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Influence of Fuel Subsidy Removal on Economic Life of Low-Income Earners in Nigeria

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Abstract

This study assessed the influence of fuel subsidy removal on economic life of low-income earners in Nigeria. The need to address the challenges of economic hardship caused by abrupt removal of fuel subsidy particularly on low-income earners, and determine government roles to improve the well-being of poor Nigerians at large led to the study. Three research objectives and questions guided the study. Descriptive survey research design was used. The population of the study was 133 million (63%) Nigerians who are considered poor by the World Bank and Nigerian Living Standards Survey (NLSS). This study adopted the Nigerian Living Standards Survey (NLSS) of 22,110 households as sample size. A close ended questionnaire was used and data collected were analyzed using Statistical Package for Social Sciences (SPSS version 20). Decisions were based on the results of statistic mean ratings and t-test was used for hypothesis testing at 0.05 probability level of significance. The findings of the study revealed that fuel subsidy removal has negative impacts on the economic purchasing power and standard of living of low-income earners in Nigeria. The study recommended that government should increase purchasing power of low-income earners by reducing the pumping price of petrol to curb inflation and stabilise what real value of money can afford to buy; refocusing economic reforms towards reduction in prices of goods and services, transportation and cost of living; ensure that palliatives actually get to the poor, redirect revenue from subsidy removal to implement infrastructures and facilitate full operational efficiency of local refineries at affordable pumping price.

Keywords

Fuel Subsidy, Removal, Economic Life, Low-Income Earners

Introduction

Fuel subsidy is a critical national issue in Nigeria, as past attempts to remove it have often triggered protests and strong resistance due to soaring pump prices and negative inflationary effects. For instance, when former President Goodluck Jonathan announced the removal of fuel subsidy in 2012, pump prices surged by 116.9%, rising from ₦65 (\$0.14) to ₦141 (\$0.30) per litre, which led to widespread protests known as "Occupy Nigeria" until Jonathan reversed the decision (Layade, 2023). However, during the administration of former President Muhammadu Buhari (2015–2023), the burden of financing subsidy expenses, coupled with a high exchange rate, further increased the petrol pump price by 66.6%, from ₦87 (\$0.19) to ₦145 (\$0.18). This increase was largely due to the non-

functioning state of the nation's refineries, necessitating the continuous importation of refined petroleum and a rise in local petrol prices despite subsidy payments by various administrations (Layade, 2023). According to Ishaku (2018) and Stephen (2015), subsidizing petroleum imports has become unsustainable, leaving the government with the options of either resorting to massive money printing, extreme debt financing through borrowing, or completely removing fuel subsidies.

President Ahmed Bola Tinubu announced the removal of fuel subsidy immediately after his swearing-in on May 29, 2023. This decision was based on the report by the Federal Emergency Management Agency (FEMA, 2023), which stated that rising subsidy expenses neither benefited ordinary Nigerians nor supported small business enterprises due to the strain on the local currency from foreign exchange pressures. Instead, subsidy payments primarily favored a cabal,



providing a leeway for arbitrage and the illicit transportation of petrol to neighboring countries. However, Nigerian refineries are not operating at optimal levels to reduce overdependence on oil importation or mitigate the impact of the high exchange rate of the naira against the dollar. Thus, the sudden implementation of subsidy removal, starting from May 29, 2023, without prior notice, led to an abrupt 313.8% increase in fuel pump prices per litre, soaring from ₦145 (\$0.18) to ₦600 (\$0.53). This caused hyperinflation, a daunting economic setback, and financial distress, particularly for individuals and small enterprises struggling to survive (Layade, 2023).

Generally, fuel subsidy removal can be viewed as the government's deliberate withdrawal of financial subvention that lowers the cost of importing refined petroleum products below the actual market price. According to Adeniran (2016), fuel subsidy removal refers to an increase in fuel pump prices due to the government's withdrawal of partial payments for both imported and locally produced petroleum products. This implies that Nigerians will purchase fuel at importation-based prices, given that no government-owned refinery is currently functional. Therefore, in this study, fuel subsidy removal refers to purchasing refined petroleum products at importation prices, determined by the prevailing exchange rate of the naira against the dollar. It also means that the Nigerian National Petroleum Corporation Limited (NNPCL) will operate on a market-based fuel pricing system, where fuel prices are no longer fixed by the government but are instead determined by the forces of demand and supply. Adeniran and Yusuf (2016) stated that the rising landing cost of petrol per litre is a major challenge associated with fuel subsidy removal, as it creates an elastic inflationary effect that weakens the financial purchasing power and economic standard of living of millions of Nigerians, particularly low-income earners.

Low-income earners constitute the majority of the Nigerian populace and can be categorized based on various parameters, including annual earnings, disposable income per consumption, and socio-economic status. The Statistical Office of the European Communities (2024) defines low-income earners (persons at risk of poverty) as those whose household disposable income per consumption unit is lower than 60% of the equivalent median household income. Adedeji and Abiodun (2012) defined low-income earners as all employees and self-employed individuals whose annual income is ₦100,000 or below. In this study, low-income earners are regarded as individuals vulnerable to poverty, whose financial purchasing power is severely threatened by inflation. The economic life of low-income earners in this study is anchored on monetary capacity/financial purchasing power (the quantity of goods and services that money can buy) and economic standard of living (the affordability of a

quality life based on per capita income). The implication of fuel subsidy removal is that low-income earners will find it increasingly difficult to survive due to the worsening high cost of living and their limited financial capacity to afford essential needs such as food, shelter, transportation, and medical care.

Fuel Subsidy Removal and Recent economic Reforms in Nigeria

Nigeria is a federation of 36 autonomous states with the Federal Capital Territory (FCT) and one major source of foreign exchange earnings is via crude oil. According to the Nigerian Bureau of Statistics (NBS, 2023), Nigeria's economy experienced broad-based and sustained growth of over 7% annually on average, benefitting from favorable global conditions and macroeconomic between 2000 and 2014. However, from 2015-2022, growth rates decreased and GDP per capita flattened, driven by monetary and exchange rate policy distortions, increasing fiscal deficits a costly fuel subsidy, and excessive trade protectionism (Emma, 2024). According to World Bank (2024), fuel subsidy removal led the Nigeria's inflation to reach a 24-year high of 31.7% in 2024 and has pushed more millions of people below poverty line of a dollar per capital income or less than 60 per cent disposable money income per consumption unit equivalent median money income of all households since May 2023.

Different administrations from 1973 in Nigeria made adjustments in petrol pump prices from time to time without total removal of fuel subsidy until 2023 as follows:

- 1973 Gen. Yakubu Gowon 6k to 8.45k
- 1976 Gen. Murtala Muhammed 8.45 to 9k
- 1st October 1978, Gen. Olusegun Obasanjo (as Military) 9k to 15.3k
- 20th April 1982, Alh. Shehu Shagari 15.3k to 20k
- 31st March 1986, Gen. Ibrahim Babangida 20k to 39.4k
- 10th April 1988, Gen. Ibrahim Babangida 39.5k to 42k
- 1st January 1989, Gen. Ibrahim Babangida 42k to 60k
- December 1989, Gen. Ibrahim Babaginda 60k
- 6th March 1991, Gen. Ibrahim Babaginda 60k to 70k
- 8th November 1993, Chief Ernest Shonekan 70k to ₦5
- 22nd November 1993, Gen. Sani Abacha ₦5 to ₦3.25k
- 2nd October 1994, Gen. Sani Abacha ₦3.25k to ₦15
- 4th October 1994, Gen. Sani Abacha ₦15 to ₦11
- 20th December 1998, Gen. Abdusalam Abubakar ₦11 to ₦25



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- 6th January 1999, Gen. Abdusalam Abubakar ₦25 to ₦20
- 1st June 2000, Olusegun Obasanjo (as Civilian Ruler) ₦20 to ₦30
- 1st January 2000, Olusegun Obasanjo (as Civilian Ruler) ₦30 to ₦22
- 1st January 2002, Olusegun Obasanjo (as Civilian Ruler) ₦22 to ₦26
- June to Oct, 2003 Olusegun Obasanjo (as Civilian Ruler) ₦26 to ₦42
- 29th May 2004, Olusegun Obasanjo (as Civilian Ruler) ₦42 to ₦50
- 25th August 2004, Olusegun Obasanjo (as Civilian Ruler) ₦50 to ₦65
- 27th May 2007, Olusegun Obasanjo (as Civilian Ruler) ₦65 to ₦100
- June 2007, Alh. Umaru Shehu Yardua ₦100 to ₦65
- 1st January 2012, Dr. Goodluck Jonathan ₦65 to ₦97
- 1st January 2015, Dr. Goodluck Jonathan ₦97 to ₦87
- May 2016, President Buhari ₦87 to ₦145
- 29th May 2023, President Bola Tinubu ₦145 to ₦500, ₦617.00k, ₦897.00k, ₦1050.00k, ...
(Source: Vanguard News,2024)

Insufficient revenue and fiscal pressure on the government has been the main excuse of the Nigeria government to implement fuel subsidy removal by increasing the price of petroleum products. The current petrol pump price per litre across Nigeria varies from ₦897 to ₦1,000 and some retail marketers' price is up to ₦1,200 per litre. The influence fuel subsidy removal on the living standard outlook of low-income earners is substantial as income disparity continues to be widening between upper, middle and low-income earners at a record high level irrespective age, gender and geographical location. Low-income earners appear to be at the worst receiving end of fuel subsidy removal in terms income disparity, purchasing power and standard of living. Thus, the influence of fuel subsidy removal on financial purchasing power and economic standard of living of low-income earners as well as what should be the roles of government particularly for several millions of Nigerians to survive present harsh economic situation is a serious concern.

Consequently, the present government has been pursuing economic reforms such as cash palliatives to individual households and small and medium scale businesses, elimination of petrol fiscal subsidy budget, unification of forex markets and a market-reflective exchange rate for macroeconomic stability and growth (Emma, 2024). For instance, federal government of Nigerian announced cash palliative transfer reportedly targeted 15 million households to mitigate the

inflationary effects of fuel subsidy removal on the vulnerable low-income earners, and efforts are also being made to tighten monetary policy to refocus the Central Bank of Nigeria (CBN) on its core mandate of maintaining price stability. According to World Bank (2024), it is expected that with time fuel reform will instill a sustained but slow macroeconomic growth in the non-oil economy while inflation is expected to gradually decrease on the back of monetary policy tightening and exchange rate stabilization in 2026.

Statement of the Problem

The recent removal of fuel subsidy in Nigeria has caused unbearable socio-economic hardship for most Nigerians, worsening the cost of living and leading to the "End Hunger and Bad Governance Protests" held from August 1–10, 2024. The major challenge is that fuel subsidy removal has been followed by an unprecedented dilemma of soaring petrol pump prices per litre, unbearable transportation costs, persistent inflation, a high exchange rate, and an overall rising cost of living, all of which have resulted in severe economic hardship. Although the Nigerian government has introduced policy interventions such as wage palliatives for workers, cash transfers to households, and grants to small businesses, these measures do not guarantee an improved standard of living for low-income earners in the long run. Consequently, fuel subsidy removal presents a serious economic struggle for individuals with low incomes, making it increasingly difficult to meet their basic needs and maintain financial stability.

Previous studies on fuel subsidy removal have primarily focused on macroeconomic effects and government revenue while paying less attention to its impact on the economic well-being of low-income earners. To bridge this gap, it is essential to assess the negative effects of fuel subsidy removal on low-income earners to determine the government's role in improving their well-being and that of all Nigerians.

Objectives of the Study

The main objective of this study is to assess the influence of fuel subsidy removal on economic life of low-income earners in Nigeria. Specifically, the study assessed:

1. Influence of fuel subsidy removal on the financial purchasing power of low-income earners.
2. Influence of fuel subsidy removal on the economic standard of living of low-income earners.
3. Roles of government towards alleviating the challenges of fuel subsidy removal on economic life of low-income earners.



Research Questions

The following research questions guide this study:

1. What is the influence of fuel subsidy removal on the financial purchasing power of low-income earners in Nigeria?
2. What is the influence of fuel subsidy removal on the economic standard of living of low-income earners in Nigeria?
3. What are the roles of government towards alleviating the challenges of fuel subsidy removal on economic life of low-income earners in Nigeria?

Hypotheses

The following null hypotheses were tested at 0.05 probability level of significance:

- HO₁: No significant difference in the mean responses of respondents on the influence of fuel subsidy removal on financial purchasing power of low-income earners in Nigeria based on gender.
- HO₂: No significant difference in the mean responses of respondents on the influence of fuel subsidy removal on economic standard of living of low-income earners in Nigeria based on location.

Methodology

Design of the Study

Descriptive survey research design was used to carry out the study in South-West of Nigeria comprising Ekiti, Lagos, Ondo, Ogun, Osun and Oyo States. The design is suitable to assess public opinions on prevalence of economic hardship, purchasing power and standard of living of low-income earners on the fundamental issue of fuel subsidy removal.

Population of the Study

The population of the study was 133 million (63%) Nigerians who are considered poor according to the Nigerian Living Standards Survey (NLSS) and World Bank report (2024). The Nigerian Living Standards Survey (NLSS) is the official survey that is in charge of measuring poverty and living standards focusing on living conditions of the Nigerian population.

Sample and Sampling Technique

The study adopted the Nigerian Living Standards Survey (NLSS) of 22,110 households as sample size. Simple and purposive sampling random survey was used to collect demographic data from 3,683 individuals with low-income facing downward financial and economic hardship since fuel subsidy removal was

Instrument for Data Collection

A structured questionnaire was used as instrument for data collection. The questionnaire has two sections, one for demographic information of the respondents such as gender, location income among others. The second section contained 15-item that elicited responses in four response options in four-response rating options: very strongly agree (4), strongly agree (3), disagree (2) and strongly disagree (1). The instrument was developed by the researchers based on economic purchasing power and standard of living of low income-earners to elicit responses from the respondents in line with the research questions.

Validity and Reliability of Instrument

The instrument was face validated by three experts: two from business education and one from economic education. Cronbach Alpha was used to obtain 0.88 reliability coefficient.

Method of Data Collection and Analysis

The researchers administered 22,110 copies of the questionnaire to the respondents via physical contact and online social media, and only 18,100 (82%) were duly returned. The data collected were analysed using Statistical Package for Social Sciences (SPSS) and decisions were based on mean ratings of number limit as follows: 3.50-4.00 very strongly agree, 2.50-3.49 strongly agree, 1.50-2.49 disagree and 0.50-1.49 strongly disagree. Any hypothesis with a significant p-value equal to or greater than 0.05 level was not rejected, if otherwise, it was rejected using t-test.



Result and Findings

Table 1: Mean and standard deviation on influence of fuel subsidy removal on financial purchasing power of low-income earners in Nigeria

S/N	Questionnaire Items	\bar{X}	SD	Remark
1.	Fuel subsidy removal drastically reduces real value of money of low-income earners	3.60	.78	VSA
2.	Fuel subsidy removal reduces what low-income earners can afford to buy	3.50	.86	VSA
3.	Fuel subsidy removal negatively reduces savings of low-income earners due to inflation	3.55	.69	VSA
4.	Fuel subsidy removal increases cost of transportation and inflation against purchasing power of low-income earners	3.62	.72	VSA
5.	Fuel subsidy removal reduces financial ability of low-income earners to invest in profitable venture	3.66	.66	VSA
	Overall cluster average	3.59	.74	VSA

Keys: \bar{X} = Mean Responses, SD = Standard Deviation, VSA = Very Strongly Agree (3.50-4.00)

Table 1 shows the mean values of responses to research question one on the influence of fuel subsidy removal on financial purchasing power of low-income earners in Nigeria. The result shows that item1-5 had mean values of 3.60, 3.50, 3.55, 3.62 and 3.66 respectively with an overall mean of 3.59 which

indicates very strongly agree (3.50-4.00). This result reveals the respondents agreed very strongly that fuel subsidy removal has negative impacts on the economic purchasing power of low-income earners in Nigeria. The overall standard deviation of 0.74 showed that the respondents had similar views on this result.

Table 2: Summary of t-test analysis of mean difference on influence of fuel subsidy removal on financial purchasing power of low-income earners in Nigeria

Respondents	N	Mean	SD	P-val	Sig. Level	Decision
Male	4,300	3.61	.65	.102	.05	NS
Female	13,800	3.57	.83			

Keys: P-val =2-tail Significant Value, NS = Not Significant

Table 2 shows the summary of t-test analysis of mean difference to null hypothesis one with p-value of 0.102 greater than significance level of 0.05. This result means that no significant difference exists between the mean responses of respondents. Hence, null hypothesis one (H_{01}) which states that there is no significant difference in the mean responses of male and female

respondents on the influence of fuel subsidy removal on financial purchasing power of low-income earners is upheld. Based on this result, the inference drawn is that fuel subsidy removal has negative impacts on the financial purchasing power of low-income earners in Nigeria.

Table 3: Mean and standard deviation on influence of fuel subsidy removal on economic standard of living of low-income earners in Nigeria

S/N	Questionnaire Items	\bar{X}	SD	Remark
6.	Fuel subsidy removal directly increases the prices of essential goods and services affordable by low-income	3.92	.47	VSA
7.	Negative effect of fuel subsidy removal reduces budget and standard of living of low-income earners	3.59	.76	VSA
8.	Fuel subsidy removal makes it difficult for low-income earners to afford essential things of life	3.95	.44	VSA
9.	Inflation triggered by fuel subsidy removal makes most low-income earners living below poverty line	3.70	.42	VSA
10.	Fuel subsidy removal widens socio-economic gap between the poor and rich	3.88	.54	VSA
	Overall cluster average	3.81	.53	VSA

Keys: \bar{X} = Mean of Responses, SD = Standard Deviation, VSA = Very Strongly Agree (3.50-4.00)



Table 3 shows the mean values of responses to research question two on the impacts of fuel subsidy removal on standard of living of low-income earners in Nigeria. The result shows that item 6-10 had mean values of 3.92, 3.59, 3.95, 3.70 and 3.88 respectively with an overall mean of 3.81 which indicates very strongly agree (3.50-4.00). This result reveals that the respondents agreed very strongly that fuel subsidy removal has negative impacts on the standard of living

of low-income earners in Nigeria. The overall standard deviation of 0.53 confirms that no divergent views among the respondents on this result.

Table 4: Summary of t-test analysis of mean difference on influence of fuel subsidy removal on economic standard of living of low-income earners in Nigeria

Respondents	N	Mean	SD	P-val	Sig. Level	Decision
Rural	10,700	3.88	.59	.0840	.05	NS
Urban	7,400	3.74	.47			

Keys: P-val = 2-tail Significant Value, NS = Not Significant

Table 4 shows the summary of t-test analysis of mean difference to null hypothesis two with p-value of 0.084 greater than significance level of 0.05. This result means that no significant difference exists between the mean responses of respondents. Hence, null hypothesis one (H_{02}) which states that there is no significant

difference in the mean responses of rural and urban respondents on the influence of fuel subsidy removal on economic standard of living of low-income earners is upheld. Based on this result, the inference drawn is that fuel subsidy removal has negative impacts economic standard of living of low-income earners in Nigeria.

Table 5: Mean and standard deviation on the roles of government towards alleviating challenges of fuel subsidy removal on economic life of low-income earners in Nigeria

S/N	Questionnaire Items	\bar{X}	SD	Remark
11.	More provision of financial and transport palliative to low-income earners	3.85	.56	VSA
12.	More provision of food palliative to low-income small business owners	3.82	.50	VSA
13.	Implementation of economic policies that reduce inflation and cost of living	3.72	.66	VSA
14.	Redirect revenue from subsidy removal to implement infrastructures	3.59	.70	VSA
15.	Operational efficiency of local refinery to reduce petrol pump price	3.90	.63	VSA
	Overall cluster average	3.77	.61	VSA

Keys: \bar{X} = Mean of Responses, SD = Standard Deviation, A = Agree, SA = Strongly Agree

Table 5 shows the mean responses to research question three on the roles of government towards alleviating challenges of fuel subsidy removal on economic life of low-income earners in Nigeria. Items 11-15 had mean values of 3.85, 3.82, 3.72, 3.59 and 3.90 respectively with an overall mean of 3.77 which indicates very strongly agree (3.50-4.00). This result reveals that the respondents agreed very strongly that the challenges of fuel subsidy removal can be alleviated by stepping up government roles towards improving economic life of low-income earners in Nigeria. The overall standard deviation of 0.61

showed that the respondents had similar views on this result.

Discussion

The findings of the study reveal that fuel subsidy removal drastically reduces the real value of money and what low-income earners can afford to buy. It increases transportation costs and inflation, weakening the purchasing power of low-income earners. Additionally, it reduces savings and the financial ability of low-income earners to invest in



profitable ventures. The result of null hypothesis one was upheld because there was no significant difference in the mean responses among respondents regarding economic purchasing power. Thus, the inference drawn is that fuel subsidy removal negatively impacts the economic purchasing power of low-income earners in Nigeria. This finding aligns with the Furthermore, the findings of the study reveal that fuel subsidy removal directly increases the prices of goods and services and raises the cost of living. It reduces the budget and standard of living of low-income earners, triggers inflation, and widens the socio-economic gap between the poor and the rich, thereby forcing many low-income earners below the poverty line and making it extremely difficult for them to afford essential necessities of life. The result of null hypothesis two was also upheld because there was no significant difference in the mean responses among respondents regarding the standard of living. Thus, the inference drawn is that fuel subsidy removal negatively impacts the standard of living of low-income earners in Nigeria. These findings align with the submission of Siddig et al. (2015), who asserted that the removal of fuel subsidy increases poverty and affects both microeconomic and macroeconomic conditions, as well as socio-cultural life. Similarly, Innocent, Ogbu, and Job (2015), along with Kannayo and Robert (2006), emphasized that subsidy removal, without reinvesting the associated savings, increases the national poverty level and reduces the standard of living of Nigerians.

The findings also reveal that government intervention is necessary to alleviate the challenges of fuel subsidy removal on the economic life of low-income earners in Nigeria. These interventions should include increased provision of food, financial cash transfers, and transportation palliatives for low-income earners, as well as the implementation of economic policies to reduce inflation and the cost of living. Additionally, redirecting additional revenue gains from subsidy removal towards infrastructural development and restoring local refineries to full operational efficiency to lower petrol pump prices and reduce importation are critical government responsibilities. These findings corroborate the submissions of Emma (2024), George, Ayotunde, and Idowu (2014), and the World Bank (2024) report, which emphasize the need for the Nigerian government to focus economic reforms on improving the well-being of the poor to reduce poverty.

Conclusion

The study assessed the influence of fuel subsidy removal on economic life of low-income earners in Nigeria considering their financial purchasing power and economic standard of living, and what government roles are towards alleviating challenges of fuel subsidy removal on economic life of low-income earners in

submission of Innocent, Ogbu, and Job (2015), who stated that petroleum subsidy influences the overall consumer price index.

Similarly, Emeh and Onyishi (2012) and Ering and Akpan (2012) affirmed that fuel subsidy removal leads to economic crises with both domestic and international implications.

Nigeria. The need to address the challenges of economic hardship caused by abrupt removal of fuel subsidy particularly on poor Nigerians led to this study. The study found out that fuel subsidy removal has negative impacts on the economic purchasing power and standard of living of low-income earners, thus, the need for proactive government roles towards societal well-being of the poor masses in Nigeria.

Recommendations

Based on the findings, the following recommendations are made:

1. Government should increase financial purchasing power of low-income earners by increasing national minimum wage and introduce price control policy for all refined petroleum products to stabilise what real value of money can afford to buy and curb effect of fuel subsidy removal.
2. Government should improve the economic standard of living of low-income earners by focusing public private partnership economic reforms towards affordable essential goods and services, transportation and cost of living to reduce socio-economic gap between the poor and rich.
3. Government should alleviate challenges of fuel subsidy removal by ensuring that palliatives actually get to the low-income earners, redirect revenue from subsidy removal to implement infrastructures and facilitate full operational efficiency of local refineries at affordable pumping price.

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