

Fuel subsidy removal and performance of SMEs in Anambra State Nigeria

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Abstract

Purpose: The decision by the government to remove the subsidy on fuel has caused conflict and controversies. This study examines the effect of fuel subsidy removal and the performance of SMEs in Awka and Anambra.

Method: The study adopted a survey research design, and data were collected using a questionnaire. The study population consisted of 357 respondents randomly selected from four Small and Medium Enterprises in Awka. The hypotheses were tested using simple linear regression.

Results: The findings revealed that fuel subsidy removal significantly affects the cost of living and transport fares in Awka.

Conclusions: It was concluded that the removal of fuel subsidies has led to a significant increase in transport fares and cost of living, particularly in Awka South, Anambra State of Nigeria, and recommended that the government should invest in vehicles that do not depend on fuel.

Limitations: The study encountered drawbacks due to the uncooperative attitude of the respondents, who refused to fill out the questionnaire while some returned it without filling it. This problem was mitigated by revisiting and convincing them of the need to assist in completing the questionnaire.

Contribution: The findings of this study offer valuable insights that advance our understanding by employing rigorous statistical analysis. Research has quantified the short- and long-term effects of subsidy removal on inflation, highlighting how fuel price hikes influence transportation, food prices, and household expenses.

Keywords: *fuel subsidy, subsidy removal, average cost of living, transportation sector, SMEs performance*

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1. Introduction

In Nigeria's economy, fuel subsidies have caused conflicts and controversies. On the 29th of May, 2023, there was a complete removal of fuel subsidies, which resulted in a hike in fuel prices from 197/liter to 1,200/liter by the new Administration led by President Bola Ahmed Tinubu, citing budgetary concerns (Odinkalu, 2023). This news has caused some disturbance, which has adversely affected Small and Medium Enterprises (SMEs) that depend on fuel for operations, transportation, and power generation for a living in Awka, Anambra state. A hike in fuel price automatically leads to a hike in transport fare, affecting the average cost of living, and placing a major strain on the disposable income of the people in the country, it virtually means an increase in the cost of commodities in the market, an increase in house rent, an increase in hospital bills, and an increase in school fees. The cost of living increases along with fuel prices, which reduces consumers' purchasing power (Anwanakak, 2023). Individuals' purchasing power has decreased as a result of the sudden removal of the fuel subsidy without a rise in

worker pay or minimum wages. C. Nwagbala, Kekeocha, and Edibo (2024) stated that low-income workers are at a higher risk of poverty, social exclusion, and manipulation, leading to ongoing cycles of hardship that can affect multiple generations. This implies that citizens will hardly be able to pay for the necessities of existence that every human being needs, thus impacting the general performance of SMEs in Nigeria (Nwagbala et al., 2024).

Additionally, it caused the Nigerian economy's inflation rate to rise. According to S. C. Nwagbala, Ezeanokwasa, and Johnson (2023), Nigerian official currency has devalued including inflation, etc. Nigerian Naira's recurrent devaluation caused concerns about how it may affect various sectors of the economy. Devaluation is frequently implemented to improve export competitiveness and correct trade imbalances, but its effects on inflation, import prices, and general economic stability have generated discussion in the Nigerian economy, as stated in S. C. Nwagbala et al. (2023). Despite the abundant natural resource endowment in Nigeria and its vast arable land, the Nigerian economy is monolithic (Umeji & Eleanya, 2021), depending on crude oil exports for its major source of government revenue and budgetary expenditure. Olisah (2020) found that crude oil sales contribute approximately 90% of Nigeria's foreign exchange earnings, 60% of its revenue, and 8% of its gross domestic product (GDP). In addition, fuel is a significant factor in production in every aspect of the Nigerian economy; its importance in the economy cannot be undermined. Nigeria is a high consumer of energy fuel. Unfortunately, with four government-owned refineries with an installed capacity of 445, 000 barrels per day, more than enough to cover its domestic requirements, Nigeria is still a net importer of refined petroleum products, making it the only member of the Organization of Petroleum Exporting Countries (OPEC) still importing refined fuel (Adekoya, 2020). Despite enormous earnings from oil exports, Nigerian governments have failed to tackle poverty and provide the social amenities that their citizens need.

The removal of the fuel subsidy, if successfully implemented, could pave the way for Nigeria to enhance its refinery capacity, increase potential revenue from the oil sector, and create jobs. However, unsuccessful implementation could negatively impact a country's economic growth. Against this backdrop, this study examines the effect of fuel subsidy removal on the performance of Small and Medium Enterprises (SMEs) in Anambra State, Nigeria.

1.1 Statement of the Problem

The removal of fuel subsidies in Nigeria has led to an increased cost of living, significantly affecting SMEs in Awka. Rising prices reduce consumer purchasing power, increase business expenses, and create operational challenges for SMEs. As the cost of fuel increases, transportation costs, the price of goods and services, and overall operational expenses increase, creating a challenging business environment for SMEs. Nigeria's fuel subsidy problem stems from the inefficient operation of its current refineries, which forces it to rely on imported petroleum to meet domestic demand. A growing economy is not aided by such circumstances. According to the report from the respondents in selected small and medium enterprises (SMEs) in Awka, Anambra State, a report from the government policy of fuel subsidy removal was to bring about positive effects and changes to the economy through a subsidy reinvestment program and to eradicate oil-related corruption, thereby increasing the standard of living of Nigeria. However, the reverse seems to be the case since fuel subsidy removal has generated inflation in the country, which brought about a high cost of fuel and even other items in the market. The transportation sector was equally affected because virtually all small- and medium-scale enterprises depend on road transport to move their goods and services, and the movement of food items/production depends on transportation. Therefore, food prices will certainly affect rooftops. The government needs to come up with policies that are capable of solving these problems, which prompted this study on fuel subsidy removal and the performance of Small and Medium Enterprise SMEs in Awka, Anambra.

1.2 Objectives of the Study

The broad objectives of this study is to examine the Fuel Subsidy removal and performance of Small and Medium enterprises (SMEs) in Awka.

The specific objectives of this study are as follows:

1. To assess the impact of fuel subsidy removal on the average cost of living in Awka.
2. To evaluate the effect of fuel subsidy removal on transportation fares in Awka.

1.3 Significance of the Study

1. Government

This study will be very useful to the government and stakeholders as it will enable them to adopt a bottom-up approach that will be beneficial to the poor masses and elites. Also, this study would enhance the policy formulation of the government, especially in reducing the ignorance of some on the fuel subsidy issue.

2. Populace

The results of the study will also be useful to citizens as they will comprehend and be enlightened on the usefulness of fuel subsidies.

3. Researchers

The study will also be useful to students, staff, and researchers as reference materials on the Fuel Subsidy removal and Performance of SMEs in Awka.

Students who decide to conduct studies in this area will have the opportunity to use this study as the available literature that can be subjected to critical review. Public, private sector, and public affairs analysts will learn a lot from this research.

2. Literature review

2.1 Conceptual Review

2.1.1 Subsidy and Fuel Subsidy

Sweeney (2020) states that fuel subsidies involve selling gasoline below the cost of importation. Subsidies are financial or non-financial incentives provided by the government or other organizations to support specific industries, sectors, or individuals (Sweeney, 2020). Subsidies are used to sell products below the manufacturing cost. Fuel subsidies in Nigeria have historically kept fuel prices low, which indirectly affects transportation and production costs and, ultimately, consumer prices. According to the International Monetary Fund (IMF, 2013), subsidies can take many different forms, such as direct government expenditures, equity infusions, tax incentives, soft loans, government provision of goods and services, procurement on favorable terms, and price supports like price reductions. Their goals are to reduce the economic burden, encourage growth, and address market failures. P. Ozili (2022) argued that subsidies are provided in diverse formats, encompassing insurance such as cash grants and interest-free loans, as well as indirect support and other forms such as tax exemptions, insurance coverage, low-interest loans, accelerated depreciation, and rent rebates.

These forms of support aim to lower the cost of production, encourage investment, stimulate demand, and improve access to essential goods and services. Subsidies are often targeted at specific sectors, such as agriculture, energy, education, healthcare, or housing, to achieve desired social and economic outcomes. Keypoint (n.d.) Fuel subsidy can be properly defined as the government effort to pay for the difference between the pump price of fuel at the petrol station and the actual cost of importation of the product. Thus, by paying the difference, the government enables fuel to be sold at a lower price to help ease the burden of its people, especially lower income groups; A Fuel subsidy is a grant of financial aid from the government used to maintain the low price of petroleum products (Keypoint, n.d.). In this case, the government fixes the pump price of fuel below the actual market price, and the difference is paid to marketers and importers by the government. Fuel subsidies are a means of government intervention aimed at decreasing fuel expenses by offering direct financial assistance to oil companies. In doing so, they subsidize products for consumers (Adekoya, 2020).

2.1.2 Removal of Fuel Subsidy

The government no longer foots a bill for the difference between the pump price and true cost of importing fuel when the fuel subsidy is removed. Technical definitions refer to the complete deregulation of the downstream industry to allow for active competition from other investors. With the

removal of fuel subsidies, fuel must be sold at the prevailing market price based on the actual cost of importation (Keypoint, n.d.). Fuel subsidy removal is the process of withdrawing government financial assistance for fuel, leading prices to increase to market levels. This leads to increased fuel costs and can have economic and social effects. Fuel prices usually rise when the government removes these subsidies. This rise in fuel prices leads to higher operational costs for SMEs, as they rely heavily on transportation for logistics and distribution. The increased cost of fuel translates to higher prices for the goods and services offered by SMEs, contributing to an overall increase in the average cost of living.

According to the president, Nigerians have been panic-buying and raising their voices ever since the subsidy for gasoline was eliminated because it was not included in the 2023 budget. The government contended that the economy would gain from the liberalization of the gasoline industry and that the elimination of the high subsidy would free up money for other public services, such as health care and infrastructure. Nigeria is being impacted by the current state of affairs; nevertheless, it is essential to point out certain benefits and drawbacks of eliminating the fuel subsidy (Hussaini, 2023). The National Orientation Agency states that removing fuel subsidies nationwide will prevent corruption in the so-called subsidy regime, which has amassed enormous wealth for a select few without industries. This will restore the resource balance and benefit the vast majority of the population. It will also free up the enormous sums paid as subsidies, allowing for increased growth in vital areas of national development. This means that other sectors of the economy will be developed, not just those that are perceived as critical. The subsidy removal will also put an end to the smuggling of Nigeria's Premium Motor Spirit (PMS) to neighboring countries, which is an organized theft and diversion of the PMS aided by the country's easily penetrated borders, which affect the economy. This development will solve the problem of perennial fuel scarcity and the attendant hardship on citizens, thereby stimulating responsible consumption and reducing waste as prices become more market-reflective (Ude, 2023).

Additionally, it will support the expansion of domestic refineries, which will generate employment opportunities for Nigerians. Eventually, the price drops because of market forces and industry competitiveness. The elimination of gasoline subsidies will reduce the availability and intentional sabotage of a select few oil industry participants, which will benefit the nation's economy. Nigeria used to pay N400 billion a month for fuel subsidies. The government will use the funds for other areas, such as health, education, and other infrastructure development, as a result of their elimination. This will improve the output and performance of the sectors to which the subsidy fund would be allocated (Hussaini, 2023). However, questions have been raised like "Will the price continue to rise?" This will be determined by market forces, and consumers will be protected by industry regulators and the Consumer Protection Council. Moreover, the benefits of fuel subsidy removal outweigh its continual payment, and Nigerians experience many inconveniences. Some Nigerians believe that removal is necessary, hoping to see results in a few months (Hussaini, 2023). The removal of gasoline subsidies could have detrimental effects on SMEs' performance, criminal activity, poverty, increased inflation, fuel smuggling, petroleum product prices, and the number of jobs in the unorganized sector. It is advised that the government thoroughly assess how the elimination of fuel subsidies would affect people and businesses and offer palliative care and other forms of financial assistance that will mitigate the adverse effects (P. K. Ozili & Arun, 2023).

2.1.3 Transportation sector

One of the sectors affected by fuel subsidies is the transportation sector. Nigeria's public transportation infrastructure is currently inadequate, especially in rural areas, where there is heavy reliance on old, inefficient vehicles. If alternative transportation options are not improved or made readily available, the removal of fuel subsidies could result in the increased use of inefficient vehicles that could lead to road accidents. The Zonal Chairman of the South-East National Union of Road Transport Workers, Mr. Augustine Udeozor, described the fuel price hike as a 'general disease' that requires intervention from the Federal Government to alleviate the hardships faced by the masses. Udeozor emphasized that ongoing socio-economic and political challenges necessitate immediate government action to ease the burden on citizens. The fuel price increase has worsened living conditions and strained household budgets and contributed to widespread dissatisfaction among Nigerians. These developments align with

broader analyses that have shown that fuel price hikes lead to inflationary pressure, reduced purchasing power, and increased poverty levels in Nigeria (Ocheni, 2015).

2.1.4 Average cost of living

The cost of living is the amount of money needed to cover basic expenses, such as food, healthcare, housing, and taxes in a certain place and period (Hayes, 2024). There is no guarantee that landlords will not raise rents when they have families to support, and the removal of fuel subsidies has had an equal impact on the cost of commodities at different markets throughout the city. Even commercial motorcycle riders immediately adjusted their faces when the announcement of subsidy removal was made because prices for goods and services increased. PHCN, hospitals, schools, organizations, and other employers might want to pay their workers more to enable them to cope with the higher cost of living. Owing to this policy, they also experienced an increase in school fees, electrical tariffs, hospital bills, and so on. As a result, more children will drop out of school because their parents cannot afford their tuition, and more sick people will pass away at home or in the hospital because they cannot afford medications or medical bills because they prefer their food, generating unimaginable suffering for the general population. Many journalists can be forced to work for no pay or end up being too burdensome for their owners (Manjo, 2024). Needless to say, circulation, which is already at a miserable level, would drop even more drastically because the disposable income of the citizens would have shrunk to the point where only basic needs are met, leading to a fall in the standard of living in the country (Ejoh, 2016).

2.1.5 To navigate the challenges posed by rising transport fares, SMEs in Awka can adopt several strategies:

1. **Local Sourcing of Raw Materials:** Reducing dependency on distant suppliers can help cut transportation costs.
2. **Adopting Digital Solutions:** Businesses can leverage e-commerce and delivery partnerships to minimize logistics expenses.
3. **Shared Logistics:** SMEs operating in similar industries can collaborate in transportation to reduce individual costs.
4. **Government Support and Advocacy:** SMEs can lobby for policies that support alternative energy sources, such as solar vehicles, fuel price stabilization, and small business funding.

2.1.6 Fuel Subsidy Removal and Average Cost of Living in the Performance of SMEs in Awka

The removal of fuel subsidies in Nigeria has significantly impacted the economy, leading to an increase in the average cost of living. This increase, in turn, affects the performance of small and medium-sized enterprises (SMEs), particularly in Awka, where economic resilience is often lower. As fuel prices rise, transportation, goods, and services become more expensive, influencing both consumer purchasing power and business operating costs, and creating a challenging business environment for SMEs. In Awka South, where infrastructure and alternative energy sources are limited, the effects are even more pronounced, making daily living more expensive for SMEs.

1. **Increased Transportation Costs:** With fuel subsidy removal, fuel prices typically rise, leading to higher costs for private and public transportation. Because public transport operators pass on higher fuel costs to passengers, commuters who depend on public transportation are disproportionately affected. As a result, businesses and their workers must pay more, which decreases disposable income and affects economic growth.
2. **Inflation and Higher Food Prices:** Increases in fuel prices have an effect on the expenses of producing and distributing food, which increases food prices. Food inflation is exacerbated by the rising costs of agricultural items, which must be transported from rural to urban areas. As a result, food insecurity may worsen, particularly for disadvantaged groups.
3. **Increased Cost of Goods and Services:** Fuel is an essential input in manufacturing and service delivery. When fuel costs increase, businesses experience higher production costs, leading to increased prices for goods and services. This inflationary effect reduces customers' purchasing power, making necessities less affordable.

4. **Household Energy Costs:** Subsidy removal leads to higher energy costs, increasing household expenses and affecting overall living standards because many households depend on fuel for electricity generation, especially in regions with unreliable power supply.

2.1.7 Some Remedies to Navigate the Impact of Fuel Subsidy Removal on the Average Cost of Living

The removal of fuel subsidies often leads to increased transportation, food, and energy costs, thereby affecting the overall cost of living. To mitigate these effects, governments and policymakers can implement the following measures:

1. **Public Transportation Improvements**

Investing in affordable and efficient public transportation systems can help reduce commuting costs. Governments can subsidize mass transit systems, such as buses and rail networks, to make transportation more affordable despite higher fuel prices.

2. **Promotion of Alternative Energy Sources**

Dependency on fossil fuels can be reduced by promoting the use of renewable energy sources, such as solar, wind, and biofuels. Long-term energy costs can be reduced by providing incentives for businesses and people to switch to alternative energy sources.

3. **Strengthening Domestic Refining Capacity**

Developing local refining infrastructure reduces reliance on imported petroleum products and helps stabilize fuel prices. Governments can encourage investment in refineries and implement policies that promote domestic fuel production (Okonkwo & Adegbite, 2023).

4. **Wage Adjustments and Economic Policies**

Both governments and businesses may consider wage increases, reductions in taxes, and price controls on essential goods to address inflationary pressures. These economic changes have helped preserve buying power and enhance the standards of living.

5. **Agricultural and Food Supply Chain Support**

Because rising fuel prices impact food production and distribution, investing in local food production, storage facilities, and transportation infrastructure can help stabilize food prices. Policies that support small-scale farmers and agribusinesses can enhance food security. A well-structured transition plan ensures that negative effects on the cost of living are minimized, promoting economic stability and social welfare.

2.1.8 Impact of Fuel Subsidy on the Performance of Small and Medium Enterprises (SMEs) in Awka.

SME performance is often measured by profitability, growth potential, and sustainability. With rising operational costs due to increased fuel prices after subsidy removal, many SMEs face reduced profit margins. SMEs must either pay these expenses or shift them to customers. Transferring costs to consumers may decrease demand for their goods or services, while absorbing costs may cause financial difficulties and even business closures.

Furthermore, inflationary pressure resulting from subsidy removal can lead to decreased consumer purchasing power. Consumers tend to prioritize essential goods over discretionary spending when the average cost of living rises significantly due to increased prices across various sectors, including food, housing, and transportation. This shift can adversely affect the SME sales volume.

Small and medium-sized businesses (SMEs) are a driving force behind economic growth, job creation, and poverty alleviation in developing countries and have also been essential in achieving rapid industrial development and economic growth on a global scale (Edokobi, Nwagbala, & Okpala, 2020). Fuel subsidy removal has been a leverage that has aided Small and Medium Enterprises (SMEs) operations in Awka as it has helped in reducing the amount of resources spent on fuel by SMEs. According to Ezeanokwasa, Nwagbala, Nwachukwu, Oranusi, and Ani (2023), when dealing with the challenges of a rapidly changing economic environment, the impact of disruptive forces on businesses in a country such as Nigeria cannot be overstated. Thus, removal has undoubtedly negatively affected the activities and operations of SMEs across the country. Some of the negative impacts of fuel subsidy removal on SMEs include an increase in production cost, reduced profit as a result of high overhead costs, low sales and income resulting from low patronage, and financial strain on the general activities (Ilodigwe, 2023).

Despite Nigeria's abundant oil reserves, the country continues to rely heavily on imported refined petroleum products, which not only strains its foreign exchange reserves, but also leaves the country vulnerable to fluctuations in international oil prices. The underutilization of its refineries not only hampers Nigeria's economic potential but also affects the Performance of SMEs, which inhibits job creation and local value addition. Addressing this issue by reviving and modernizing dormant refineries could not only reduce the nation's dependency on imports but also stimulate economic growth, create employment opportunities, and contribute to the overall development of Nigeria's energy sector (Bashir, 2016).

2.2 Theoretical Review

The theory is anchored in neoliberalism theory propounded by Friedrich Hayek in 1944 (Roncaglia, 2019). His influential book, "The Road to Serfdom," was published in 1944.

An economic philosophy known as neoliberalism places strong emphasis on individual liberty, a free market, and minimal government involvement. In the hope of creating a more effective administration and enhancing a country's economic well-being, it aims to shift economic power from the public to the private sector. Supporters argue that removing subsidies and regulations can promote economic growth and efficiency. However, critics of neoliberalism contend that it often leads to increased income inequality and social disparities. Applying this theory to this study has several implications.

First, fuel subsidy removal is likely to result in an increase in fuel prices, which will have a direct impact on SMEs' transport costs. Higher fuel prices result in increased expenses for transporting goods and materials, directly affecting the profit and overall performance of Small and Medium Enterprises (SMEs).

Second, fuel subsidies have affected the nation's transportation costs. As the price of fuel increases, transportation fares will also increase, greatly restricting the nation's citizens' disposable income and affecting their average standard of living, as rising fuel prices translate into higher prices for commodities on the market.

Lastly, since neoliberalism typically favors minimal government involvement, small and medium-sized businesses (SMEs) would have less government protection or assistance when the fuel subsidy is removed. Businesses may find it difficult to adapt to shifting market dynamics and rising costs if the government does not step in. Some small and medium-sized businesses (SMEs) may experience financial difficulties or even close down as a result.

2.3 Empirical review

Oyasipe and Olukoya (2024) systematically analyzed the impact of 2023 fuel subsidy removal on the profitability of entrepreneurial businesses in Lagos, Nigeria. This study uses a multi-stage random sample technique carried out inside Lagos State to examine its effects on business operations, costs, sales, and profitability. The study's population is 240, which comprises five small-scale business operators (SSBs) actively engaged in business within Surulere and Oshodi of Lagos. The study used primary data, and questionnaires were meticulously crafted and designed to gather responses from small-scale business operators (SSBs). Chi-square was used to analyze the data, leading to the rejection of the null hypothesis, indicating a significant impact of fuel subsidy removal on the profitability of entrepreneurial businesses. The results show that the removal of fuel subsidies resulted in a significant increase in operating expenses, a drop in sales, reduced stock levels, and decreased profitability for start-up businesses. To reduce the impact of subsidy removal on entrepreneurial enterprises, recommendations were made on market protections, reinvestment programs for subsidies, infrastructure development, access to credit facilities, and upgrades to energy supply. The effective implementation of the Subsidy Reinvestment Program is crucial for supporting these enterprises.

Ilodigwe (2023) investigated the negative impact of fuel subsidy removal on SMEs in Anambra State. The study adopted a mixed method research that used a structured questionnaire and In-depth Interview (IDI) to collect data from 105 SMEs systematically selected from 21 Local Government Areas in the state. Data collected for the study were processed using the Statistical Package for Social Sciences (SPSS). The results of the quantitative data were analyzed using descriptive statistics (frequency tables, charts, and graphs), while the qualitative data were 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 negative impact of fuel subsidy removal on SMEs includes an increase in production cost, low sales and income resulting from low patronage, reduced profit as a result of high overhead costs, and financial strain on the general activities. 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.

Ikenga and Oluka (2023) examined the benefits and challenges of fuel subsidy relapse on the national economy. Descriptive analysis was adopted, and a qualitative method of data collection was used to collect data for this study. Secondary sources of data, notably, books, journals, dailies, periodicals, and internet materials, were utilized to obtain data. It was found that several attempts by previous administrations to reverse fuel subsidy policy had high negative effects on citizens because prices of petroleum products, food items, and transportation increased. The study recommends, among others, that the central government pay special attention to the effects of the policy on the masses by providing palliatives to alleviate the suffering of the people. In addition, the government should provide steady electricity, regulate prices of goods and services, including transportation fares, and provide adequate social amenities and infrastructure to cushion its effects on citizens.

P. Ozili (2023) examined the ramifications of the 2023 fuel subsidy removal in Nigeria. The study used discourse analysis methodology to shed light on macroeconomic and microeconomic consequences. Subsidy removal is anticipated to yield positive effects, such as freeing up financial resources for other sectors, diminishing dependence on imported fuel, boosting domestic refinery production, enhancing employment, directing funds toward critical infrastructure development, reducing the budget deficit, generating a budget surplus, fostering competition, curbing corruption linked to fuel subsidies, revitalizing domestic refineries, and alleviating pressure on the exchange rate.

S. C. Nwagbala et al. (2023) investigated the underlying causes of the devaluation of the Naira and how it affects the operations of small and medium-sized businesses in Awka-South, Anambra State. The Internet, newspapers, newsletters, libraries, and other relevant documented items were employed as secondary sources of data. The results showed that the performance of SMEs in Awka-South, Anambra State, Nigeria is positively correlated with currency devaluation. Accordingly, this study concludes that the depreciation of the naira has a substantial impact on several economic factors, such as the amount of imports, financial performance, and growth of domestic entrepreneurial enterprises. Generally, a depreciated naira raises the price of imported goods, which can lower the number of imports. However, inflation can also result from this, making it harder for consumers to afford necessities and businesses to function. According to the report, the Nigerian government should concentrate on programs and policies that support general economic expansion. This can be accomplished by implementing policies to enhance infrastructure, simplify regulatory structures, and open up access to technology and funding. This lessens the negative effects of the devaluation of the naira on the national economy. To lessen their dependence on a single market, SMEs should diversify the countries in which they sell. This would lessen the impact of currency fluctuations and enable them to take advantage of the advantageous exchange rates in other nations.

Ebimobowei (2022) investigated the relationship between oil revenue and economic growth in Nigeria. It spanned the period from 1990 to 2019. The specific objectives are to investigate the relationship between crude oil/gas exports, petroleum profit tax/royalty, domestic crude oil sales, oil licensing fees on real gross domestic product, and real gross national product in Nigeria. We also ascertain whether

the exchange rate moderates the relationship between oil revenue and economic growth in Nigeria. The study employed an ex post facto research design, and the secondary data used for the investigation were sourced from the Central Bank of Nigeria (CBN) statistical bulletin, the Federal Inland Revenue Service Fact Book, and the World Bank Development Website. Descriptive Statistics, Pearson Moment Correlation Coefficient, and Ordinary Least Square Multiple Regression Statistical tools were used in the study. The results revealed that crude oil/gas exports have a significant and negative relationship with the real gross domestic product in Nigeria; Petroleum profit tax/royalty has a significant and positive relationship with real gross domestic product in Nigeria; Domestic crude oil sales have an insignificant and negative relationship with real gross domestic product in Nigeria; Oil licensing fees have an insignificant and negative relationship with real gross domestic product in Nigeria; and the study concluded that there is a significant relationship between oil revenue and economic growth in Nigeria. The study recommends that the government effectively and efficiently utilize oil funds in strategic development projects to reduce the rate of poverty and facilitate economic growth.

Aminu (2018) researched the effect of petrol consumption in the transport sector of Lagos State, Brazil. This study adopted a cross-sectional design. The study population was 1,303,66 car owners in the 20 local government areas of Lagos State. The study employed the Pearson product-moment correlation to test the hypothesis. The results show that petrol subsidy can significantly reduce petrol consumption in the transport sector of Lagos. Based on the findings, the conclusion was that a complete subsidy reform in Nigeria in the medium term, leading to the total removal of the subsidy on petrol price, would increase the product price, resulting in many motorists reducing their fuel consumption and an increase in transport fare in the state. The researcher thereby recommended that the government must convince people that the savings from the subsidy would be used to provide an efficient and effective public transportation system and an extensive network of roads to provide succor to motorists who cannot afford the high price of petrol.

2.4 Gap in literature

To the best of our knowledge, it is apparent from the above review that there has been neglect among the previous studies on fuel subsidies and the Performance of SMEs, particularly in the Awka Anambra State, Nigeria. The majority of the literature has failed to conduct a quantitative analysis of the Fuel Subsidy and Performance of SMEs, particularly in Awka South, Anambra State, Nigeria. Therefore, this Study fills this gap in the literature.

3. Research Methodology

The researcher adopted a survey design because it created surveys with the goal of receiving maximum insights from survey research. The study was conducted in Awka, Anambra State. The population of this study comprised management and employees of selected registered small enterprises (SMEs) currently operating in Awka, Anambra State. According to the 2023 report of the Anambra Internal Revenue Service (AIRS), there are 5,143 registered SMEs in Anambra State. To make this study purposive, the study selected four registered SMEs, each from key regions in Awka, including the Ifite region, Temporary site region, Eke, and Aroma region. The population of respondents in the selected SMEs is 357 (Source: Compilation of total staff and management of selected SMEs). Thus, the entire population of 357 was used as the sample size because it was manageable. The SMEs were selected based on the following criteria:

1. Accessibility by the researcher to the location of the Small and Medium Enterprises (SMEs).
2. Based on Proximity of the Small and Medium Enterprises (SMEs) to the researcher.
3. Small and Medium Enterprises (SMEs) are businesses that pay taxes when due and have large workforce as compared to other Small and Medium Enterprises (SMEs) that are registered but don't pay taxes. It was based on the above criteria that the following SMEs were selected

Table 1

SMEs BUSINESS	NATURE OF BUSINESS	STAFF STRENGTH
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Omega Softwares	MLM Software Development Company	106
Chogon Private Security Company	Security Services	50
Marbleclix media	Digital marketing company	41
De Graceland Home Consults	Real Estate	75

Source: Field data, 2024

4. Results and discussions

4.1 Method of Data Analysis

The data collected in the study were analyzed using mean score percentages to answer the research question. The point 2.5 was taken as the cutoff; for section B, any item with a mean above 2.5 was viewed as being agreed by the respondents, and any mean score below 2.5 was taken to be disagreed by them.

4.1.1 Data presentation and analysis

Quantitative Analysis

Response Rate

A total of 357 copies of the questionnaire were administered to randomly selected participants. A total of 245 copies of the questionnaire were returned and found usable for the analysis.

Personal Data of Respondents

Personal data of the respondent

Table 2. Distribution of respondents by gender

Distribution of respondents by gender	Frequency	Percentage
Male	108	42.3
Female	137	57.7
Total	245	100

Source: Field data, 2024

Based on the data represented above from the survey conducted, there were 108 male respondents and 137 female respondents, representing 57.7% and 42.3%, respectively. This shows that the majority of respondents who participated in the survey were females.

Table 3. Marital Status of Respondents

Distribution of respondents by Marital status	Variables	Frequency
Single	66	21.9
Married	96	43.8
Divorced	54	13.1
Widowed	65	21.2

Source: Field data, 2024

As shown in Table 3, the majority of the respondents were married (96, 43.8%). Respondents within single were 66 (21.9%) respondents were single, 96 (21.2 %) were widowed, and 54(13.1%) were divorced, indicating that the majority of the respondents were married.

4.1.1.2 Research Question 1

What is the impact of subsidies on the average cost of living in Awka?

Table 4. Mean rating of respondents on the impact of subsidy on the average cost of living in Awka

SN	ITEMS		Decision
1	As a result of the subsidies, the cost of necessities has substantially increased.	4.50	Strongly agreed
2	Since the subsidy, my overall household expenses have significantly risen.	3.53	Agreed
3	The subsidies have raised the cost of transportation.	4.10	Agreed
4	I believe the subsidy has positively impacted on the national economy	3.48	Agreed
	Cluster Mean	3.90	Agreed

The results in **Table 4** show that four items have mean ratings of 3.48 to 4.10, which means that they agreed, implying that subsidy affects the average cost of living in Awka.

4.1.1.3 Research Question 2

What are the effects of subsidies on transport fares in Awka?

Table 5. Mean rating of respondents on the effects of subsidy on transport fare in Awka.

.SN	ITEMS		Decision
14	The recent subsidy has significantly increased transport fares in my locality.	3.53	Agreed
15	I believe the subsidy will lead to better efficiency and reliability in the transportation sector.	3.33	Agreed
16	The subsidy has affected my budget and expenses.	4.55	Strongly Agreed
17	The subsidy has led to increased public dissatisfaction with the government.	3.79	Agreed
	Cluster Mean	3.80	Agreed

The results in Table 5 show that three items have mean ratings ranging from 3.33 to 3.79, which means that they agreed. One item has a mean rating of 4.55, which means that they strongly agreed. However, with a grand mean of 3.80, it shows that subsidies affect transport fares in Awka.

4.2 Hypotheses Testing

Research Hypothesis One: Fuel subsidies do not affect the cost of living in Awka.

Table 6. Simple linear regressions of Fuel Subsidy’s effect on the cost of living in Awka.

Model	B	Std. Error	B	T	Sig.
(Constant)	2.641	.199		13.259	.000
Cost of living	.182	.058	.180	3.168	.002

Note. R2 = .032, Adjusted R2 = .029, F (10, 039), p < 005

The results of the information introduced in Table 6 reveal that fuel subsidies significantly affect the cost of living in Awka (F = 10.039, t = 3.168, β = .374, p > .005). The Table also reveals that the adjusted R-square (0.029) depicts that 2.9% of variances in the fuel subsidy are determined by the cost

of living. Therefore, the null hypothesis is rejected, which implies that Fuel Subsidy significantly affects the cost of living in Awka.

Summary of the Finding

The results of hypothesis one revealed that fuel subsidies significantly affect the cost of living in Awka. ($F = 10.039$, $t = 3.168$, $\beta = .374$, $p > .005$). Therefore, the research hypothesis is rejected, which further implies that Fuel Subsidy affects the cost of living in Awka.s

Research Hypothesis Two: Fuel subsidy does not affect transport fares in Awka.

Table 7. Simple linear regressions of fuel subsidies do not affect transport fares in Awka.

Model				T	Sig.
	B	Std. Error	B		
(Constant)	2.765	.146		18.945	.000
Transport fare	.159	.045	.198	3.507	.000

Note. $R^2 = .039$, Adjusted $R^2 = 0.036$, $F (12.301)$, $p < .005$

The results of the information introduced in Table 7 reveal that fuel subsidies significantly affect the transport fares in Awka. ($F = 12.301$, $t = 3.507$, $\beta = .198$, $p > .005$). The Table also reveals that the adjusted R-square (0.036) depicts 3.6% variances in the high cost of transport fare in Awka, which is determined by fuel subsidy. Therefore, the research hypothesis was rejected, further implying that fuel subsidies affect transport fares in Awka.

Summary of the Finding

The results of hypothesis two revealed that fuel subsidy significantly affects transport fares in Awka ($F = 12.301$, $t = 3.507$, $\beta = .198$, $p > .005$). Therefore, the research hypothesis is rejected, which further implies that fuel subsidies affect transport fares in Awka.

4.3. Discussion of Results

The study revealed in hypothesis one that subsidy removal significantly affects the cost of living in Awka. Prices for necessities, such as petrol, sometimes increase when subsidies are removed. Thus, the average citizen's disposable income is impacted, and the cost of living increases overall because of this cascade effect in other sectors. This is in line with the assertion of Ikenga and Oluka (2023) that several attempts by the previous administration to reverse the fuel subsidy policy had highly negative effects on citizens because the prices of petroleum products, food items, and transportation increased.

The study revealed in hypothesis two that subsidies significantly affect transport fares in Awka, Anambra State. As fuel prices rise after subsidy removal, transportation costs surge, affecting both public and private modes of transport. This not only impacts daily commuting for citizens but also contributes to the overall rise in the cost of goods and services, as transportation is a critical component of the supply chain. This is in line with the assertion of Aminu (2018) that a complete subsidy reform in Nigeria in the medium term, leading to the total subsidy on petrol price, would increase the product price, resulting in many motorists reducing their fuel consumption and an increase in transport fare in the state.

5. Conclusion

5.1 Conclusion

The removal of fuel subsidies has led to a significant increase in transport fares and cost of living, which negatively impacts SMEs, particularly in Awka localA,wka Anambra state, Nigeria. Higher transportation costs increase operational expenses, reduce profit margins, and limit business growth. While government efforts to reallocate subsidy funds toward infrastructure projects may yield long-term benefits, SMEs urgently require short-term interventions, such as transport assistance programs and tax incentives, to remain sustainable in the evolving economic landscape. Fuel subsidy in Nigeria is a complex policy decision with potential implications for the performance of SMEs in Awka. While the subsidy has strained government finances, it may lead to short-term challenges, such as inflation

and increased cost of living. However, in the long run, it can foster economic stability by redirecting funds toward critical sectors, such as infrastructure, education, and healthcare. This move could attract foreign investment, enhance fiscal discipline, and stimulate domestic industry. Policymakers must implement targeted social safety nets to mitigate social impacts. Success in this endeavor hinges on effective communication, transparency, and proactive measures to cushion immediate effects on vulnerable populations. The removal of fuel subsidies is not a panacea, but a well-managed transition can lead to an increase in the performance of SMEs in Awka.

5.2 Limitations of the Study

The study encountered drawbacks and limitations due to the uncooperative attitudes of the respondents. Some of the respondents were unfriendly and refused to fill out the questionnaire, while some took the questionnaire and returned it without filling it. This problem was mitigated by revisiting the respondents and convincing them of the need to assist in completing the questionnaire.

5.3 Suggestions for Further Studies

An in-depth study on the benefit of local refining of crude oil should be carried out in Nigeria, and diversification of Nigeria's economy into various sectors of the economy should be carried out.

5.4 Recommendations

The following recommendations were made based on the findings of this study:

1. To counteract inflationary pressures, governments and businesses can consider wage increases, tax relief programs, subsidized healthcare, educational programs, and price control measures on essential goods. These economic adjustments help maintain purchasing power and improve the standard of living.
2. It is recommended that the government channel funds saved from subsidy removal into infrastructure development, encouraging the adoption of renewable energy sources such as solar, wind, and biofuels to reduce dependence on fossil fuels. Invest infrastructure such as solar vehicles to improve transportation, create good roads, and provide public transport can enhance overall productivity, attract foreign investments, and stimulate the performance of SMEs in Awka. SMEs can lobby for policies that support alternative energy sources, fuel price stabilization, and small business funding.

5.5 Contributions to Knowledge

The findings of this study make a significant contribution to the existing body of knowledge in several key areas, offering valuable insights that advance our understanding of the dynamics between the Fuel Subsidy removal and the performance of Small and Medium Enterprises (SMEs) in Awka, Anambra State. By employing rigorous statistical analysis, including regression models and hypothesis testing, the research shows that the removal of fuel subsidies significantly affects the performance of Small and Medium Enterprises SMEs in Awka. Research has quantified the short- and long-term effects of subsidy removal on inflation, highlighting how fuel price hikes influence transportation, food prices, and household expenses.

By focusing specifically on SMEs within Awka, Anambra State, this study contributes to a deeper contextual understanding of the factors influencing business performance in the region. This nuanced understanding of local dynamics enriches our knowledge base and facilitates more targeted and effective policy interventions and support mechanisms tailored to the needs of Anambra State's Small and Medium Enterprises (SMEs) sector.

The findings also have practical implications for a wide range of stakeholders, including policymakers, the Populace, Small and Medium Enterprises (SMEs) owners, and support organizations. By demonstrating the significant effect of fuel subsidies on the performance of small and medium enterprises (SMEs), the research underscores the importance of Fuel Subsidy support as a means of fostering SMEs' growth and sustainability.

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