

## PETROLEUM SUBSIDY AND ECONOMIC DEVELOPMENT IN NIGERIA

By

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### Abstract

This study examines the impact of petroleum subsidy on economic development in Nigeria. Nigeria, as a major oil-producing country, has a long history of providing fuel subsidies, which have been a significant liability on the government's budget. The study analyses the effects of fuel subsidies on the country's economic development and growth, rent-seeking, poverty, and inequality. The results show that fuel subsidies negatively impact economic growth by crowding out other sectors, such as manufacturing, agriculture, and infrastructure development. Public Choice Theory was reviewed to serve as a theoretical framework to support the petroleum subsidy for economic development in Nigeria. The study used secondary data sources, including journal articles, newspapers, textbooks, etc. The study also finds that fuel subsidies favour the wealthy more than the poor, aggravating income inequality. The removal of fuel subsidy is expected to have a positive impact on economic growth, poverty reduction, and inequality. This study recommends that the Nigerian government gradually remove the fuel subsidy and redirect the savings to critical sectors such as healthcare, education, and infrastructure development. Also, the government should implement targeted cash transfer programs to protect vulnerable residents and ensure that the benefits of subsidy removal are fairly shared.

**Keywords:** Petroleum subsidy, economic development, state, Premium Motor Spirit (PMS).

### Introduction

Nigeria, one of Africa's largest oil producers, has a long history of subsidising petroleum products, particularly gasoline. Petroleum, also known as "black gold," was discovered in commercial quantities in Nigeria in 1956. The discovery was widely seen as marking a turning point for radical economic transformation and development in Nigeria. Petroleum subsidy is a government intervention designed to reduce the cost of fuel products for consumers. The Nigerian government has been providing fuel subsidies since the 1970s to protect consumers from high global oil prices. However, this policy has been criticised for being corrupt, inefficient, and regressive, benefiting wealthy individuals mostly and companies rather than the masses (Odulara, 2008).

Nigeria's petroleum industry plays a crucial role in the country's economic development, accounting for a significant portion of government revenue and foreign exchange earnings. However, the country's dependence on oil has also led to challenges, including the burden of petroleum subsidies. The government has traditionally maintained control over fuel prices, often keeping them artificially low to make them affordable for the general population. Fuel subsidy in Nigeria is one of many consumption subsidy programmes of the government. It attempts to lower the fuel cost by providing direct financial support to oil firms, thereby lowering the fuel price for Nigerians. (Aklin, et al. 2014): 305-327.

Nigeria is the second-largest oil and gas producer in Africa. Crude oil from the Niger Delta basin comes in two types: light and comparatively heavy – the lighter has around 36 of API gravity while the heavier has 20–25 of API gravity. Both types are paraffinic and low in sulphur.

Nigeria's economy and budget have been largely supported by income and revenues generated from the petroleum industry since 1960. In 2010, Nigeria exported over one million barrels per day to the United States, representing 9% of the U.S. total crude oil and petroleum products imports and over 40% of Nigeria's exports. Statistics as of February 2021 show that the Nigerian oil sector accounts for about 9% of the nation's GDP. Nigeria is a major exporter of crude oil and petroleum products to the United States of America. (Okorobia and Stephen, 2018).

The petroleum subsidy in Nigeria has been a contentious issue, with the government struggling to balance economic development and social welfare. The subsidy system has been in place for decades, aiming to protect citizens from the volatility of global oil prices and to promote economic growth. As a result, the petroleum subsidy has been a substantial burden on government finances, with expenditures running into the billions of dollars. The subsidy regime has been criticised for misleading market prices, promoting corruption, and limiting investment in serious infrastructure (Okorobia & Stephen, 2018). It has also led to protests and social unrest, stressing the need for careful consideration of its impact on vulnerable populations.

The Federal Government has sought technical support from the International Monetary Fund (IMF) to plan a transparent fuel price modulation structure, aiming to moderate domestic price shocks and reinforce Nigeria's fiscal stability. The Yoruba Council Worldwide has supported President Tinubu's efforts to end Nigeria's dependence on imported petroleum products, citing concerns about energy security and economic stability. The government has announced plans to sell state-owned refineries to boost competition in the industry, which is dominated by the Dangote Refinery (Wumi, 2023).

The fuel subsidy is a government programme created to reduce the amount Nigerians have to pay for petroleum products, including Petroleum Motor Spirit (Petrol), Automotive Gas Oil (Diesel), and Dual-Purpose Kerosene (Kerosene), and to protect citizens from volatility in international crude oil prices. Fuel subsidies are particularly popular in oil-producing countries, such as Venezuela, Iran, Saudi Arabia, Egypt, Burma, Malaysia, Kuwait, China, Taiwan, South Korea, Trinidad and Tobago, and Brunei (Aruofor & Daniel, 2023). Fuel subsidy removal programs are sensitive to a country's economic structure, level of development, political system, and economic conditions. There is evidence that more successful countries have taken a phased, gradual approach, conducted conscientious research before implementation, and followed rigorous policy-making practices. Effective communication and a fair level of trust between citizens and government may be the other critical success factors in such an exercise (Centre for Public Policy Alternatives, 2012).

However, during the inauguration of the current President, His Excellency Bola Ahmed Tinubu, on 29 May 2023, he declared that subsidy payments on Premium Motor Spirit (PMS) were no longer available. Since then, the price of PMS has continued to increase. This work, therefore, critically examines the impact of petroleum subsidies and economic development in Nigeria.

## **Definition Of Concept**

### **Petroleum Subsidy**

The concept of petroleum subsidy and its impact on economic development in Nigeria from 2015 to 2023 is a critical and multifaceted issue. Petroleum subsidies are government policies that reduce the cost of petroleum products for consumers, often by selling them at prices below market value or by providing direct financial support to keep prices low. In the Nigerian context, these subsidies have primarily focused on gasoline (petrol), automotive gas oil (diesel), and kerosene. Several scholars in the field have various definitions. In line with this, Osafo-Kwaako, Philip, and Ngozi Okonjo-Iweala (2007) assert that as much as 85% of government revenue and 95% of foreign exchange earnings are attributed to oil exports; consequently, the

economy has been largely unstable due to the high reliance on oil revenue and the volatility of oil prices (Oduhara, 2008).

Agriculture was the mainstay of Nigeria's economy from the earliest times until the 1950s. Indeed, Nigerians had an enviable record of food sufficiency, but the era did not last beyond the 1960s, when its economy began a descent into abysmal dependence on imports. As part of efforts to integrate Nigeria into the global economy, Europeans introduced cash crops from South America and India (Oluwasanmi, 1960). Palm oil became an export commodity in Nigeria as early as 1558. By 1830, the Niger Delta, now a major crude oil producer, had become the primary source of palm oil, which dominated Nigeria's export list for more than 50 years (Olukoju, 2009). Cotton was added to the export list in 1856, while cocoa was introduced and became an export crop in 1895 (Olukoju, 2009). However, in January 1956, oil was discovered in commercial quantities at Oloibiri, now in Bayelsa State, by Shell BP (Okogu, 1995).

The petroleum subsidy drained government revenue, diverting capital from critical sectors like infrastructure, education, and healthcare. Recently, the Nigerian government has made efforts to improve the petroleum subsidy regime, including removing the fuel subsidy in 2023. The government aims to redirect savings towards critical sectors and promote economic growth. Nevertheless, the removal of fuel subsidy has also led to increased fuel prices, inflation, and economic challenges for people. The government faces the challenge of balancing economic reform with social welfare and ensuring that the profits from subsidy removal are shared rightfully (BudgIT, 2023).

### **Economic Development**

Petroleum subsidy in Nigeria has had substantial impacts on the country's economic development. It involves increasing the production of goods and services, reducing poverty, creating jobs, and improving living standards. Meanwhile, economic development refers to the process of improving a country's economic welfare and quality of life. The subsidy was introduced in the 1970s to moderate the effects of global oil price shocks on Nigerian consumers. Conversely, it has been criticised for being ineffective, regressive, and corrupt, mainly favouring wealthy individuals and companies rather than the lowly. The subsidy has exhausted government revenue, diverting funds from critical sectors like healthcare, education, and infrastructure. It encouraged corruption, fuel smuggling, and mismanagement of resources. The subsidy perpetuated Nigeria's reliance on oil, thwarting economic diversification and growth in other sectors (Aruofor & Daniel, 2023).

In 2023, under the latest regime, the Nigerian government removed the fuel subsidy, citing unmanageable fiscal burdens and a lack of cash backing for previous subsidy allocations. Though the removal is expected to uphold economic growth, reduce poverty, and improve living standards. However, it led to increased fuel prices, inflation, and economic challenges for people (Wumi, 2023).

For economic development to be effective in Nigeria, the government should implement targeted cash transfer programs to protect vulnerable inhabitants. They should invest in critical sectors such as education, healthcare, and infrastructure, and, for the removal, they should have done so gradually to minimise the economic shock on the people (Wumi, 2023).

### **The State**

In Nigeria, the discovery of oil in 1956 by Shell D'Arcy Petroleum in the Delta marked the beginning of the state oil industry. In 1958, Nigeria exported its Oloibiri, Niger's first oil shipment, marking the start of its oil export industry (Kehinde, 2020). This attracted more companies, including Mobil, Texaco, and Gulf, and led to the exploration and production of oil in Nigeria, increasing the country's oil output since the 1960s, when the state gained independence. Nigeria joined the Organisation of Petroleum Exporting Countries (OPEC) in

1971, consolidating its position in the global oil market and gaining more control over its oil resources. The Nigerian National Petroleum Corporation (NNPC) was established in 1977 to regulate the oil industry and manage oil exploration and production. There was an oil boom in the 1970s-1980s in Nigeria, with oil production and revenue, with petroleum revenues contributing substantially to national wealth. Presently, oil exports account for a significant share of Nigeria's foreign exchange earnings and government revenue, making the country heavily dependent on them (Matthew, 2020).

Meanwhile, there is vulnerability to Global Market Fluctuations; Nigeria's economy is disposed to external shocks, such as deviations in global oil prices and demand. The control of oil exports has hindered the development of other sectors, like agriculture and manufacturing. Oil production has environmental and social repercussions, affecting local communities and ecologies. In its efforts to diversify, Nigeria is promoting non-oil exports, such as agricultural products, to reduce its dependence on oil.

The Nigerian government is implementing reforms to improve tax administration, merge foreign exchange rates, and promote economic diversification (Matthew, 2020). During the 1980s to 2010s, the state faced economic difficulties and periodic fuel shortages, which led to protests and increased smuggling, yet the subsidy remained, benefiting consumers. The government even increased subsidies despite concerns about corruption and inefficiency.

In 2012, the government attempted to remove the subsidy, but the move sparked widespread protests. The subsidies were reduced in 2015, but the move was met with resistance. It was the 2023 regime, which is the present government that finally removed the fuel subsidy. The removal of the subsidy is expected to promote economic development, growth, reduce poverty and inequality, and improve the standard of living. Unfortunately, it led to rising fuel prices, inflation, and economic hardship for citizens, and the regime is marred by corruption, with billions of dollars lost to fraud and the mismanagement of natural resources (Kehinde, 2020).

### **Premium Motor Spirit (PMS)**

Premium Motor Spirit (PMS), commonly known as petrol or gasoline, is the refined petroleum product most widely used in Nigeria for power generation or transportation. It is a volatile, flammable liquid refined from crude oil and is mainly used as fuel in internal combustion engines, such as cars, motorcycles, and generators. Nigeria and the United Kingdom call it petrol, while the United States of America calls it gasoline. PMS is a mixture of hydrocarbons (C<sub>4</sub>-C<sub>12</sub> alkanes, cycloalkanes, and aromatics) and additives that enhance performance and reduce engine knocking. Nigeria introduced fuel subsidy in the 1970s to lessen the impact of rising global oil prices on its population. Since then, the subsidy has been a significant drain on the country's revenue, with estimates suggesting that Nigeria spent approximately ₦1.894 trillion (USD 2,357,187,170) on Premium Motor Spirit subsidies in 2021 (Wumi, 2023).

Premium Motor Spirit (PMS), commonly known as petrol, plays a vital role in Nigeria's daily life and economy. It is the primary fuel for motorcycles, vehicles, and the generators many Nigerians depend on because of an unstable electricity supply. Though Nigeria is one of the largest crude oil producers in Africa, it imports most of its Premium Motor Spirit because its domestic refineries are not fully operational. This makes PMS prices highly sensitive to global oil prices and foreign exchange volatility. To lessen the burden on citizens, the Nigerian government introduced a petroleum subsidy, a policy that has shaped the country's economy for years (Wumi, 2023).

A petroleum subsidy means the government pays part of the real cost of petrol so consumers can purchase it at a lower price. For instance, if the actual cost of a litre of petrol is high, the government covers part of that cost to keep the pump price reasonable. The main goal of this

policy has been to protect citizens from high fuel prices, reduce transportation costs, and prevent unexpected price increases for goods and services. For several years, the subsidy provided relief for millions of Nigerians, particularly those on low incomes, because petrol touches almost every aspect of life, from transportation to food prices.

Nevertheless, the subsidy system also generated several economic problems. One major challenge was the enormous financial burden it placed on the government. Almost every year, Nigeria spends trillions of naira on subsidies, money that could have been used to improve healthcare, education, electricity, roads, and other important sectors. Furthermore, the subsidy stimulated corruption, as some marketers made false assertions about imported fuel to collect money from the government. Another problem was smuggling; subsidised petrol was frequently taken across Nigeria's borders and sold at higher prices in neighbouring countries. These issues made the subsidy system incompetent and unsustainable.

Due to these trials, the government has taken steps in recent years to remove the subsidy. The removal has had both positive and negative impacts. On the positive side, it frees up funds for development projects, reduces government spending, and discourages corruption and smuggling. It also inspires private investment in local refineries, which can help Nigeria reduce its reliance on imported fuel. On the other hand, removing the subsidies leads to immediate increases in petrol prices. This causes food prices, transport fares, and the general cost of living to rise. Many households and small businesses feel the impact intensely, particularly in the short term (Titus et al, 2024).

The petroleum subsidies have a direct relationship with Nigeria's economic development. While it provided short-term relief for citizens, it also slowed long-term development by consuming funds that could have been used to build infrastructure and expand public services. It made the economy vulnerable because Nigeria continued to rely on imported petrol. For viable development, the country must strengthen public transportation, invest in refining its own crude oil, support the Dangote Refinery and modular refineries, and develop alternative energy sources such as solar and natural gas.

In brief, Premium Motor Spirit (PMS) is central to Nigeria's economy, and the petroleum subsidies have had both benefits and limitations. While the subsidy helped people cope with high fuel costs, it also created financial pressure and contributed to corruption and ineffectiveness. The removal of the fuel subsidy offers an opportunity for Nigeria to redirect resources into national development, but this must be done with appropriate planning, transparency, and support for vulnerable inhabitants. If managed well, these improvements can help the country achieve stronger economic development and long-term stability (Wumi, 2023).

### **Literature Review**

(Balouga, 2012), Assessed the political economy of the subsidy removal and found out that the fuel subsidies have not been meaningfully felt by the average Nigerian for whom the subsidy was actually initiated.

(Heger, et al. 2019) Assess the impacts of removing the fuel subsidy and extending the metro line on congestion and air pollution. Data analysis and modelling, subsidy removal, and infrastructure projects can influence traffic congestion and air pollution levels.

(Balouga, 2012), evaluated the political economy of subsidy removal and found that the fuel subsidies have not been meaningfully felt by the average Nigerian for whom the subsidy was initiated.

(Lawal, 2014) Examine the investment challenges in Nigeria's petroleum industry related to subsidy removal and deregulation, using a qualitative analysis. The removal of subsidies and deregulation pose challenges for investment in Nigeria's petroleum industry.

(Balouga, 2012), Available literature shows that Nigeria is the largest in Africa and the sixth-largest oil producer in the world. The country's economic strength is primarily derived from its oil and gas wealth, which account for 99% of government revenues and 38.8% of GDP (FGN, 2010). This has generated billions of dollars in revenue over the last fifty years since oil was found in Nigeria. However, as in most developing countries, this has not translated into improved welfare conditions for the people. Instead, through inefficiencies, corruption, abuse of national monopoly powers, mismanagement, smuggling, bureaucratic bottlenecks, and excessive subsidisation, the supply of refined crude oil products in the country has virtually collapsed.

(Titus, et al 2024) evaluated the savings from subsidy removal, which could be used to fund economic diversification initiatives. Nigeria's economy has historically been dependent on oil, and subsidies have compounded inefficiencies in the oil sector. The government could use the freed-up funds to invest in non-oil sectors such as agriculture, technology, and manufacturing, thereby promoting sustainable economic growth.

(Wumi, 2023). Examining investment challenges in the Nigerian petroleum industry, the qualitative analysis sheds light on the impact of subsidy removal and deregulation. The study contextualises the impediments to these policy shifts, drawing on empirical literature and industry insights to elucidate the challenges investors face. Generally, the Nigerian petroleum sector was subject to complex regulatory structures, including subsidies, which played a vital role in attracting investment and ensuring market stability. However, the decision to eliminate subsidies and deregulate the industry creates uncertainty and instability, with a significant impact on investment dynamics. The qualitative results highlight the far-reaching influence of these changes as investors' rebel with increased market risks and a lack of regulatory transparency. Such challenges not only dishearten both domestic and foreign investment but also deter long-term planning and capital allocation. Ultimately, it highlights the need for harmonised efforts by policymakers, industry stakeholders, and investors to address these challenges and foster an enabling investment climate that supports sustainable growth and development in the Nigerian petroleum industry.

(Kombol, 2014) Explore the uses of social media by labour unions during Nigeria's oil subsidy removal protests. Content analysis of social media usage. Social media played a role in mobilising labour unions during the oil subsidy removal protests.

(Greve and Lay, 2023) Assess the impacts of removing fossil fuel subsidies in a developing country—a dynamic general equilibrium model. Subsidy removal can affect consumption patterns, GDP, and welfare, with varying impacts on different income groups.

## **Theoretical Framework**

### **Public Choice Theory**

Public choice theory, developed by scholars such as James Buchanan and Gordon Tullock, focuses on decision-making within government. In the context of petroleum subsidies in Nigeria, this theory helps us understand how government officials make subsidy decisions. It considers that policymakers may prioritise their own interests, such as re-election or personal gain, thereby influencing their decisions. This theory can explain why some policymakers might opt for politically popular but economically unsustainable subsidy policies (Lambsdorff, 2002).

Public choice theory is an economic theory that analyses how public decisions are made and how they impact economic outcomes. In the case of petroleum subsidies in Nigeria, this theory could be applied to understand the incentives and interests of various stakeholders involved in

the decision-making process. Petroleum subsidies in Nigeria have been a contentious issue. Public choice theory suggests that politicians support these subsidies to gain popularity among citizens, especially during election periods, as they can be seen as beneficial and provide short-term relief to consumers. However, these subsidies can lead to inefficiencies, market distortions, and fiscal pressures on the government budget. Certainly! Public choice theory examines how individuals' self-interest influences their decision-making in the political and economic spheres.

Public choice theory explicates that cohorts in Nigeria might not always support the economically rational decision to remove subsidies due to the immediate increase in fuel prices and its impact on their cost of living. Subsidies are often viewed as a direct benefit to the public, and any reduction is perceived as a loss. Constituent resistance to subsidy removal is strong because fuel prices affect transportation costs, the prices of goods and services, and, by extension, inflation. This resistance has made it challenging for successive governments to implement subsidy reforms without facing significant political pressure or even unrest.

Public choice theory highlights the outcomes of rent-seeking behaviour by special-interest groups that benefit from the subsidy system. In Nigeria, fuel subsidies have generally created opportunities for corruption and unlawful gains within the oil and gas sector. Those various groups, including oil marketers, importers, and politically connected individuals, have benefited from the subsidy regime through duplicitous claims and smuggling. These groups have a conferred interest in maintaining the subsidy system and have often petitioned against reform efforts to protect their economic interests.

Public choice theory also explicates how government failures can result from the ineffective design and implementation of subsidy policies. Public choice theory recommends that politicians be encouraged to avoid actions that could threaten their hold on power. In Nigeria, even when subsidy removal was economically justified, the political costs of alienating supporters outweighed the benefits of reform. (Nwachukwu and Chike: Okogu, 2005)

### **Methodology**

The study used secondary data sources, such as journal articles, internet materials, textbooks, newspapers, and magazines, through a systematic qualitative content analysis. The scope of the study is on the assessment of the impact of fuel subsidy removal in Nigeria.

### **Historical Overview of Petroleum Subsidy on the Nigerian Economy**

After gaining independence in 1960, Nigeria introduced subsidies to support economic development and alleviate prices. The history of subsidies in Nigeria dates back to the 1970s, when the government began providing subsidies on various products, including fuel, education, electricity, and forex. During the 1970s oil boom, the government used subsidies to regulate petroleum product prices and promote industrial growth (Okongwu & Imoisim, 2022). In **1973**, the government introduced a fuel subsidy to protect Nigerians from the global oil price shocks, which was institutionalised in 1977. The Nigerian National Petroleum Corporation (NNPC) was established in 1977 to control the oil industry and manage fuel subsidies, which made it illegal for people to sell petrol above the regulated price (Oyasipe & Olukoya, 2024).

This historical backdrop underscores the need for a cautious approach to subsidy removal, particularly in a developing nation like Nigeria (Audu et al., 2024). Petroleum products subsidies were first introduced by the Federal Government of Nigeria in the 1980s, in accordance with the Price Control Act of 1977. In line with the Structural Adjustment Program (SAP), the subsidy at the time served as a short-term measure to control the prices of petroleum products. At the same time, refineries underwent rehabilitation (Ezeigbo, 2014). However, the payment of subsidies for refined petroleum products continued, and most attempts by

successive governments to remove the subsidies and raise prices to reflect market prices were met with strong opposition from labour unions and citizens. A key driver of continued subsidy payments was the steady increase in demand for refined petroleum products, despite a relative shortfall in local refining capacity. Thus, the inability of domestically refined products to meet the vast and growing demand led to an increase in the importation of subsidised petroleum products. In Nigeria, two petroleum products were subsidised: Premium Motor Spirit (PMS) and Household Kerosene (HHK). As Nigeria's economy expanded, subsidies became more rooted, especially in the petroleum sector. However, mismanagement and corruption overwhelmed the system. Former President Olusegun Obasanjo attempted partial deregulation of the oil sector in 1999, but public opposition forced the government to maintain fuel subsidies. In the 2000s, agricultural and electricity subsidies were introduced to support farmers and increase access to power (Ojameruaye, 2011).

The government, through the Petroleum Products Pricing Regulatory Agency (PPRA), sets the maximum retail price for petrol at random. At the same time, the Expected Open Market Price (EOMP) is market-determined and comprises product costs, freight, lighting expenses, depot charges, financing, and distributor margins, among others. Landing costs account for around 85% of total allowable costs in the calculation, and therefore, factors that affect landing costs will also affect the eventual subsidy paid (Ibanga, 2011). The pricing mechanism is based on Import Parity Pricing, adjusted for transportation, distribution, and marketing costs. Thus, while the EOMP typically fluctuates with the global crude oil prices, the government-approved price is altered less frequently at the discretion of the Presidency (IISD, 2012). Given that domestic prices for petroleum products do not quickly adjust to market prices, there is usually a gap between budgeted subsidy payments and the subsidies actually paid. As the price of crude oil fluctuated from 2006 to 2015, the actual amount of subsidies paid moved in the same direction. For instance, in 2008, when global oil prices and inflation rose, actual subsidy payments exceeded the budgeted amount by over 148 per cent. Also, in 2011, when global oil prices and the exchange rate increased significantly, actual subsidy payments exceeded budgeted payments by over 450 per cent (Harring et al., 2023). However, a peculiar case was in 2012 when there was a decline in the actual amount paid as subsidy (relative to the previous year), despite the increase in exchange rate, inflation rate and the price of crude oil. In this particular year (2012), the retail price of PMS was raised from N65 to N97, and, in effect, part of the subsidy burden was passed on to final consumers. In 2006, the Petroleum Support Fund (PSF) was created to accommodate private marketers (also known as Oil Marketing Companies, OMCs) in the importation of petroleum products; this constitutes the framework of the Nigerian subsidy system (Ambituuni et al., 2015).

The government has used subsidies to reduce the cost of vital goods and services for citizens. However, these policies have often been provocative due to concerns about corruption, inefficiency, and economic sustainability (Shagali & Yusuf, 2022). The government partially removed fuel subsidy in 1986, marking the beginning of a stop-and-go method to subsidy reform. General Ibrahim Babangida's regime partially removed the fuel subsidy and increased the PMS price from 20k to 39.5k (97.5% increase). This change was part of the Structural Adjustment Program (SAP) reforms, aimed at addressing Nigeria's economic challenges and its indebtedness. The removal of the fuel subsidy in 1986 was also influenced by the International Monetary Fund (IMF), which, conditionally, required Nigeria to remove price controls, liberalise imports, and liberalise petroleum products. The period between 1986 and 2014 in Nigeria witnessed several significant political and economic events, yet subsidies, particularly the fuel subsidy, remained a central point of controversy throughout. The government provided subsidies on petroleum products, mainly Premium Motor Spirit (PMS), to cushion the effects of global price instabilities on domestic prices. This was intended to make

fuel more affordable for the people, but it also became a source of significant economic fraud and corruption (Siddig et al., 2014). Former President Olusegun Obasanjo made several attempts to reduce fuel subsidies; he argued that doing so would free up capital for infrastructure and social services. Between 2000 and 2007, fuel prices were increased numerous times, sparking public protests and opposition from labour unions (Siddig et al., 2014).

Former President Umaru Musa Yar'Adua reversed some of the price hikes, citing the need to protect ordinary Nigerians. His administration was less aggressive in subsidy removal than the Obasanjo government (Titus et al., 2024). President Goodluck Jonathan announced a complete removal of fuel subsidies on 1 January 2012, increasing fuel prices from ₦65 to ₦141 per litre. This led to gigantic nationwide protests, known as the 'Occupy Nigeria Movement'. When former Muhammadu Buhari assumed office as president in May 2015, he inherited an economy heavily reliant on oil revenue, with petroleum product subsidies, particularly fuel, among the largest drains on government funds. During his election campaign, Buhari had been serious about the fuel subsidy, calling it an inefficient program that was often mismanaged. In May 2015, President Buhari's administration devalued the naira and removed the official exchange rate for the fuel importation subsidies, which had been set at 197 naira per dollar. This led to a sharp rise in fuel prices, as marketers were forced to buy foreign exchange at a higher rate (Wumi, 2023). Between 2015 and 2016, the global price of oil fell sharply, and the ongoing recession in Nigeria put significant pressure on government income. The government had to spend heavily on fuel subsidies when oil prices were low, leading to a significant fiscal deficit.

By May 2016, the Nigerian government announced a reduction in the fuel subsidy. In 2017, the Nigerian government spent roughly \$1 billion on fuel subsidies, and in 2018, the subsidy bill was likely to reach about \$5 billion. Moreover, it continued to favour the wealthier Nigerians who consumed more fuel. In reaction to these pressures, there were calls from several quarters, including economists and international institutions such as the IMF and the World Bank, for a complete deregulation of the oil sector. The arrival of the COVID-19 pandemic in 2020 provided the Nigerian government with a temporary amnesty. The global oil price crash, combined with a decrease in domestic fuel consumption during lockdowns, led to a momentary drop in fuel prices (Prabowo et al., 2022). This allowed the government to reduce the subsidy's short-term financial burden.

Nevertheless, as oil prices began to recover post-pandemic and demand for fuel increased again, the government was forced to recommence subsidy payments. In 2021, the federal government projected spending about ₦3 trillion on fuel subsidies, sparking renewed debates about whether it should continue. During this period, the Nigerian government continued its ambition to deregulate the petroleum sector fully. The Nigerian National Petroleum Corporation (NNPC) also announced its intention to switch to a more market-driven fuel price system.

In early 2022, the Nigerian government, under the leadership of President Buhari, proposed removing fuel subsidies as part of its fiscal policy to reduce the budget deficit and reallocate funds to infrastructure and social programs. The 2022 budget set aside ₦4 trillion for fuel subsidies, which was seen as unsustainable. The World Bank and the International Monetary Fund (IMF) reiterated their support for subsidy removal, arguing that it would improve government finances and allow for more equitable distribution of resources.

The 2023 general election in Nigeria elected Bola Ahmed Tinubu as President. Tinubu's administration inherited the difficult challenge of addressing the subsidy matter. His campaign had included promises to gradually phase out the subsidy and reinvest the savings into

infrastructure, healthcare, and education. Upon his assumption of office in May 2023, President Tinubu's administration acknowledged the unsustainable nature of the fuel subsidy system. In his inaugural speech, he declared the instant removal of the fuel subsidy, citing its distortionary effects on the economy. As a result, fuel prices increased significantly, sparking protests and public outrage. Growing fiscal pressures and concerns over subsidy fraud led to calls for reform (Oyasipe & Olukoya, 2024).

### **The Impact of Petroleum Subsidy on the Nigerian Economy**

The petroleum subsidy has long been one of the most debated public policies in Nigeria. Introduced to keep the price of Premium Motor Spirit (PMS) affordable for citizens, the petroleum subsidy was initially intended to protect consumers from the unpredictability of global oil markets. Nevertheless, over the years, the policy has had far-reaching significance, both positive and negative, for Nigeria's economic development (Titus et al., 2024).

One significant impact of the petroleum subsidy is the substantial financial burden it places on the government. For decades, Nigeria spent trillions of naira annually to maintain hollowly low petrol prices. This weighty expenditure reduced the resources available for necessary development sectors such as agriculture, healthcare, electricity supply, road construction, education, and water infrastructure. Money that could have moved long-term economic growth was instead used to support fuel consumption. As a result, the nation's development has been slower than expected notwithstanding its rich oil resources.

Another substantial impact is the corruption and ineffectiveness that the subsidy system encouraged. The nature of the petroleum subsidy created opportunities for fraudulent practices, such as inflated fuel import claims and the diversion of subsidised petrol to neighbouring countries. These leakages shattered government revenue and undermined trust in public institutions. Corruption within the subsidy structure also discouraged legitimate investors and weakened the overall edifice of the oil and gas sector (Oyasipe & Olukoya, 2024).

The petroleum subsidy also discouraged investment in local refining. Because petrol prices were kept artificially low, there was little incentive for private investors or even the government to improve the country's refineries. As a result, Nigeria continued to export crude oil and import refined products at extraordinary cost. This dependence on imported fuel exposed the economy to foreign-exchange pressures and global market fluctuations, thereby contributing to economic uncertainty.

In addition, petroleum subsidies slanted the economy by preventing growth in alternative energy and public transportation. Cheap petrol made it difficult for renewable energy sources like solar and gas to become competitive. It also discouraged investment in effective mass transit systems, increasing Nigeria's reliance on petrol-powered transportation. The overall influence was an economy heavily tied to Premium Motor Spirit consumption, with limited diversification in the energy and transport sectors.

Conversely, it is important to acknowledge the positive short-term impact of the fuel subsidy. For many years, it helped keep transportation and energy costs low for consumers and small businesses. In a country where the electricity supply is unreliable, and many depend on petrol generators, the subsidies also provide relief. Moreover, the policy helped prevent sudden thorns in inflation and protected low-income households from the full effects of global oil price upsurges.

More recently, as the government moves to remove the fuel subsidy, new economic impacts have occurred. While the removal saves government funds and reduces corruption, it also leads to higher fuel prices. These price increases contribute to inflation, raise transportation costs, and make life more challenging for households and businesses. Although these impacts are painful, many economists argued that they are short-term and that, in the long term, subsidy removal could create a healthier, more equitable economy (Prabowo et al., 2022).

In summary, the impact of petroleum subsidy on economic development in Nigeria is multifaceted. While the subsidy provided short-term relief to citizens, its long-term impacts included financial strain, weak infrastructure investment, corruption, and over-reliance on imported fuel. For Nigeria to achieve eloquent economic development, it must improve local refining capacity, strengthen public transportation, diversify its energy sources, and ensure that savings from subsidy removal are transparently reinvested in productive sectors. Only then can the country experience steady, sustainable growth (Ugwuka et al., 2016).

### **Conclusion**

Petroleum subsidies in Nigeria have long served as a multifaceted policy instrument with varied consequences for economic development. Even though it was initially introduced to make fuel affordable and moderate citizens from the effects of fluctuating global oil prices, the subsidy regime advanced into a system marked by fiscal leakages, corruption, and heavy pressure on public funds. For years, the resources spent on subsidising fuel far exceeded those allocated to developmental welfare, limiting the government's ability to invest in critical sectors such as education, infrastructure, health care, and industrial growth (Prabowo et al., 2022).

The eventual removal of the subsidy offers both challenges and opportunities. In the short run, citizens and businesses face higher fuel prices and amplified living costs, which triggered social tension. Nevertheless, in the long run, subsidy removal, which was supported by strong institutions, transparent governance, and targeted social protection, has the potential to free up substantial revenue for productive investments. This can foster economic diversification, improve public services, strengthen fiscal sustainability, and promote comprehensive development (Prabowo et al., 2022).

Eventually, petroleum subsidy reform alone cannot guarantee economic development. The benefits hinge on how effectively the recovered funds are managed, how well government policies address inequality and unemployment, and how successfully Nigeria transitions from an oil-dependent economy to one ambitious by innovation, manufacturing, and value addition. Consequently, justifiable economic development in Nigeria requires not just subsidy reform but also a broader commitment to accountability, structural transformation, and long-term economic planning (Prabowo et al., 2022).

### **Recommendations**

In light of the intricate relationship between petroleum subsidy policies and Nigeria's broader economic development, several tactical recommendations are necessary to ensure that subsidy reform transforms into meaningful progress for the nation. Firstly, the government needs to adopt a transparent and accountable framework in handling funds saved from subsidy removal. Clear and publicly accessible reports on how these savings are utilised will help build trust and prevent the mismanagement or diversion of resources that have historically demoralised development efforts.

Furthermore, a substantial portion of the recovered revenue should be invested in serious infrastructure. Prioritising sectors such as electricity generation, transportation networks, and local refining capacity would reduce operational costs for businesses and spur long-term economic development. Strengthening Nigeria's refining capacity is important because it will reduce reliance on imported fuel, stabilise domestic supply, and potentially lower fuel prices in the long run.

Likewise, robust social protection measures are essential to mitigate the immediate impacts of the removal of the fuel subsidy on vulnerable households. Expanding besieged welfare programmes, like conditional cash transfers and subsidised public transport, can help alleviate rising living costs and prevent deepening poverty. Broader economic diversification strategies should supplement this effort. By investing in agriculture, technology, manufacturing, and the creative industries, Nigeria can reduce its dependence on oil revenues and create more sustainable sources of employment and income.

Strengthening regulatory frameworks in the downstream petroleum sector is also precarious. Effective regulation will confirm competitive pricing, prevent monopolistic practices, and protect consumers from exploitation. Together with this is the need for proactive public engagement. The government must communicate clearly and regularly with citizens about the long-term benefits of subsidy reform, as well as the steps being taken to ensure those benefits are realised. Such communication will foster greater public trust and reduce resistance to policy changes (Prabowo et al., 2022).

Additionally, improving public transportation will play a vital role in reducing the economic burden of higher fuel prices. Investments in effective mass transit systems, such as rail, buses, and water transport, will provide affordable alternatives for millions of Nigerians and reduce overall reliance on petrol. Encouraging greater private-sector contribution, through clear policies and incentives, will further strengthen the petroleum value chain and promote innovation, effectiveness, and competitiveness.

Finally, strong anti-corruption measures must reinforce all these efforts. The petroleum subsidy regime was plagued by fraud and financial leakages, and confirming that subsidy reform does not suffer the same fate requires a steady commitment to accountability. Improved monitoring systems, strict enforcement of penalties, and digital tracking of petroleum transactions will help protect national resources.

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