic Development Outcomes

The economic impact assessment reveals a mixed picture of macro-level improvements in fiscal indicators alongside severe deterioration in micro-level economic conditions. At the macroeconomic level, fiscal consolidation has proceeded: federation account allocations rose significantly, the fiscal deficit was reduced relative to GDP projections, and the combination of fuel subsidy removal and foreign exchange unification has been credited by the World Bank (2024) with contributing to macroeconomic stabilization. GDP growth in the oil sector reached 6.79 per cent year-on-year in Q4 2025, reflecting improvements in production and pricing efficiency (NBS, 2025).

However, the macroeconomic improvements have not translated into improved living standards. Headline inflation peaked at 34.19 percent in June 2024, among the highest levels in Nigeria's recent history, before beginning a gradual moderation to 15.06 percent by late 2025, partly driven by the Dangote refinery's commencement of domestic PMS supply, which introduced competitive pressure into the fuel market (NBS, 2025). The

extended period of high inflation from May 2023 to mid-2025 inflicted severe damage on household purchasing power, business viability, and economic confidence.

The impact on SMEs has been particularly severe, with surveys of business operators in multiple sectors documenting widespread closures, workforce reductions, and contraction of business activity. The combination of high fuel costs (directly affecting both production costs and transportation), high interest rates (the CBN raised the Monetary Policy Rate to 24.5 per cent in 2024 to combat inflation), and reduced consumer purchasing power created an exceptionally hostile operating environment for small businesses. This represents a serious threat to Nigeria's long-term employment generation capacity, given the SME sector's central role in job creation.

4.3 Social Development and Welfare

Social welfare outcomes have been predominantly negative in the period following subsidy removal. The poverty data is stark: an estimated 104 million Nigerians were living below the poverty line by 2023, and the combination of fuel price increases, food inflation, and currency depreciation deepened poverty across the income distribution in 2023 and 2024. Njoku and Mmougbo (2025) document that low-income families experienced significant reductions in food consumption, school attendance, and healthcare access in the post-removal period.

The transportation cost shock has had particularly far-reaching social consequences. In a country where public transportation is overwhelmingly provided by private operators using fuel-powered vehicles, the transmission of petrol price increases into bus fares was both rapid and near-total. In many cities, bus fares doubled or tripled within weeks of the subsidy removal, with the percentage increase in fares often exceeding the percentage increase in fuel prices as operators also factored in the general increase in cost of living. The effect was a sharp contraction in household mobility, with consequences ranging from reduced school attendance to forgone medical consultations.

Women and female-headed households have been disproportionately affected. Research on the gender dimensions of energy price shocks in sub-Saharan Africa consistently finds that women bear a larger share of the adjustment burden, both because their economic activities (small trading, market vending, food processing) tend to be more fuel-cost-sensitive and because they are more likely to reduce their own consumption and welfare in order to protect children's welfare (ODI, 2024). Specific attention to gender-sensitive programming within Nigeria's palliative response has been insufficient.

4.4 National Development and Infrastructure

The relationship between subsidy removal and national development, specifically whether the fiscal savings have been translated into tangible improvements in infrastructure and

public service delivery, remains the most critical question for the reform's long-term developmental assessment.

On the positive side, there are early indications that increased federation account allocations have enabled some states and LGAs to accelerate infrastructure investment. Road rehabilitation projects, health facility upgrades, and school renovation programs have been initiated in several states, and the federal government has pointed to increased budgetary allocations for capital expenditure as evidence of the reform's developmental dividend. The Dangote refinery's progressive ramp-up of domestic petrol production, facilitated by the removal of the distortionary pricing that had made domestic refining economically unviable, represents a significant long-term structural benefit of the reform. However, the evidence for large-scale, transformative infrastructure investment funded by subsidy savings remains limited. Nigeria's debt service obligations continue to consume a disproportionate share of government revenue, with debt service representing over 70 percent of federal government retained revenue in 2023 and 2024 (DMO, 2024). The promised ₦500 billion in palliative infrastructure (CNG buses, roads, agricultural support) has been only partially deployed, and large portions of the promised social safety net expenditure remain unaccounted for in publicly available fiscal reporting.

Sustainable development considerations also demand attention. The removal of fuel subsidies creates new possibilities for Nigeria's energy transition; the reduction in artificially cheap petrol consumption creates space for the expansion of CNG, electric vehicles, solar energy, and other lower-carbon alternatives. However, capitalizing on this opportunity requires sustained public investment in alternative energy infrastructure, regulatory reform, and consumer education investments that have been announced but not yet implemented at the required scale (ODI, 2024).

5. Conclusion

The fuel subsidy removal of 29 May 2023 constitutes a historic turning point in Nigeria's fiscal and developmental history. The policy was justified on strong economic grounds: fiscal unsustainability, regressive distributional consequences, market distortions, and the imperative of channelling oil revenues more effectively toward public goods and productive investment. These justifications were well-supported by the empirical evidence, and the long-term structural case for a deregulated petroleum market in Nigeria remains compelling. However, the manner of implementation such as abrupt, inadequately prepared, insufficiently communicated, and not preceded by the establishment of robust compensatory social protection mechanisms, transformed a potentially developmental reform into a social and governance crisis. Headline inflation escalated to 34.19 percent, poverty deepened for over 104 million Nigerians, SMEs contracted, transportation costs more than doubled, and access to education and healthcare was compromised for millions

of low-income households. Government palliative measures, while substantive in their announced scope, fell far short of their implementation targets and were undermined by the absence of transparent fiscal management and institutional accountability.

The five theoretical frameworks applied in this study, Public Choice Theory, Structural Functionalism, Political Economy Theory, and Governance Theory, collectively illuminate why these outcomes occurred and what must change to achieve better results. Public choice theory explains the design limitations of palliative measures shaped by political bargaining rather than welfare maximization. Structural functionalism explains the systemic shock produced by removing an institution without adequate functional substitutes. Governance theory identifies the transparency, accountability, and participatory deficits that have prevented the reform's fiscal dividends from reaching ordinary Nigerians.

The path forward requires not the reversal of subsidy removal, which would re-impose its fiscal and efficiency costs, but rather a fundamental improvement in the governance, social protection, and institutional frameworks within which the reform operates. If Nigeria can address the governance gaps documented in this study, the fiscal space created by subsidy removal has the potential to fund transformative investments in infrastructure, human capital, and social protection that could genuinely improve the lives of ordinary Nigerians. Achieving this potential requires political will, institutional reform, civic engagement, and a commitment to evidence-based policymaking that places the welfare of all Nigerians at the center of the national development agenda.

5.1 Policy Recommendations

Based on the foregoing analysis, the following recommendations are advanced:

5.1.1 Strengthen Fiscal Transparency and Accountability

The Federal Government should establish an independent, publicly accessible Subsidy Savings Tracker, a real-time, online fiscal reporting platform that documents in disaggregated detail how savings from subsidy removal are being deployed across sectors and levels of government. This platform should be developed in partnership with civil society organizations, the Nigerian Civil Society Situation Room, and relevant academic institutions and should be subject to quarterly independent audits and public reporting. The recent Supreme Court ruling granting financial autonomy to local government areas should be fully implemented, enabling communities to track and hold accountable the increased fiscal flows reaching their local governments.

5.1.2 Design and Implement Robust, Targeted Social Protection

The conditional cash transfer program should be fundamentally redesigned to ensure that it reaches the most vulnerable Nigerians effectively. This requires investment in a comprehensive National Social Registry that can accurately identify and verify beneficiaries, including those in the informal sector, rural areas, and geographically remote communities who are systematically excluded from digital registration processes. Transfer amounts should be indexed to inflation to preserve their real value, and the program duration should be extended beyond the current short-term design to provide meaningful income support during the adjustment period.

5.1.3 Expand CNG and Alternative Energy Infrastructure

The government's CNG bus initiative should be dramatically accelerated and complemented by rapid expansion of CNG refueling infrastructure across all geopolitical zones. The regulatory framework for electric mobility should be developed and implemented, with incentives for electric vehicle adoption by commercial transport operators. Investment in off-grid solar and mini-grid electricity should be prioritized as a medium-term substitute for the diesel and petrol generators on which SMEs and households currently depend. These measures would simultaneously reduce the transportation and energy cost burden on Nigerians and contribute to Nigeria's climate commitments.

5.1.4 Support the SME Sector

Targeted economic relief for the SME sector should be provided through a combination of single-digit interest rate credit lines for SME energy cost management, business development support services, and cooperative frameworks that enable small businesses to achieve economies of scale in fuel and energy procurement. The Central Bank of Nigeria should develop sector-specific interventions to address the disproportionate impact of energy costs on SMEs in food processing, manufacturing, and services.

5.1.5 Enhance Pre-Reform Consultation and Communication

Future major fiscal reforms should be preceded by broad public consultation, legislative engagement, and transparent communication of both the rationale for the reform and the specific compensatory mechanisms that will be deployed to protect vulnerable populations. The 2023 experience demonstrates that even economically sound reforms can fail to deliver their developmental potential when they lack social legitimacy and institutional preparation. Independent evaluation of the implementation of previous reform commitments should be built into the design of future reforms.

5.1.6 Invest in Domestic Refining Capacity

The federal and state governments should create a regulatory and investment environment that incentivizes further private investment in domestic refining capacity, building on the precedent set by the Dangote refinery. Increased domestic refining capacity will reduce import dependence, improve energy security, reduce foreign exchange pressures, create employment, and moderate the vulnerability of Nigerian fuel prices to global commodity price shocks—all of which would reduce the long-term social cost of a deregulated petroleum market.

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