

POLICY EFFECTS OF FUEL SUBSIDY REMOVAL ON LOCAL ENTERPRISE GROWTH: A FOCUS ON SMES IN IBARAPA CENTRAL, OYO STATE

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Abstract

The fuel subsidy policy in Nigeria has long been a subject of debate, serving both as a point of contention and as critical support for the operations of small and medium enterprises (SMEs). This study examined the impact of fuel subsidy removal on the growth of SMEs in Ibarapa Central Local Government Area of Oyo State, employing a survey research design. Primary data were collected through structured questionnaires and analyzed using both descriptive and inferential statistical techniques. The findings revealed that the rise in transportation costs had a significant negative effect on SME growth, with a coefficient of 1.645 and a p-value of 0.000, indicating significance at the 1% level. Furthermore, a decline in consumers' purchasing power was found to be significantly affected. SME performance, also with a p-value of 0.000,. Additionally, the escalating cost of raw materials adversely impacted the sustainability of SMEs within the study area. Given these findings, government intervention is deemed essential to cushion the adverse effects of fuel subsidy removal. It is recommended that policymakers implement targeted subsidies or financial support mechanisms to sustain and promote the viability of SMEs.

Keywords: *Fuel Subsidy Removal; Purchasing Power; Small Business Sector; Input Cost.*

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Introduction

In simple terms, a subsidy refers to a financial contribution from a public authority aimed at supporting a business by reducing the burden of high overhead and operational costs or by helping to stabilize commodity prices. Governments have long used fuel subsidies as a strategic policy tool to make energy more affordable, promote economic growth, and protect citizens from volatile global oil prices" (Skovgaard and van Asselt, 2019). The rationale behind subsidies is often grounded in the need to support vital sectors, stimulate

economic development, and enhance the standard of living for citizens (Bao, Ma, and Goh, 2020). Abdulraheem, Onwuka and Ogunbo (2024) perceived fuel subsidy as a political and economic issue in Nigeria. Fuel subsidy has both economic and political implications and the policy relating to it greatly affects the market.

Fuel subsidy has been a leverage that has aided the operations of small and medium enterprises (SMEs), in Nigeria, as it helped in reducing the quantum of resources spent on fuel (Ilodigwe, 2023). In spite of the intended

benefits, removal of fuel subsidy has become a topic of discussion and policy action. Ilodigwe (2023) noted that fuel subsidy became a burden on Nigerian economy as the government was spending a significant portion of its budget on subsidizing fuel, leading to fiscal challenges. Fuel subsidisation has incurred substantial costs, with estimates suggesting that billions of dollars have been expended on fuel subsidy payments in recent decades (Houeland, 2020).

Small and medium enterprises (SMEs) have become the lifeblood of Nigerian economy, contributing significantly to job creation, economic growth, and poverty reduction. The enterprises contribute to GDP, social and political growth and development of the country. They operate across diverse sectors, including agriculture, manufacturing, retail, and services, providing essential products and services to both urban and rural communities. Avidime and Obi (2018) contended that small and medium scale enterprises (SMEs) play a very vital role in the economic growth and development of any nation. They further asserted that it encourages indigenous entrepreneurship, regional economic balance through industrial dispersal, including rural areas, moderation of rural-urban migration and production of international goods for use in large enterprises, around the world.

The theory of structural transformation, also known as structural change, by William Lewis Arthur underscores the necessity for the nations' transition from reliance on a single industry or sector to cultivating a more diversified and balanced economy, promoting resilience, mitigating vulnerability to external shocks, and fostering sustainable long-term growth. Further, the exhaustible resource theory by Harold Hotelling argues the necessity for pricing finite resources such as oil and fossil fuels in a manner that acknowledges their temporary availability. The business process re-engineering theory by Michael Hammer and James Champy aims to improve the efficiency and effectiveness of

business processes by fundamentally rethinking and redesigning them. It involves radical changes to business, rather than just making incremental improvement.

Previous studies have empirically sought the effects of fuel subsidy removal in Nigeria on different socio-economic areas. Houeland (2020) investigated the interplay between popular protests and institutional politics of fuel subsidy removal. The study posited four interconnected claims about the protests' influence on institutional politics, emphasising historical labour-led subsidy protests, the contextual factors amplifying the 2012 protests, the impact of new actors on movement fragmentation, and the enduring civic agency's influence on state-citizen relations, particularly evident in party politics and elections. Ozili and Obiora (2023) investigated the implications of the 2023 fuel subsidy removal in Nigeria using the discourse analysis methodology. The study found that fuel subsidy removal decreased economic growth in the short term, increased inflation, increased poverty, increased fuel smuggling, increased crime, and increased the prices of petroleum products and brought about loss of jobs in the informal sector.

The removal of fuel subsidies in 2023 is particularly crucial for small-scale businesses, for it not only influenced the operational costs and profit margins but also shaped the overall economic landscape in which they operate. However, a number of studies (Ikenga and Oluka, 2023; Yunusa, Yakubu, Emeje, Ibrahim, Stephen and gbunu, 2023) did not consider the potential ripple effect on sectors like small and medium enterprises. The setback occasioned by fuel subsidy removal on SMEs, in Nigeria, in spite of huge contributions to the country's economic growth, necessitated the present study. The study broadly investigated the impact of the fuel subsidy removal on performance of SMEs in Ibarapa Central Local Government Area of Oyo State. Specifically, it sought to : (i) examine the effect of increased transportation

on growth of small and medium scale enterprises in Ibarapa Local Government Area, ii) to assess the impact of reduction in purchasing power on the growth of small and medium scale enterprises, and (iii) to evaluate the impact of increase in cost of materials on survival of small and medium scale enterprises in Ibarapa LGA in Oyo State, Nigeria.

Methodology

The study was carried out in Ibarapa Central Local Government Area of Oyo State, which comprises the towns of Igbo-Ora and Idere, with Igbo-Ora serving as the administrative headquarters. The target population consisted of 120 small and medium enterprises (SMEs) that had been in operation for at least six months. Using Taro Yamane's formula at a 5% margin of error, a sample size of 96 respondents was determined. Primary data were collected through a structured questionnaire, and the data were analyzed using both descriptive and inferential statistical methods.

The independent variable was represented by purchasing power, assessed through indicators

such as real income, prices of goods, and the rising costs of materials and transportation. The dependent variable was measured in terms of both financial and operational growth, including metrics such as revenue, profit, employee growth, and asset expansion.

Model specification and data analysis

The regression model adopted in this study is as follows:

$$Y = \alpha + \beta \text{FSR} + \varepsilon$$

Where: Y = Growth of SMEs; α = Constant; β = Beta Coefficients; FSR = Fuel Subsidy Removal; ε = error term

Results and Discussion

The hypotheses formulated were tested for validation. The simple linear regression was used to ascertain the effect of independent variable on the dependent variable.

Hypothesis One (H_{01}): Increase in transportation cost has no significant effect on the growth of small and medium scale enterprises in Ibarapa Local Government Area.

Table 1: Summary of Regression Test of significant negative effect of increase in transportation cost on growth of small and medium scale enterprises in Ibarapa LGA

Variables	Co-efficient B	Standard Error	t-statistics	P-value
Constant	2.102	0.215	3.124	.000
Transportation Cost	1.645	0.072	2.958	.000
R ² : 0.947 No. of Observation: 96				
Adjusted R square: 0.942 R: 0.971				
F-statistics: 100.248				
Dependent variable: Growth of Small and Medium Scale Enterprises in Ibarapa LGA				

Source: SPSS Computation 23.0

The results of the linear regression analysis in Table 1 indicate a significant effect of increased transportation costs on the growth of small and medium-scale enterprises (SMEs) in Ibarapa Local Government Area. With a P-value of 0.000, which is less than the 0.05

significance level, the null hypothesis (H_0) is rejected, meaning that increased transportation costs significantly affected SME growth. The R² value of 0.947 suggests that 94.7% of the variation in SME growth can be explained by changes in transportation costs, and the F-

statistic of 100.248 further confirms the model's significance. Eze (2022) found that fuel subsidy removal is negatively though statistically not significant to transportation sectors in Nigeria.

H₀₂: Reduction in purchasing power has no significant effect on the growth of small and medium scale enterprises in the Ibarapa Local Government Area.

Table 2: Summary of Linear Regression Test of Significant impact of reduction in purchasing power on the growth of Small and Medium Enterprises in Ibarapa LGA

Variable	Co-efficient B	Standard Error	t-statistics	P-value
Constant	2.932	1.198	3.707	.000
Reduction in Purchasing Power	1.588	0.067	2.776	.000
R ² : 0.917 No. of Observation: 96				
Adjusted R square: 0.911 R: 0.919				
F-statistics: 107.019				
Dependent variable: Growth of Small and Medium Scale Enterprises in Ibarapa LGA				

Source: SPSS computation 23.0

Table 2 presents the results of the regression test, showing a significant impact of the reduction in purchasing power on the growth of SMEs in Ibarapa Local Government Area. The P-value for the purchasing power reduction variable is 0.000, and is below the 0.05 threshold, leading to the rejection of the null hypothesis (H₀). The R² value of 0.917 demonstrates that 91.7% of the variation in

SME growth can be attributed to changes in purchasing power, with F-statistic of 107.019, thereby further validating the model's fit and significance.

H₀₃: Increase in cost of materials has no significant impact on survival of small and medium scale enterprises in Ibarapa Local Government Area.

Table 3: Summary of Linear Regression Test of Significant Impact of Increase in Cost of Materials on Survival of Small and Medium Scale Enterprises in Ibarapa LGA

Variable	Co-efficient B	Standard Error	t-statistics	P-value
Constant	0.987	0.176	5.608	.000
Cost of Materials	0.672	0.065	10.338	.000
R ² : 0.603 No. of Observation: 96				
Adjusted R square: 0.597 R: 0.777				
F-statistics: 106.868				

Dependent variable: Survival of Small and Medium Scale Enterprises in Ibarapa LGA

Source: SPSS computation 23.0

According to the results in Table 3, the increase in cost of materials significantly impacted on survival of SMEs in Ibarapa Local Government Area. The P-value for the

cost of materials variable is 0.000, which is less than 0.05, thus rejecting the null hypothesis (H₀). The R² value of 0.603 indicates that 60.3% of the variation in SME

survival is explained by material cost increases, and the F-statistic of 106.868 confirms the model's overall significance.

Conclusion

The study examined the impact of fuel subsidy removal on the performance of small and medium enterprises (SMEs) in Ibarapa Central Local Government Area of Oyo State. Based on the hypotheses tested, the findings revealed that the removal of fuel subsidies has significant implications for business operations within the SME sector. These results are consistent with existing literature, particularly aligning with the findings of Ilodigwe (2023), who also identified various ways in which the withdrawal of fuel subsidies adversely affects the activities and operational efficiency of SMEs.

Viewed through the theoretical frameworks of structural transformation, business process re-engineering, and the concept of exhaustible resources, this study highlights the critical need for sustainable business practices, economic diversification, and innovation as strategic responses to the negative impacts of fuel subsidy removal on enterprises. Accordingly, the study recommends that the government prioritize targeted mitigation measures aimed at supporting the operations of small and medium enterprises (SMEs), thereby enhancing overall economic resilience. Furthermore, it advocates for continuous evaluation of market dynamics and the implementation of evidence-based policies to guide effective decision-making, enable strategic planning, and foster long-term sustainability.

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