CHAPTER TWO

IMPACT OF FUEL SUBSIDY REMOVAL ON SMALL AND MEDIUM SCALE ENTERPRISES (SMEs) IN OTUKPO LOCAL GOVERNMENT AREA, BENUE STATE

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Abstract

The removal of fuel subsidies has been a controversial issue in Nigeria. The study examined the impact of fuel subsidy removal on small- and medium-scale enterprises (SMEs) in the Otukpo Local Government Area, Benue State. The study adopted rational choice theory. A survey research design was used, and 400 respondents were selected via cluster and simple random sampling techniques. Data were collected via a questionnaire instrument. Descriptive statistics such as simple percentages and frequency tables were used for data analysis. The findings of this study revealed that the removal of fuel subsidies affected business income and profit margins as a result of poor income and profit generation by SMEs. Additionally, fuel subsidy removal has a negative effect on the operating cost of SMEs and leads to high inflation and price hikes of goods and services, which make it difficult for SMEs to purchase goods for their business. The following recommendations were made: the government should provide financial and regulatory support to SMEs, such as loans and grants, to help them; the government should diversify the economy to reduce dependence on oil revenue, which can be accomplished by developing other sectors, such as agriculture, manufacturing, and technology, for alternative sources of income.

Keywords: Fuel Subsidy Removal, Economy, SMEs, Inflation, Operation Cost

1. Introduction

Fuel subsidy removal has been a controversial issue in Nigeria for decades. In Nigeria, fuel subsidies were first introduced in the 1970s as a response to the oil price shock in 1973 (Houeland, 2020). Fuel subsidies are a policy that aims to alleviate the burden of rising petroleum products on citizens and businesses, particularly SMEs, which form the backbone of the Nigerian economy. However, the removal of fuel subsidies has been a controversial issue in Nigeria for decades given the socioeconomic consequences that it may have on the masses and businesses, especially SMEs. SMEs are the lifeblood of any economy, especially in developing countries such as Nigeria; they create jobs, contribute to economic growth, and reduce poverty. These enterprises operate in agriculture, manufacturing, retail and services, providing essential goods and services to both urban and rural communities (Houeland, 2020).

Fuel subsidies have been implemented to stabilize fuel prices, control inflation and ease the financial burden on citizens. For SMEs, fuel subsidies help reduce their operating cost, making transportation more affordable and facilitating distribution activities (Ude, 2023). The Nigerian government has periodically grappled with the issue of fuel subsidy removal because of the immense strains it places on the country’s finances. Consequently, in recent years, economic challenges have necessitated the removal of fuel subsidies. On May 29, 2023, President Bola Tinubu announced in his inaugural speech that fuel subsidies were scrapped as part of his economic reform agenda. He argued that the subsidy was unsustainable and inefficient and that the funds saved from it would be invested in public infrastructure and social welfare (Ozili, 2023).

According to Evans et al. (2023), the structure of Nigeria's subsidy system involves fixing the price of petrol for consumers below international prices and using government resources to cover the difference. Given that Nigeria's refineries are in a state of decay, imported oil prices tend to be higher than they would be if the products were refined domestically. This structural issue has contributed to the perceived unsustainability of the subsidy programme. The decision to

raise the price of petrol by 200% shortly after the subsidy removal announcement underscores the immediate impact on consumers, SMEs and the broader economy (Ude, 2023). While subsidy removal is driven by the intent to align with global trends of fossil fuel subsidy reduction and enhance fiscal sustainability (Ude, 2023), it presents a host of challenges. Foremost among these challenges is the potential exacerbation of socioeconomic inequality, given that subsidy removal can lead to increased fuel prices and a subsequent rise in the cost of living. This predicament echoes the concern raised by Ude (2023), emphasizing that while subsidy elimination might have long-term benefits, it can strain the financial resources of households and small- and medium-scale businesses, particularly those already marginalized. The complexity of the problem is magnified by the dynamic interplay between economic, political, environmental, and societal factors (Ozili, 2023).

Small and medium-sized enterprises are facing many setbacks as a result of the change in fuel subsidy removal. Fuel subsidy removal would lead to an increase in the price of essential goods and services. As a result, there would be less disposable income in the hands of individuals and small businesses due to rising prices, stagnant wages, and a fixed national minimum wage. This would lead to a reduction in consumption expenditure and potentially act as a drag on aggregate demand. The reduction in consumption would translate to weak consumer demand for the goods and services produced by firms. This, in turn, could decrease economic output and gross domestic product and slow the rate of economic growth (Evans et al 2023).

SMEs are vulnerable to external shocks and policy changes, such as the removal of the fuel subsidy, owing to their low capital base, limited access to credit, poor infrastructure and weak institutional support. This could reduce their profitability, competitiveness and sustainability and consequently affect their contribution to poverty reduction and economic development. In view of the above, this study seeks to examine the impact of fuel subsidy removal on SMEs in the Otukpo local government area.

Statement of the Research Problem

Fuel subsidies have traditionally been a double-edged sword in Nigeria. While intended to ease the financial burden on the government and stimulate economic growth, its removal has triggered a negative effect on the cost of living. One of the most immediate and tangible consequences is the surge in fuel prices, which directly affects manufacturing and transportation costs and small- and medium-scale enterprises. Owing to fuel subsidy removal, manufacturing costs as well as transportation costs are affected. These subsequently cause a spike in the prices of essential goods. This ripple effect is especially challenging for low-income earners, who allocate a significant portion of their income to basic necessities.

Moreover, the removal of fuel subsidies has contributed to inflationary pressures, making the overall economic landscape more challenging for average citizens. Inflation erodes the purchasing power of consumers, making it harder for individuals and families to meet their basic needs. This situation becomes more pronounced for vulnerable populations, amplifying existing socioeconomic disparities. In Benue State and Otukpo local government areas, fuel subsidy removal has crippled so many SMEs and business sectors. With the removal of the fuel subsidy, SMEs face many challenges, ranging from increasing operating cost to supply chain disruption, a decrease in profit margins and inflationary pressure. Furthermore, they face competition from large corporations, leading to market share erosion and limited growth opportunities for SMEs.

There are several studies on fuel subsidy removal in Nigeria (Onyishi et al., 2012; Majekodunmi, 2013; Adeoti et al., 2016; and Evans et al., 2023). However, none of these studies were carried out in the Otukpo Local Government Area, Benue State, to examine the impact of fuel subsidy removal on SMEs; hence, there is a gap in knowledge. Therefore, this research intends to fill this gap. This study therefore examines the impact of fuel subsidy removal on SMEs in the Otukpo Local Government Area, Benue State. In doing so, the study attempted to answer the following questions: What is the effect of fuel subsidy removal on the income and profit margins of SMEs?

Objectives of the Study

The broad objective of this study is to examine the impact of fuel subsidy removal on small- and medium-scale enterprises (SMEs) in the Otukpo local government area, Benue State. The specific objective is as follows:

i. examines the effect of fuel subsidy removal on the income and profit margin of SMEs in the Otukpo local government area.

Research Hypotheses

H_0 Fuel subsidy removal has no significant effect on SMEs in the Otukpo local government area.

2. Literature Review

Conceptual Clarification

Fuel Subsidy: Fuel subsidies are a government policy in which the government provides financial assistance to reduce the cost of fuel for consumers. This is typically done by selling fuel at a price lower than the market rate, with the government covering the price difference through subsidies. The main goals of fuel subsidies are to make fuel more affordable for citizens and to stabilize domestic prices. However, fuel subsidies can have economic, environmental, and fiscal implications, as they often lead to increased government spending and can encourage the consumption of fuel (Iroanusi, 2021).

Fuel Subsidy Removal: Fuel subsidy removal refers to the government's decision to eliminate or reduce subsidies for petroleum products, such as gasoline and diesel. This can have significant economic and social implications (Ilodigwe, 2023). Fuel subsidy removal is the situation where the government lifts the subsidization of petrol prices they have been allocating to petrol refining. Fuel subsidy removal is driven by promoting economic and social policy objectives. The subsidy has always been a part of the Nigerian story, which makes it difficult to eliminate completely. In Nigeria, fuel subsidies were first introduced in the 1970s as a response to the oil price shock in 1973. Fuel subsidies were partially removed in 1986.

Since then, fuel subsidies have been in place (Ilodigwe, 2023). In 2012, the government abruptly removed the fuel subsidy. The removal led to massive protests, which were intended for the government to reinstate the fuel subsidy it had removed. The government subsequently reinstated fuel subsidies in 2012 because of the massive protests. Since then, fuel subsidy payments in Nigeria have grown enormously. In 2022, fuel subsidies reached ₦4 trillion (US$6.088 billion), which amounted to 23% of the national budget of ₦17.126 trillion (US$25.87 billion) in 2022. As a result, Nigeria could no longer sustain fuel subsidies in 2023, and the government announced that fuel subsidies would be removed in June 2023 (Evans et al 2023).

The chronology of events and reactions surrounding the 2023 fuel subsidy removal in Nigeria paints a complex picture of economic, political, and societal dynamics. The announcement of the subsidy's removal during President Bola Ahmed Tinubu's inauguration set off a chain reaction that elicited public outcry and governmental responses (Ude, 2023). Slated to take effect on July 1, 2023, the policy prompted immediate concerns and chaos, with citizens scrambling to purchase fuel before prices surged. This subsidy removal was intricately linked to fuel prices and consequently influenced the costs of almost all goods and services within the nation (Ude, 2023).

Small and Medium Scale Enterprises (SMEs): Compared with large corporations, SMEs are businesses that have a limited number of employees and less financial turnover. The specific definition of an SME varies by country and industry but generally falls within these parameters: employee size, which can typically be less than 500 employees, with some countries using lower thresholds (250 or even 50) and financial metrics where revenue, assets, or a combination of both may be considered, with upper limits varying by country and industry (Kadiri, 2012).

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defines SMEs in Nigeria as enterprises with a staff strength of not less than 10 and not more than 249 and an annual turnover of not less than five million naira (₦5,000,000) and not more than one billion naira (₦1,000,000,000). Similarly, the International

Finance Corporation (IFC) defines SMEs as enterprises that have fewer than 250 employees and annual revenues of up to $15 million (IFC, 2021). SMEDAN (2021) further categorizes SMEs into micro, small and medium-sized enterprises on the basis of the number of employees and turnover (Lawal and Ijaiya, 2007).

However, in Nigeria, the asset base criterion is more commonly used. The Central Bank of Nigeria, in its 2005 guideline on the Small and Medium Enterprise Investment Scheme (SMEIS), described SMEs as any enterprise with a maximum asset base of 200 million naira (excluding land and working capital) with no lower or upper limit of staff. Using quantitative indices alone to define SMEs has proven unsatisfactory in many respects. This is because such indices are characterized by periodic alterations due to inflation and thus can sometimes be misleading (Jamil & Rapiah, 2011).

Impact of Fuel Subsidy Removal on SMEs

Fuel subsidy removal has historically been implemented to destabilize fuel prices, increase inflation, and increase the financial burden on the populace. For SMEs, fuel subsidy removal has helped increase operating costs, making transportation more unaffordable and ensuring the unavailability of energy at a reasonable price for production and distribution activities. The Nigerian government has periodically grappled with the issue of fuel subsidy removal because of the immense strain it places on the country's finances. In recent years, economic challenges have necessitated discussions on subsidy reduction or elimination. While the removal of subsidies can lead to fiscal relief, it also triggers a series of economic repercussions, especially for SMEs (Edet, 2023). According to Edet (2023), fuel subsidy removal has affected SMEs in many ways, as SMEs face a series of challenges because fuel subsidy removal is embarked upon by the Nigerian government. Some of these impacts are as follows:

i. **Increased operating costs:** With the removal of fuel subsidies, SMEs face a direct impact on transportation costs. Higher fuel prices result in increased expenses for transporting goods and materials, directly affecting profit margins and pricing strategies. In Nigeria, the price of petrol is considered a major driver of the

cost of living, as it is used by all businesses, including small businesses and many households, given the unstable electricity supply. Therefore, any increase in fuel price could directly and immediately impact the prices of goods and services across the country. When petrol prices increase, small businesses tend to increase their prices to cover the increased cost of operation, which can lead to higher prices for consumers. This can make it more difficult for people to afford basic necessities, lead to a decrease in the standard of living and contribute to poverty and inequality.

ii. **High inflation and reduced purchasing power:** The rise in transportation costs often cascades into a broader inflationary trend. As fuel prices surge, the cost of living increases, leading to reduced purchasing power for consumers. SMEs may face reduced demand for their products and services, affecting overall sales. The removal of the fuel subsidy led to a rise in the price of petrol from a subsidized price (Evans et al, 2023). The implication is that the price of most consumer and industrial goods, which are produced or transported with petrol, has increased sharply. The cost of bread has increased, and the cost of local transportation has also increased, making it expensive to afford for poor individuals and low-income earners. The effect will also be felt by both the rich and the poor, but as always, the poor will suffer the most through a significant reduction in their purchasing power (Mohammed, Ahmed and Adedeji, 2020).

iii. **Supply chain disruptions:** SMEs rely heavily on supply chains to source raw materials and distribute finished products. Fuel price fluctuations can disrupt supply chains, leading to delays, higher logistical expenses, and difficulties in meeting customer demands.

iv. **Competition with large corporations:** SMEs, which already operate on relatively narrow margins, face intense competition from larger corporations that can absorb increased fuel costs more effectively. This competition can lead to market share erosion and limited growth opportunities for SMEs.

v. **Job loss and the shutdown of business:** The economic challenges caused by fuel subsidy removal may force some SMEs to downsize or halt expansion plans. Consequently, this can lead to job losses and increased unemployment in the country. The removal of fuel subsidies leads to job loss in the informal sector, which relies mostly on PMSs or petrol (Houeland, 2020). The rise in petrol prices would lead to the shutdown of small businesses that cannot afford the rising cost of petrol and whose profit margins have been completely eroded by fuel subsidy removal in the formal sector.

vi. **Decrease in economic growth in the short term:** Fuel subsidy removal would lead to an increase in the price of essential goods and services. As a result, there would be less disposable income in the hands of individuals and small businesses due to rising prices, stagnant wages, and a fixed national minimum wage (Edet, 2023). This will lead to a reduction in consumption expenditure and act as a drag on aggregate demand. The reduction in consumption would translate to weak consumer demand for the goods and services produced by firms. This, in turn, could decrease economic output and gross domestic product and slow the rate of economic growth (Houeland, 2020).

vii. **Increases in poverty and vulnerability:** The removal of fuel subsidies increases poverty in the short term (Raji, 2018). This can lead to immediate pain and hunger for families. The poor and middle-class consumers will witness a decrease in their purchasing power, and small businesses will find their profit margins squeezed because they will face higher costs and reduced sales volumes. If they attempt to pass on the cost to consumers, consumers might refuse to buy, or they may reduce the quantity purchased, thereby leading to low business patronage. Furthermore, fuel subsidy removal could disproportionately affect poor vulnerable groups if there are no economic safety nets or social assistance programs that can alleviate the economic hardship caused by fuel subsidy removal (Evans et al, 2023).

Theoretical Framework

This study adopts rational choice theory as its theoretical framework. Rational choice theory originated during the late 18th century with the work of Cesare Beccaria. Rational choice theory was anchored by James Coleman in 1990. The central explanation of this theory is a focus on an individual's rational action that helps explain aggregate behavior in society. According to the main proponents of this theory, James Coleman (1990), the main task of sociologists is to focus on the social system, but such macro phenomena must be explained by examining the factors internal to them, which centers on the behavior of individuals at the micro level.

The main argument in rational choice theory is that individuals gauge their choice of action on the basis of each option's capacity to yield advantages, pleasure, and happiness. Rational choice provides an in-depth perspective on why individuals decide to participate in specific activities; people choose to exhibit a behavior for fundamental reasons (Shon, 2015). Essentially, behaviors that are rewarding, easy, satisfying, and fun stimulate the pleasure-seeking aspects of an individual. The central foundation of this theory, however, is that the majority of society is filled with people who are rational beings who fear punishment and can be controlled by that fear.

Rational choice theory hypothesizes that actors are sensible individuals who make decisions to carry out action on the basis of the costs and benefits involved (Liu, 2017). Rational choice theory posits that individuals act to maximize their self-interest within constraints (Van Valkengoed & Van der Werff, 2022). In the context of subsidy removal, this theory can explain how consumers react to price increases by altering their consumption patterns. Data from Nigeria's 2012 subsidy removal protests revealed shifts in consumer behavior due to sudden fuel price hikes (Apeloko & Olajide, 2012).

Rational choice theorists posit that individuals make decisions on the basis of rational calculations aimed at maximizing their self-interest. Applied to subsidy removal, this theory explains the government's motivation to eliminate subsidies due to their unsustainable fiscal burden. The escalating subsidy payments, as

evidenced by the increasing yearly figures, indicate a rational response to mitigate economic strain. The decision aligns with the government's self-interest in achieving fiscal sustainability, addressing long-term budgetary concerns, and attracting investment by creating a favorable economic environment. Additionally, this theory underscores citizens' rational behavior in coping with higher fuel costs. As fuel prices rise after subsidy removal, individuals are likely to adapt their transportation choices and energy consumption patterns to minimize personal financial impact, aligning with the theory's assumption.

3. Methodology

The study adopted a survey research design. The study area of the research is the Otukpo local government area of Benue State. Otukpo comprises 13 council wards. The economy of Otukpo is basically agrarian in nature. The Otukpo local government is so endowed with business activities and SMEs all over the local government area. The study population was made up of 400 SMEs drawn from 4 districts (Otukpo, Akpa, Ugboju and Adoka) within the study area selected via Taro Yamane sample size determination. The study adopted a multistage sampling procedure (cluster and simple random sampling). This will be done in stages; in the first stage, the researcher divides the four (4) districts in Otukpo into clusters. These districts are Otukpo, Akpa, Ugboju and Adoka. In the second stage, a simple random sampling technique was applied. In doing so, the researcher moved around in the selected districts one after the other and wrote all the 1650 licensed SMEs on a piece of paper differently and put it inside a basket. The researcher then randomly selected 100 SMEs each from the 4 districts out of the 1650 SMEs by picking 400 papers from the basket. The managing directors and CEOs of these SMEs were sampled and constitute the respondents for the study.

The data were collected via questionnaires. A quantitative method of data analysis was used for this study. The data collected for the study were collated and analyzed via the Statistical Package for Social Sciences (SPSS) version 26. The results are presented via frequency distribution tables and simple percentages, and the findings are discussed. The hypothesis of the study was tested with a chi-square statistical tool.

4. Results and Discussions

Sociodemographic Attributes of the Respondents

This section presents the sociodemographic attributes of the respondents, which include sex, age, marital status, occupation, education qualification and religion. This study administered 400 questionnaires to the respondents. However, only 394 questionnaires were returned and analyzed.

The data in Table 1 below revealed that (287) 72.8% of the respondents were males, whereas (107) 27.2% of the respondents were females. This implies that the research was dominated by male respondents. In terms of the age distribution of the respondents (48), 12.2% were within the age range of 18--23 years, (90) 22.8% were between the ages of 24--29 years, (254) 64.5% were within the age range of 30--34 years and (2) 0.5% were within the age range of 35--40 years. The age range of 30--34 years was therefore most represented in the present study. In terms of marital status, (35) 8.9% of the respondents were single, (342) 86.8% were married, (5) 1.3% of the respondents were divorced/widowed, and (12) 3.0% of the 394 respondents were separated. This implies that the majority of the respondents were married. In terms of occupation, (9) 2.3% of the respondents were farmers, (2) 0.5% of the respondents were civil servants, (302) 76.6% of the respondents were businesses, and (81) 20.6% of the respondents were students. This implies that the majority of the respondents were students and that some engaged in business. The educational qualification data above indicated that 16 (4.1%) of the respondents had nonformal education, 35 (8.9%) had primary education (FSLC), 135 (34.3%) had secondary education (SSCE), and 208 (52.8%) had tertiary education (Bachelor's degree/HND). This indicated that the respondents had basic education and that those with tertiary education were mostly represented, which is important for the study because their responses are likely well cultured. With respect to the religious affiliation of the respondents, (351) 89.1% of the respondents were Christians, (35) 8.9% of the respondents were Muslims and (8) 2.0% of the respondents were traditionalists. It can therefore be deduced that the opinions from this research are dominated by Christians.

Table 1: Distribution of Respondents according to their Sociodemographic Attributes

Variables	Frequency (N=394)	Percentage (%)
Sex		
Male	287	72.8
Female	107	27.2
Age (Years)		
18-23	48	12.2
24-29	90	22.8
30-34	254	64.5
35-40	2	0.5
Marital Status		
Single	35	8.9
Married	342	86.8
Divorced/Widowed	5	1.3
Separated	12	3.0
Occupation		
Farming	9	2.3
Civil servant	2	0.5
Business	302	76.6
Student	81	20.6
Educational Qualification		
Nonformal education	16	4.1
Primary education	35	8.9
Secondary education	135	34.3
Tertiary education	208	52.8
Religious Affiliation		
Christian	351	89.1
Muslim	35	8.9
Traditionalist	8	2.0

Source: Field Survey, 2024

Effects of Fuel Subsidy Removal on the Income and Profit Margin of SMEs in the Otukpo Local Government Area

This section presents the effects of fuel subsidy removal on the income and profit margins of SMEs. The data in Table 2 reveal that 18.8% (74) of the respondents opined that the removal of fuel subsidies has decreased the purchase of goods and services for their business, 18.0% (71) of the respondents averred that the removal of fuel subsidies generated high costs of resources and commodities in the market, 49.5% (195) of the respondents asserted that the removal of fuel subsidies has caused poor generation of income and profit for their business, and 13.7% (54) of the respondents opined that the removal of fuel subsidies has increased their production cost. These findings revealed that the removal of fuel subsidies affected the income and profit margins of SMEs in the Otukpo local government area.

Table 2: Effects of Fuel Subsidy Removal on the Income and Profit Margin of SMEs

Variables	Frequency	Percentage (%)
Decrease in purchase of goods and service	74	18.8
High cost of resources and commodities	71	18.0
Poor generation of income and profit	195	49.5
Increase in production cost	54	13.7
Total	**394**	**100**

Source: Field Survey, 2024.

Impact of Fuel Subsidy Removal on SMEs in the Otukpo Local Government Area

This section presents the impact of fuel subsidy removal on SMEs. Table 3 indicates that 37.1% (146) of the respondents affirmed that the removal of fuel subsidies increased the operating cost of SMEs, 24.4% (96) of the respondents reported that the removal of fuel subsidies led to high inflation and price increases, 21.3% (84) of the respondents reported that the removal of fuel subsidies led to job loss and the shutdown of business, 11.7% (46) of the respondents reported that the removal of fuel subsidies led to a decrease in the economic growth of SMEs, and 5.6% (22) of the respondents reported that the removal of fuel subsidies increased poverty and vulnerability. These findings imply that the removal of fuel subsidies has an impact on the operating cost of SMEs, alongside high inflation and price hikes.

Table 3: Impact of Fuel Subsidy Removal on SMEs

Variables	Frequency	Percentage (%)
Increased operating cost	146	37.1
High inflation and price hike	96	24.4
Job loss and shutdown of business	84	21.3
Decrease in economic growth	46	11.7
Increase poverty and vulnerability	22	5.6
Total	**394**	**100**

Source: Field Survey, 2024

Test of Hypotheses

This section tests the hypotheses of this study. The chi-square (x2) statistical tool was used to test the hypotheses at the 0.05 profitability level of significance, and the results are presented in Table 4.

Table 4: Chi-square (x2) test of the impact of fuel subsidy removal on SMEs in the Otukpo local government area

Variables	Observed	Expected	Df	P value	$X^{2\text{-cal}}$	$X^{2\text{-tab}}$
Increased operating cost	146	78.8	4	0.05	116.000[a]	9.488
High inflation and price hike	96	78.8				
Job loss and shutdown of business	84	78.8				
Decrease in economic growth	46	78.8				
Increase poverty and vulnerability	22	78.8				
Total	**394**					

(X^2 = 116.000, Df= 4> P = 0.05 > 0.00)

Table 4 shows that the chi-square (X^2) calculated value of 116.000 was greater than the chi-square (X^2) table value of 9.488, which was checked at 0.05 of significance and at 4 degrees of freedom. The null hypothesis was therefore rejected, and the alternative hypothesis was accepted. This implies that fuel subsidy removal has a significant effect on SMEs in the Otukpo local government area.

Discussion of Findings

The findings of this study are discussed simultaneously with the objectives of the study. The findings indicate that fuel subsidies affect the income and profit margins of SMEs, as they lead to poor generation of income and profit. These findings are supported by the findings of Uchenna (2023), who reported that the removal of fuel

subsidies automatically led to an increase in the price of fuel, which directly led to an increase in the cost of production or rendering services. Additionally, SMEs in Nigeria depend heavily on physical distribution for their marketing, unlike large industries in technologically advanced nations that adopt electronic online marketing; hence, the removal of fuel subsidies increases their marketing expenses, leading to a reduction in their profit. As a result of fuel subsidy removal, SMEs may see their profit margins squeezed as they absorb higher fuel costs or pass them on to consumers, potentially impacting competitiveness (Uchenna, 2023). According to Kolawole (2023), as cited in Vanguard Newspaper (2023), in the aftermath of reforms in the petroleum and foreign exchange sectors of the economy, small business owners reported significant losses in their income and profit and setbacks in their operations as a result of subsidy removal.

Additionally, the findings show that the removal of fuel subsidies increases the operating cost of SMEs in the Otukpo Local Government Area, alongside high inflation and price hikes. These findings corroborated the findings of Edet (2023), who reported that SMEs faced a series of challenges because fuel subsidy removal was embarked upon by the Nigerian government. There is an increase in the operating costs of businesses, especially the direct impact on transportation costs. Higher fuel prices result in increased expenses for transporting goods and materials, which directly affects profit margins and pricing strategies. In Nigeria, the price of petrol is considered a major driver of the cost of living, as it is used by all businesses, including small businesses and many households, given the unstable electricity supply. Therefore, any increase in fuel price could directly and immediately impact the prices of goods and services across the country. According to Mohammed, Ahmed and Adedeji (2020), fuel subsidy removal also leads to high inflation and price hikes. The rise in transportation costs often cascades into a broader inflationary trend. As fuel prices surge, the cost of living increases, leading to reduced purchasing power for consumers. SMEs

may face reduced demand for their products and services, affecting overall sales.

Data on the test of hypotheses revealed that the chi-square (X^2) calculated value of 116.000 was greater than the chi-square (X^2) table value of 9.488, which was checked at 0.05 of significance and at 4 degrees of freedom. The null hypothesis was therefore rejected, and the alternative hypothesis was accepted. This implies that fuel subsidy removal has a significant effect on SMEs in the Otukpo local government area.

5. Conclusion and Policy Recommendations

This study examined the impact of fuel subsidy removal on small- and medium-scale enterprises (SMEs) in the Otukpo Local Government Area, with specific objectives, to examine the effects of fuel subsidy removal on the income and profit margins of SMEs in the Otukpo Local Government Area. The study established that the removal of fuel subsidies affected business income and profit margins as a result of poor income and profit generation by SMEs in the Otukpo local government area. Additionally, fuel subsidy removal has an impact on the operating cost of SMEs and leads to high inflation and price increases in goods and services, which make it difficult for some SMEs to purchase goods for their business.

The following recommendations were made to help improve the impact of fuel subsidy removal on SMEs:

i. The government should provide financial and regulatory support to SMEs, such as loans, and grants to help them cope with the increased operational cost.
ii. The government should diversify the economy and pursue economic diversification strategies to reduce dependence on oil revenue through the development of other sectors, such as agriculture, manufacturing, and technology, to create alternative sources of income and contribute to a more resilient economy.
iii. Stakeholders should collaborate with SME owners on the way forward. Engage with stakeholders, including civil society organizations, labor unions, and the private sector, to solicit input

and build consensus on the best way forward. Inclusive decision-making processes can lead to more sustainable and widely accepted solutions.

iv. The negative impact of fuel subsidy removal on SMEs can be eradicated if strategic planning and policies that can combat the negative effect of fuel subsidy removal are put in place by the Federal Government, as this will help SMEs thrive and still carry out their operations without much difficulty.

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