

**INFLUENCE OF REMOVAL OF FUEL SUBSIDY
AND ITS DISRUPTIVE TENDENCIES ON EFFECTIVE OPERATION
OF SMALL SCALE BUSINESS ENTERPRISES
IN ASABA, DELTA STATE**

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ABSTRACT

The study determined the influence of removal of fuel subsidy and its disruptive tendencies on effective operation of small scale business enterprises in Asaba, Delta State. Three research questions guided the study. A null hypothesis was formulated and tested at 0.05 level of significance. Descriptive survey research design was adopted. The population of the study comprised 172 registered small scale and medium business owners in Asaba, Delta State. Using purposive sampling technique, 63 (47 males and 16 females) small business owners dealing on production and manufacturing were sampled and constituted the population for the study. A questionnaire with 18 item statements, structured on a five-point rating scale, face validated by two experts was used for data collection. The reliability of the instrument was established using Cronbach Alpha reliability test which yielded coefficient values of 0.83, 0.87 and 0.79 for clusters B1, B2 and B3. The researcher with the help of two research assistants distributed 63 copies of the questionnaire to the respondents. Sixty-one copies of the questionnaire were successfully retrieved and used for analyses. Mean, standard deviation and t-test were used for data analyses. Findings revealed that the removal of fuel subsidy, to a high extent adversely affected the profitability level, procurement of raw materials and at a very high extent affected the cost of production of small scale business enterprises in Asaba, Delta State. It was therefore recommended that Delta State government should encourage small scale business operators within the State by free taxation, grants and soft loans with minimal interest rate payable at a near future. Also, federal government should invest the income generated from fuel subsidy removal on alternative energy sources such as renewable energy that can help small scale businesses rely less on fuel and its high cost among others.

Keywords:

Fuel Subsidy, Disruptive Tendencies, Small Scale Business, Effective Operation

Introduction

Nigeria as a nation is blessed with mineral resources especially crude oil, from which fuel petroleum is extracted. Fuel plays important role in improving the standard of life of the people. Many cars, tricycle, motorcycle, machines and equipment of diverse kinds use fuel to function. As such business enterprises whether small, medium or large scale enterprises make use of fuel for its business operations such as production of goods and services, movement of people and agricultural produce from remote villages to urban centers, transporting of raw materials from point of purchase to factory and delivery same to respective buyers after production. Fuel complements energy for powering generating set especially in Nigeria where electricity supply is very low and unstable. Little wonder, many countries find it necessary to subsidize and ensure citizens have access to fuel. Once upon a time, it was so in Nigeria, not until the federal government of Nigeria announced the removal of fuel subsidy on May 29, 2023.

Fuel subsidy is a government discount on the market price of fossil fuel to make consumers pay less than the prevailing market price of fuel. Fuel subsidy have historically been implemented to stabilize fuel price, control inflation and ease the financial burden of the populace (Anwanakak, 2023). The author further emphasized that fuel subsidies have helped reduce operating costs, making transportation more affordable and ensuring the availability of energy at a reasonable price for production and distribution activities. Onyishi and Emeh (2023) asserted that government subsidizes fuel to address cases of market failure, poverty, especially in developing countries as a means of leveraging the poor of economic hardship. Fuel subsidy also protects fragile economies from shocks in the international market. It helps to improve the welfare of Nigerians since the country depends heavily on crude oil revenue and any increase in the pump price of fuel has shown a reoccurring increase in general prices, both in formal and informal sectors (Arinze, 2021). In the submissions of Omotosho (2020), fuel subsidy could lead to higher macroeconomic stability as well as help reduce inflation. Irrespective of the enormous gains emanating from fuel subsidy, there are some contentions and arguments that fuel subsidy breeds corruption in Nigeria and should be removed because some group of corrupt people have been working against the functioning of existing refineries and they undermine efforts to build new refineries in Nigeria. This, they consciously maintained so that fuel importation would be sustained and fuel subsidy retained for their own selfish interests. Burniaux and Chateau (2019), asserted that fuel subsidy has resulted in substantial loss of revenue in Nigeria. The authors argued that due to fuel subsidy, demand will over-time rise above its supply giving rise to the need to export more fuel to meet up local demands. Consequently, government

would import at international market determined price, apply subsidized landing cost for the fuel so that it will sell at the domestic regulated price not minding the fact that fuel price is on the increase at the international market. This no doubt attributes to deficit budgeting and leads to huge domestic debts. Umeji and Eleanya (2021) rightly submitted that foreign currency will be required to finance importation, leading to United States Dollar increase and exchange rate devaluation, which lowers Nigeria's external reserve.

The administration of President Bola Ahmed Tinubu on May 29, 2023 came with a shocking news on removal of fuel subsidy as one of his key economic reforms. This was done without first putting in place, necessary palliatives to ameliorate the sufferings of the poor masses, cushion its effect on the economy and Nigerians. Even when McCulloch, Moerenhout and Yang (2021) had reported that many Nigerian citizens oppose fuel subsidy removal because they believe the government is corrupt and lacks the capability to undertake transparent reforms. The authors further stated that the amount removed as subsidy will most likely end up in the pockets of corrupt government officials, thus making the economy worse-off. The prices of fuel skyrocketed at filling stations across the country with some marketers selling as high as ₦700 per litre (Ozili & Arun, 2023). Currently, fuel pump price ranges between ₦850 and ₦1,000 in different parts of the country. This unexpected hike of over 300% increase in fuel pump price have in no some measure affected every aspect of economic life of the citizens and it appears that the most hit are the small scale business operators. Antimiani, Costantini and Paglialunga (2023) affirms that the sufferings emanating from fuel subsidy removal is real and affect the citizens, students, small and medium enterprises, the unemployed, the aged, pensioners amongst others.

Small scale business varies in meaning from one country to another. The Industrial Policy of Nigeria (2019) defined small scale business as industries with total investment of between ₦100,000.00 and ₦2,000,000.00 exclusive of land but including working capital. Equally, the Central Bank of Nigeria credit policy defines small scale enterprise for the purpose of commercial and merchant bank loans as one whose total capital excluding cost of land but including working capital is above one million naira but does not exceed one million naira. Ayuba (2018) reported that Federal Ministry of Industries defined small scale industries as enterprises having investment capital (investment in land, building, machinery and working capital) of up to ₦60,000.00 and employing not more than 50 people. This definition was revised to embrace all manufacturing units with a total capital investment (excluding cost of land) up to ₦750,000.00 but including working capital, and paid employment of up to 50 persons and the establishment must be wholly Nigerian-owned (all companies in schedule

one of the 1999 Nigerian Enterprise Promotion Decree (NEPD). Furthermore, manufacturing units exceeding the limit of investment and employment as stated above may still be considered a small business if the scale of output is relatively small compared to prevalent size of plants and the technology is fairly labour-intensive. Anwanakak (2023) viewed small scale business as the lifeblood of Nigeria's economy, contributing significantly to job creation, economic growth and poverty reduction. Consequently, Anwanakak (2023) stated that small scale business enterprise operates across diverse sectors including agriculture, manufacturing, retail and services, providing essential products and services to both urban and rural communities.

Small scale businesses are usually managed by the owners or relatives, as most of the ownership structure is based on sole proprietorship and partnership. Sources of fund for small business is majorly from the owner's savings, borrowing from friends, relatives, banks and soft loans from the government (Ekpenyong & Nyong, 2016). The positive impact of small scale businesses in terms of serving as a breeding ground for entrepreneurial talents, small capital startup, channel for mobilizing local savings, training ground for local skills' acquisition, reduces the migration of manpower from rural to urban areas, highly flexible in operations and positioned to absorb business shocks and adjust to business are just to mention a few. However, small businesses are witnessing some disruptions in its operations ranging from limited financing, poor management skills, inadequate infrastructures and government policies and regulatory issues such as the fuel subsidy removal. No doubt, these factors form clog in the wheel of development, stability and growth of small scale business operations in Nigeria. Hence, the study on influence of removal of fuel subsidy and its disruptive tendencies on effective operation of small scale business enterprises in Asaba, Delta State.

Statement of the Problem

The problem of the study is that the removal of fuel subsidy is severely threatening the existence and operations of small scale businesses. The hike in transportation fare, raw materials, operative costs, devaluation of naira and inflationary effects of fuel subsidy removal according to Ozili and Obiora (2023) is already threatening the livelihood of many Nigerians, both within and outside the public sector. Hence, massive protests in some parts of the country by citizens, calling on President Bola Ahmed Tinubu to look into their plights and reconsider the fuel subsidy. It appears small scale business operators are the most affected as they were already facing enormous challenges in the conduct of their businesses ranging from epileptic power supply which most often, resulted to their

dependency on use of fuel to power their machines for production, delivery services, transporting of raw materials among others. All these incur more expenses for the business and affects profitability. More so, some small business owners who could not cope with the trend of fuel subsidy removal, have dropped out of business thereby increasing the rate of unemployment in the country; general rise in prices of commodity and poverty thriving among the vulnerable and low income earners. Other severe cases emanating from fuel subsidy removal are noticeable rise in kidnapping cases, crime, social unrest and protests by concerned citizens; the Nigeria Labour Congress (NLC) and Trade Union Congress (TUC). Why will the government of President Ahmed Bola Tinubu remove fuel subsidy in Nigeria amid overwhelming challenges of insecurity, unemployment, epileptic power supply and inflation rocking the country? In the submission of Adekunle and Oseni (2021), subsidies are generally implemented to promote consumption and production. Thus, it becomes expedite to ascertain the influence of removal of fuel subsidy and its disruptive tendencies on effective operation of small scale business enterprises in Asaba, Delta State.

Research Questions

1. To what extent does the removal of fuel subsidy impacts on the profitability of operation of small scale business enterprises in Asaba, Delta State?
2. To what extent does the removal of fuel subsidy affects the procurement of raw materials for effective operation of small scale business enterprises in Asaba, Delta State?
3. To what extent does the removal of fuel subsidy affects the cost of production of small scale business enterprises in Asaba, Delta State?

Hypothesis

Male small scale business owners do not differ significantly from their female counterparts on the extent removal of fuel subsidy impacts on the profitability of the operation of small scale business enterprises in Asaba, Delta State

Method

The study adopted a descriptive survey research design. The population of the study comprised 172 registered small scale and medium business owners in Asaba, Delta State (Corporate Affairs Commission (CAC, 2023). Using purposive sampling technique, 63 (47 males and 16 females) small business owners dealing on production and manufacturing were sampled and constituted the population for the study. A structured questionnaire

having two sections A and B was used for data collection. Section 'A' was on demographic data of the respondents; while section 'B' was broken into three clusters and contained 18-item statements on a 5-point rating scale and weighted as: Very High Extent (VHE, 4.50 – 5.00), High Extent (HE, 3.50 – 4.49), Moderate Extent (ME, 2.50 – 3.49), Low Extent (LE, 1.50 – 2.49), Very Low Extent (VLE, 1.00 – 1.49) was used for data collection. The instrument was validated by two senior lecturers in School of Business Education. The reliability of the instrument was ascertained using split-half method. The data obtained was analyzed using Cronbach Alpha reliability test which yielded coefficient values of 0.83, 0.87 and 0.79 respectively for clusters B1, B2 and B3 respectively and overall coefficient value of 0.83 indicating that the instrument is reliable. The instrument was administered with the help of two research assistants. Out of the 63 copies of the questionnaire distributed to the respondents through direct approach, 61 copies (representing 98.4 percent) were retrieved and used for data analysis. The data generated were analyzed through descriptive statistics of mean and standard deviation to answer the research questions. T-test was used to test the null hypothesis at 0.05 level of significance. The null hypothesis is rejected when the calculated t-value exceeds the table value or otherwise accepted.

Results

Research Question 1: To what extent does the removal of fuel subsidy impacts on the profitability of operation of small scale business enterprises in Asaba, Delta State?

Table 1: Small Scale Business Owners' Mean Ratings on the Extent Removal of Fuel Subsidy Impacts on the Profitability of Operation of Their Business

S/N	Item Statement	X	SD	Remarks
1.	Expenses outweigh income on business operations as a result of subsidy removal	4.80	0.43	Very High Extent
2.	Profit from sales is encouraging on subsidy removal	4.40	0.44	High Extent
3.	Gains on products increased rapidly on subsidy removal	4.20	0.54	High Extent
4.	Balance sheet of sales often records deficit since subsidy removal	4.38	0.46	High Extent

5. Most businesses operate at a loss and some are out of business as result of fuel subsidy removal	4.83	0.41	Very High Extent
6. Profit margin of business has dropped drastically since removal of subsidy	4.24	0.52	High Extent
7. Proceeds from the business since inception of subsidy removal can no longer sustain effective management of the business	4.38	0.46	High Extent
Cluster Mean	4.46		High Extent

Source: *Field Study, 2024.*

Table 1 shows the cluster mean score of 4.46 indicating that small scale business owners accepted that the removal of fuel subsidy, to a high extent adversely affected the profitability of their business enterprises in Asaba, Delta State. The analysis of the items further indicates that two out of the seven listed items were rated very high extent by the respondents. The mean ratings for the two items ranged from 4.80 to 4.83. The remaining five items were rated by small scale business owners at high extent, which ranged between 4.20 and 4.40. The standard deviation of 0.41 to 0.54 showed that respondents are not wide apart in their mean ratings which indicate homogeneity

Hypothesis:

Male small scale business owners do not differ significantly from their female counterparts on the extent removal of fuel subsidy impacts on the profitability of operation of small scale business enterprises in Asaba, Delta State

Table 2:

Summary of t-Test Analysis on the Mean Ratings of Male and Female Small Scale Business Owners on the extent Removal of Fuel Subsidy Impacts on the Profitability of the Operation of Small Scale business enterprises

Gender	N	X	SD	α	df	t-cal	p-value	Decision
Male	45	3.20	0.19	0.05	59	1.511	0.056	Not significant
Female	16	3.17	0.15					

Source: *Field Study, 2024.*

Table 2 shows that mean score of male business educators ($M=3.20$, $SD=.19$) was significantly greater than that of female business educators ($M=3.17$, $SD=.15$). The t-calculated value of 1.511, at degree of freedom of 59 and the p-value of .056. Testing at alpha level of 0.05, the p-value is not significant, since the p-value is greater than the alpha value (0.05). This implies that male and female small scale business owners do not differ in their ratings on the extent removal of fuel subsidy impacts on the profitability level of their business operations in Asaba, Delta State. Therefore, the null hypothesis is not rejected.

Research Question 2:

To what extent does the removal of fuel subsidy affect the procurement of raw materials for effective operation of small scale business enterprises in Asaba, Delta State?

Table 3: Small Scale Business Owners' Mean Ratings on Extent Removal of Fuel Subsidy Affects the Procurement of Raw Materials for Small Scale Business Enterprises

S/N	Item Statement	X	SD	Remarks
1.	Cost of procurement of raw materials has risen since the removal of fuel subsidy	4.74	0.42	Very High Extent
2.	Cost of raw materials are tremendously affected as price of fuel pump increased	4.60	0.43	Very High Extent
3.	Locally processed raw materials increased alongside other commodities following the fuel subsidy removal	4.20	0.47	High Extent
4.	Cost of raw materials increased as inflation devalues the working capital as a result of subsidy removal.	4.62	0.43	Very High Extent
5.	High cost of raw materials emanating from subsidy removal leads to increase in selling price which affects patronage	4.40	0.44	High Extent
Cluster Mean		4.51		Very High

Extent

Source: Field Study, 2024.

Table 3 shows the cluster mean score of 4.51 indicating that small scale business owners in Asaba, Delta State accepted that the removal of fuel subsidy to a very high extent affected the procurement of raw materials for effective operation of their businesses. The analysis of the items further reveals that the respondents rated three items out of the five listed items at very high extent. The mean rating for the three items ranged between 4.60 and 4.74. The remaining two items were rated by small scale business owners at high extent with mean ratings ranging from 4.20 to 4.40. The standard deviation of 0.42 to 0.47 shows closeness in the mean rating of the respondents.

Research Question 3:

To what extent does the removal of fuel subsidy affect the cost of production of small scale business enterprises in Asaba, Delta State?

Table 4: Mean Ratings of Small Scale Business Owners on Extent Removal of Fuel Subsidy Affects the Cost of Production of Small Scale Business Enterprises

S/N	Item Statement	X	SD	Remarks
1.	Cost of producing goods has risen following the removal of subsidy	4.80	0.43	Very High Extent
2.	Production process is halted as labour cannot be maintained as a result of subsidy removal	4.40	0.44	High Extent
3.	Production tends to be slow as cost of procurement of machineries skyrocketed	4.20	0.54	High Extent
4.	Production suffer more with low/unstable electricity power supply amidst fuel subsidy removal.	4.38	0.46	High Extent
5.	High cost of production emanating from subsidy removal leads to low patronage which affects business growth	4.24	0.52	High Extent
6.	Some small businesses have shut down production and close down businesses as a result of fuel subsidy removal	4.83	0.41	Very High Extent
Cluster Mean		4.48		High Extent

Source: *Field Study, 2024.*

Data in Table 4 shows the cluster mean score of 4.48 indicating that small scale business owners accepted that fuel subsidy removal to a high extent affected the cost of production of small scale business enterprises in Asaba, Delta State. The analysis of the items further indicates that the respondents rated two out of the six listed items at very high extent. The mean ratings for the two items ranged from 4.80 to 4.83. The remaining four items were rated by the respondents at high extent, with mean ratings ranging from 4.20 to 4.40. The standard deviation of 0.41 to 0.54 showed that respondents are closely related in their mean ratings.

Discussion of findings

The findings of the study in respect to research question one revealed that the removal of fuel subsidy, to a high extent adversely affected the profit margin of the operation of small scale business enterprises in Asaba, Delta State. This finding is in line with the submissions of Anwanakak (2023) that high fuel prices result in increased expenses for transporting good and materials directly affecting profit margins and pricing strategies. It agrees with Onyishi and Emeh (2023) that government subsidizes fuel to address cases of market failure, poverty especially in developing countries as a means of leveraging the poor of economic hardship. Ekpenyong and Nyong (2016) asserted that the sources of fund for small business are majorly from the owner's savings, borrowing from friends, relatives, banks and soft loans from the government. By implication, any pressure mount on the little capital in the name of fuel subsidy removal will definitely affect its profit margin. The finding also showed that gender do not significantly influence small scale business owners' mean ratings on the extent to which removal of fuel subsidy impacts on the profitability of the operation of small scale business enterprises in Asaba, Delta State.

The results on research question two reveals that small scale business owners in Asaba, Delta State accepted that the removal of fuel subsidy to a very high extent affected the procurement of raw materials for effective operation of their businesses. The hike in transport fare, raw materials, operative costs, devaluation of naira and inflationary effects of fuel subsidy removal according to Ozili and Obiora (2023) is already threatening the livelihood of many Nigerians, both within and outside the public sector. This assertion is true because suppliers have to increase the market price tagged to their goods in order to meet up the profit margin of the cost price as both buyers and sellers are entangled in this web called inflation in price.

The results of the study further revealed that small scale business owners to a high extent affirmed that fuel subsidy removal adversely affected the cost of production of small scale business enterprises in Asaba, Delta State. In agreement, Harun, Mat, Fadazim, Khan and Noor (2018) reiterated that fuel subsidy removal have significant impacts on the cost of production of sectors given that fuels are essential inputs for production for other sectors. Consequently, Adekunle and Oseni (2021) frowns at the negative effects of subsidy removal and lamented that subsidies are generally implemented to promote consumption and production. By implication, the removal of fuel subsidy in Nigeria is a serious threat economic development of Asaba, Delta State and survival of small business operatives in particular.

Conclusion

Based on the findings of the study, it was concluded that the removal of fuel subsidy by the federal government of Nigeria, has in no small measure crippled the wheel of success of small scale business operations in the areas of profit margin, procurement of raw materials and cost of production of goods and services.

Recommendations

Based on the findings of the study, the following recommendations were made:

1. Delta State government should encourage small scale business operators within the State by free taxation, grants and soft loans with minimal interest rate payable at a near future. This will help them maximize profit and sustain their businesses as a result of overwhelming expenses occasioned by the fuel subsidy removal.
2. Federal government should build and refurbish refineries in Nigeria to functioning state and ensure petroleum products are refined, available and at affordable rate to the masses, especially small business operators, as hike in fuel pump price increased transportation fare and procurement of raw materials.
3. Government at all levels should stop tax levies on small scale business operators, especially those on manufacturing/production sector pending when the economy stabilizes as promised by the present administration of Ahmed Bola Tinubu.
4. Federal government should invest the income generated from fuel subsidy removal on alternative energy sources such as renewable energy that can help small scale businesses rely less on fuel and its high cost.

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