

**RICHER STATE, POORER CITIZENS: TINUBU'S FUEL-SUBSIDY REMOVAL,
REVENUE WINDFALL, AND THE DIALECTICS OF INCLUSIVE
DEVELOPMENT IN NIGERIA**

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ABSTRACT

The removal of Nigeria's decades-old fuel subsidy by President Bola Ahmed Tinubu in May 2023 produced one of the most significant fiscal and socioeconomic shifts in the country's contemporary history. This study interrogates the emerging paradox whereby the Nigerian state becomes fiscally richer following the elimination of subsidy payments, even as citizens become materially poorer. Anchored on Rentier State Theory and a political-economy analytical framework, the study employs a qualitative-descriptive design supported by secondary data from FAAC, the NBS, BudgIT, the World Bank, and IMF (2023-2025). Findings show that while subsidy removal created an unprecedented fiscal windfall of over ₦7.5 trillion and expanded FAAC allocations by more than 130 percent, these gains did not translate into improved living conditions or inclusive development. Instead, fuel-price deregulation and exchange-rate unification triggered inflation above 30 percent, food inflation exceeding 40 percent, rapid currency depreciation, sharp erosion of real wages, and the addition of millions to the poverty population. The study reveals that weak institutions, opaque fiscal management, and elite capture hindered the redistribution of subsidy savings, thereby reinforcing the structural vulnerabilities associated with rentier governance. Comparative evidence from global subsidy-reform experiences further illustrates that reforms implemented without robust social safety nets and credible governance mechanisms often deepen inequality rather than stimulate development. The study concludes that fuel-subsidy removal in Nigeria has so far amplified the "richer state, poorer citizens" paradox and argues that without institutional strengthening, transparent revenue governance, and targeted social protection, the long-term developmental gains of subsidy liberalization will remain elusive. The study recommends the institutionalization of a transparent social

protection and targeted cash-transfer framework alongside robust macroeconomic stabilization and strengthened regulatory institutions to cushion vulnerable groups, curb inflationary pressures, enhance policy credibility, and ensure that fuel subsidy reforms translate into sustainable development outcomes.

Keywords: *Fuel Subsidy Removal, Inflation, Fiscal Windfall, Political Economy, Inclusive Development, Nigeria.*

Introduction

Economic reforms in Nigeria have historically reflected the tension between state revenue generation and citizen welfare, with successive administrations grappling with how to balance fiscal sustainability and social equity (Uzor & Esieme, 2025). Since independence, Nigeria's development trajectory has been shaped by its dependence on oil revenues, volatile global energy markets, and persistent governance challenges (Onifade et al., 2023). Despite being one of Africa's largest economies and a major crude oil exporter, the country continues to face widespread poverty, unemployment, and infrastructural decay (ThisDayLive survey; World Bank/NBS data, 2025). This paradox underscores the broader dilemma of resource-rich but development-poor states across the Global South, where fiscal reforms often fail to translate into tangible welfare improvements for citizens (Bisong et al., 2023).

One of the most debated reforms in Nigeria's economic history is the removal of fuel subsidies, a policy that has shaped public discourse and economic planning for decades (Al-Hassan Fatimetu Olohigbe et al., 2025). Fuel subsidies, introduced to stabilize domestic fuel prices and support low-income households, gradually became a fiscal burden and a source of corruption and inefficiency (Guardian Nigeria analysis, 2023; American Research Journal report, 2025). Over the years, several administrations have attempted to reform or eliminate the subsidy regime, often facing public resistance due to the immediate inflationary effects on transportation, food, and energy costs (Bisong et al., 2023; ThisDayLive survey, 2025). Yet, the persistence of fuel subsidies has also constrained public investment in critical

sectors such as education, health, and infrastructure (American Research Journal report, 2025).

Against this historical backdrop, the decision of President Bola Ahmed Tinubu in May 2023 to completely remove fuel subsidies marks a watershed moment in Nigeria's economic policy (Edward, 2023). Unlike previous partial reforms, this bold and abrupt removal triggered immediate economic repercussions fuel scarcity, sharp increases in commodity prices, and heightened inflation while simultaneously creating a massive fiscal windfall for the federal government (UNDP, 2023; World Bank/NBS data, 2025). Although the reform was justified on grounds of economic efficiency and long-term fiscal stability, it has deepened existing socio-economic inequalities, leaving many Nigerians poorer even as the state's revenue base expanded (Uzor & Esieme, 2025). This emerging paradox of a "richer state and poorer citizens" captures the uneven outcomes of the subsidy removal policy (Adeyemi, 2024).

Current analyses suggest that while the Nigerian government now retains billions of naira once used to finance subsidies, the redistributive impact of these savings remains unclear (Uzor & Esieme, 2025). Inflation, currency depreciation, and stagnant wages have eroded the purchasing power of ordinary citizens, exacerbating poverty and social unrest (UNDP, 2023). Moreover, institutional weaknesses such as corruption, lack of transparency in public spending, and inadequate social protection mechanisms continue to hinder the equitable redistribution of subsidy savings (Uzor & Esieme, 2025). As a result, the reform has intensified the dialectic between state enrichment and citizen impoverishment, raising critical questions about governance, accountability, and inclusive development (Uzor & Esieme, 2025).

This study therefore interrogates the political economy of fuel subsidy removal under the Tinubu administration, focusing on the paradoxical relationship between increased state revenue and declining citizen welfare. It examines how the policy reflects deeper structural challenges within Nigeria's governance and economic management systems, and whether the current reform trajectory can promote inclusive and sustainable development.

Conceptual Clarification

Fuel Subsidy

A fuel subsidy refers to a government policy that lowers the domestic price of petroleum products below international market rates through direct financial support to importers or producers. In Nigeria, fuel subsidies were originally introduced in the 1970s to cushion citizens from global oil price fluctuations and promote social welfare. Over time, however, the system became deeply entrenched in the political economy, serving as both a fiscal burden and a mechanism of elite patronage. Scholars such as Okonjo-Iweala (2018) and Olohigbe, F., & Mamudu, K. A. (2025) observe that while subsidies were intended to protect the poor, they disproportionately benefited higher-income groups who consume more fuel, thereby undermining equity and fiscal sustainability.

Inclusive Development

Inclusive development denotes a growth process that ensures equitable access to economic opportunities, social welfare, and political participation for all segments of society. It transcends the notion of economic growth measured solely by GDP to emphasize the reduction of poverty, inequality, and social exclusion (UNDP, 2023). In the Nigerian context, inclusive development entails using public resources such as savings from subsidy removal to improve human capital, infrastructure, and livelihoods, especially for marginalized populations. As Adebayo (2024) argues, development cannot be deemed inclusive if macroeconomic gains fail to translate into tangible improvements in citizens' living standards or social protection.

Fiscal Windfall

A fiscal windfall refers to a sudden and significant increase in government revenue, often arising from policy reforms, resource booms, or external economic shocks. Following the removal of Nigeria's fuel subsidy in May 2023, the federal and state governments experienced a substantial fiscal windfall as previously allocated subsidy

funds were redirected into the Federation Account. While this windfall theoretically provides fiscal space for infrastructure and social investment, its developmental impact depends on transparency, accountability, and prudent fiscal management. BudgIT (2024) and the World Bank (2025) warn that without these safeguards, such revenue surges risk reinforcing rent-seeking behavior and elite capture rather than fostering equitable redistribution and inclusive growth.

Historical Attempts at Subsidy Reform and the Global Political Economy of Price Liberalization

Across the world, governments have repeatedly attempted to reform fuel subsidies and other price-stabilization programs in response to fiscal pressures, market distortions, and the need for macroeconomic stability. Much like African states that developed regulatory frameworks to manage artisanal gold mining, many resource-dependent economies have institutionalized legal and economic structures to regulate energy pricing, reduce consumption distortions, and promote fiscal sustainability. These reforms often emerge from securitization logics that treat subsidies as threats to fiscal sovereignty, leading governments to adopt formalization mechanisms, phased deregulation, and targeted compensation schemes. The underlying objective of subsidy reforms is typically to reduce state expenditure, curb rent-seeking, and create a disciplined economic environment anchored on transparent market signals (Clements et al., 2013; Sdrilevich et al., 2014). However, the formalization and deregulation processes have also produced significant socio-economic and political tensions, as they directly affect household welfare, production costs, and broader social contracts.

Globally, several countries have undertaken far-reaching reforms to address the inefficiencies and fiscal burdens associated with fuel subsidies. Indonesia offers one of the most extensively studied cases. Between 2005 and 2014, the government implemented multiple rounds of subsidy reductions under the Energy Law of 2007, coupled with compensation programs such as unconditional cash transfers (Bacon & Kojima, 2006; Pradipto et al., 2016). The reforms were intended to redirect revenues toward infrastructure, education, and poverty alleviation. Similarly, Iran

introduced one of the world's most ambitious price-liberalization programs in 2010 under the Targeted Subsidies Reform Act, replacing subsidies with nationwide cash transfers to mitigate welfare losses (Salehi-Isfahani, 2016). In India, the reform of petrol and diesel subsidies between 2010 and 2015 followed a gradual deregulation model anchored on the Petroleum Pricing Regulations and managed by the Petroleum Ministry and the Oil Coordination Committee, enabling the government to reduce fiscal deficits and curb smuggling (Gupta, 2017). These reforms were supplemented by technology-driven leak-prevention systems, including Aadhaar-linked Direct Benefit Transfers (DBT). Collectively, these cases illustrate global attempts to institutionalize subsidy governance through coherent legal frameworks, regulatory agencies, and monitoring mechanisms.

Despite extensive reform efforts, enforcement and sustainability remain major challenges across many countries. Scholars argue that subsidy-reform frameworks often collapse due to political resistance, governance weakness, and entrenched patronage structures (Victor, 2009; El-Katiri & Fattouh, 2017). In Yemen, attempts to reduce fuel subsidies through the 2014 Economic Reform Plan led to widespread protests that eventually contributed to state fragility (Al-Ariqi, 2016). Egypt's partial subsidy removal between 2014 and 2019, guided by the 2014 Price Adjustment Mechanism and IMF-supported reforms, faced implementation constraints due to inflation, political contestation, and the government's inability to sustain targeted social protection programs (Abdel-Khalek, 2014; Mohieldin, 2019). Similarly, in Bolivia and Ecuador, fuel-subsidy reform attempts triggered widespread social backlash, forcing governments to reverse or modify reforms due to fears of electoral consequences and erosion of political legitimacy (Arze del Granado & Coady, 2012; Weyland, 2019).

A second body of literature attributes the failure of subsidy reforms to political interference, interest-group pressures, and the role of rent-seeking coalitions. In countries such as Nigeria, Venezuela, and Angola, subsidy regimes have become embedded within clientelist networks that benefit from arbitrage, smuggling, and state-financed consumption (Sala-i-Martin & Subramanian, 2003; Shaxson, 2009).

In such contexts, governments often face intense pressure from business lobbies, petroleum marketers, and political elites who profit from subsidy distortions. Research by Coady et al. (2015) and Gupta (2017) shows that the political class frequently intervenes to delay or weaken enforcement of price-adjustment policies, especially where subsidies function as tools of political co-optation. Transparency International (2020) and Human Rights Watch (2016) have documented cases where subsidy fraud, inflated import claims, and diversion of petroleum products significantly undermine reform programs, making subsidy governance one of the most corruption-prone policy arenas.

Socio-economic vulnerabilities also constitute major obstacles to subsidy reform. In several low- and middle-income countries, high poverty rates, unemployment, and weak social protection exacerbate the negative consequences of price adjustments. Scholars note that in contexts where social-welfare systems are underdeveloped such as in Nigeria, Bangladesh, Sudan, and Algeria subsidy removal disproportionately affects low-income households, women, and informal-sector workers who depend heavily on affordable transportation and energy (Beaton et al., 2013; Kojima, 2016; Abdel-Khalek, 2014). Weak institutions further complicate the implementation of compensatory mechanisms, leading to delays, mis-targeting, or outright diversion of funds. These socio-economic challenges make governments reluctant to enforce reforms fully, fearing rising public discontent, protests, or electoral defeat common trends observed in the Middle East, Africa, and Latin America.

The historical experiences of subsidy reforms across the world reveal a recurring pattern: despite rational economic arguments for reform, deep political, institutional, and governance constraints undermine implementation. This pattern is starkly evident in Nigeria. From the Structural Adjustment Programme (SAP) of the mid-1980s to the partial removals under Presidents Obasanjo, Jonathan, and Buhari, successive administrations have attempted price deregulation under various regulatory frameworks, including the Petroleum Products Pricing Regulatory Agency (PPPRA) Act, the Petroleum Support Fund (PSF), and the Petroleum Industry Act

(PIA) (Okonjo-Iweala, 2018; Olomola, 2022; Okechukwu & Adeniran, 2023). Yet, each round of reform has been met with resistance fueled by distrust in government, inflationary shocks, and perceptions of corruption within the subsidy-removal process. Political patronage, institutional weaknesses, and the absence of transparent compensation mechanisms have historically undermined reform credibility, resulting in repeated cycles of reform, reversal, and reinstatement.

The global history of subsidy reforms demonstrates that success depends not merely on economic logic but on political legitimacy, institutional strength, and effective redistribution frameworks. The Nigerian experience remains embedded within these global patterns: despite the theoretical gains of subsidy removal, weak governance, elite capture, and socio-economic fragility continue to undermine reform outcomes, reinforcing public skepticism and deepening the paradox of a fiscally enriched state and increasingly impoverished citizens.

Global Experiences of Rentierism, Resource Governance, and Redistribution Failure

Across resource-rich regions of the world, governments have attempted to establish elaborate governance and regulatory frameworks aimed at managing natural-resource revenues and ensuring effective redistribution for national development. Much like African states that sought to structure artisanal gold mining, rentier economies in the Middle East, Latin America, and parts of Asia have long implemented fiscal, institutional, and macroeconomic reforms intended to manage externally generated rents including oil, gas, minerals, and other natural resources. These regulatory systems often emerged as mechanisms of securitization and economic control, where governments formalized revenue flows, centralized rent collection, and institutionalized resource management as a means of consolidating political authority. Scholars such as Karl (1997), Ross (2012), and Beblawi and Luciani (1987) argue that these formal governance frameworks were designed not only to manage the inflow of rents but also to restrict access by non-state actors, maintain political order, and strengthen state hegemony over economic resources. As seen in resource-dependent states globally, attempts at formalization sought to curb illicit

appropriation, professionalize revenue administration, and modernize economic governance yet often resulted in the expansion of patronage, the criminalization of informal extraction, and the militarization of economic regulation (Hertog, 2010; Basedau & Lay, 2009).

Several countries have implemented comprehensive reforms aimed at improving the governance of resource wealth through institutional restructuring, fiscal transparency, and budgetary oversight. For example, Norway provides the most frequently cited global model for prudent revenue management through its Petroleum Fund later renamed the Government Pension Fund Global established in 1990. The fund operates under strict transparency rules, parliamentary oversight, and a fiscal-responsibility framework that caps annual spending of oil revenues (Holden, 2013; Thurber et al., 2011). Similarly, Chile's structural surplus rule and sovereign wealth funds are governed by the Fiscal Responsibility Law of 2006, requiring the publication of revenue forecasts, external audits, and parliamentary scrutiny of expenditure (Frankel, 2011; Marcel, 2013). Botswana's diamond governance framework anchored in the Diamond Sorting, Valuing and Sales Act, and supported by a robust public financial-management system has also been widely acknowledged for integrating natural-resource revenues into national development planning (Acemoglu et al., 2003; Sarraf & Jiwanji, 2001).

However, despite strong legal frameworks in some jurisdictions, several resource-rich countries continue to face major challenges in enforcing rules governing rent management and redistribution. Ross (2012) notes that weak institutions, entrenched patronage networks, and political interference often undermine accountability mechanisms, permitting elites to dominate revenue flows. In Algeria, for instance, the Hydrocarbons Law of 2005 introduced new regulatory agencies and transparency requirements, yet enforcement capacity remained weak, and rent distribution continued to be mediated by political-military elites (Boucek, 2020; Lowi, 2009). In Venezuela, the 2001 Hydrocarbons Law sought to strengthen state oversight and channel oil revenues toward social programs, but politicization, corruption, and inconsistent enforcement eroded reform outcomes (Corrales &

Penfold, 2011; Monaldi, 2018). Similar patterns are evident in Indonesia's oil and gas sector, where successive amendments to the Oil and Gas Law since 2001 have attempted to improve transparency and break monopolies, yet weak regulatory institutions have contributed to persistent rent capture and governance failures (VPTI, 2015; Henstridge & Rweyemamu, 2017).

A second cluster of researchers attributes the difficulty of implementing resource-governance frameworks to political intervention, elite bargaining, and the persistence of patronage-based state structures. In countries such as Kuwait, Saudi Arabia, and the United Arab Emirates, resource governance is deeply embedded in ruling-family control, where political considerations frequently override technocratic regulations (Hertog, 2010; Herb, 2005). Government agencies responsible for oversight often face pressure to overlook violations, protect politically connected firms, or prioritize regime stability over strict enforcement. A 2019 Transparency International report on Iraq documented multiple instances where politically influential individuals intervened in regulatory processes, undermining the enforcement of anti-corruption laws and revenue-management frameworks (Mansour & Salisbury, 2019; Ali, 2021). Scholars such as Robinson, Torvik, and Verdier (2006) contend that these dynamics reflect the political logic of rentierism, where leaders exchange access to rents for political loyalty, weakening compliance and entrenching governance deficits.

Socio-economic factors also constrain the effective enforcement of revenue-governance systems. In many resource-rich states, high poverty levels, lack of financial literacy, and inequalities in political power hinder citizens' ability to hold governments accountable. In Angola and Equatorial Guinea, for instance, structural poverty limits civic oversight, while secrecy in the oil sector enables political elites to divert revenues with minimal scrutiny (Shaxson, 2009; Frynas, 2004). The absence of strong civil-society institutions, limited access to information, and gendered inequalities further weaken enforcement frameworks. As Mehlum, Moene, and Torvik (2006) and Omgba (2015) argue, the capacity of citizens to demand accountability is constrained when economic survival depends on patronage networks, thereby

reinforcing rentier structures. Corruption among public officials including the acceptance of bribes, manipulation of procurement systems, and misappropriation of project funds is widely documented across countries such as Libya, Nigeria, Kazakhstan, and Azerbaijan (Sala-i-Martin & Subramanian, 2003; Eifert, Gelb & Tallroth, 2003).

Similar patterns of institutional weakness can be observed in the governance of natural-resource revenues in Mexico, Brazil, and Peru. For instance, despite the creation of Brazil's National Petroleum Agency (ANP) under the 1997 Petroleum Law, enforcement has been hampered by bureaucratic bottlenecks, political patronage, and weak inter-agency coordination (Cunha & Soares, 2016). In Mexico, the 2013 energy reforms introduced strong regulatory systems, but the country continues to struggle with oil theft, weak enforcement, and widespread corruption within regulatory agencies (Grindle, 2019; Sosa & Monsiváis, 2021). Peru's mining regulatory framework, though comprehensive, suffers from weak enforcement capacity in remote regions, enabling illegal mining, environmental degradation, and violent conflict in resource-rich areas (Paredes, 2020; Damonte, 2016).

Taken together, global experiences reveal that the challenges of rent management in resource-rich states are not merely technical or administrative they are fundamentally political. The presence of weak institutions, pervasive corruption, elite intervention, and socio-economic vulnerabilities creates an environment where regulatory systems exist on paper but fail in practice. These conditions generate a broader pattern of redistributive failure, where resource revenues do not translate into inclusive development. Instead, rents become tools of political survival, fostering inequality, undermining social trust, and fueling economic and political instability.

In this context, Nigeria's struggle with subsidy removal and redistribution aligns with global patterns found in many rentier states. Despite the existence of the Petroleum Industry Act (PIA), revenue-management institutions, and various fiscal-transparency initiatives, persistent institutional weakness mirrors the governance challenges observed in Angola, Venezuela, Iraq, and Algeria. As scholars such as

Suberu (2021), Obi (2024), and Akinola & Lenshie, (2023) note, the Nigerian state is characterized by fragmented authority, competing elite interests, and weak enforcement capacity conditions that allow reform efforts to be undermined by political patronage, opaque fiscal practices, and elite capture. Like other rentier economies, resource windfalls in Nigeria risk reinforcing state fragility, deepening social inequality, and entrenching conflict dynamics unless anchored in strong institutions, transparent governance, and accountable redistribution mechanisms.

Theoretical Framework

Rentier State Theory (RST) originated in the study of Middle Eastern political economies and was first articulated by Mahdavy (1970) in his seminal analysis of Iran's oil-based revenues. It was subsequently refined by Beblawi and Luciani (1987) in *The Rentier State*, and expanded globally by scholars such as Ross (2012). At its core, RST posits that when a state derives a substantial share of its national income from externally generated rents most typically oil it fundamentally alters the relationship between government and citizens. Because the state finances itself primarily through resource rents rather than broad-based domestic taxation, the traditional "taxation representation" bargain is weakened. This fiscal autonomy allows ruling elites to consolidate power through patronage networks, rent distribution, and selective welfare schemes, often reducing incentives for accountable governance and enabling authoritarian resilience or elite capture even in formally democratic contexts. RST further assumes that reliance on volatile resource rents fosters economic distortions, including Dutch disease and an undiversified economy vulnerable to price shocks.

Despite its influence, RST has attracted significant criticism. Scholars such as Herb (2005) and Mehlum, Moene, and Torvik (2006) argue that it can be overly deterministic, attributing governance outcomes solely to rent dependence while neglecting institutional capacity, leadership agency, and international market dynamics. Empirical counterexamples such as Norway or Botswana demonstrate that resource wealth does not inevitably lead to authoritarianism or economic stagnation,

highlighting the role of strong institutions and prudent policy. Furthermore, the theory's original focus on Middle Eastern monarchies necessitates careful adaptation when applied to federal and diverse democratic states like Nigeria, where subnational actors and revenue-sharing arrangements complicate the neat rentier framework.

Application to the Study

Nigeria exemplifies a rentier state in which crude oil exports dominate foreign exchange earnings and government revenues while non-oil taxation remains comparatively weak. The 2023 removal of the long-standing fuel subsidy intended to improve fiscal discipline and stimulate inclusive development triggered a substantial revenue windfall. Yet two years on, as documented by BudgIT (2025) and the World Bank (2025), much of the saved revenue remains shrouded in opacity and has been absorbed by entrenched federal and subnational elites through patronage-based disbursement and politically motivated projects. Consistent with RST's assumptions, the absence of a robust taxation representation link limits citizens' ability to demand accountability, allowing the state to rely on short-term palliatives and distributive promises rather than systemic social investment. Applying Rentier State Theory therefore illuminates the central paradox of this study: a "richer state but poorer citizens," where a macroeconomic reform aimed at inclusive growth reinforces elite capture and perpetuates inequality and weak governance despite unprecedented fiscal receipts.

Two years after Nigeria eliminated its decades-old fuel subsidy, the promised transformation of fiscal savings into broad-based development remains elusive. While the federal treasury recorded unprecedented oil-revenue inflows between mid-2023 and mid-2025, independent audits show that only a fraction of the estimated ₦7.5 trillion subsidy savings has been channelled into verifiable social or infrastructural projects (World Bank, 2025; BudgIT, 2025). Instead, a growing body of research points to the consolidation of rents by political and economic elites,

deepening the long-standing pattern of elite capture in Nigeria's resource economy (Adebayo, 2024; Adeniran & Usman, 2025).

Recent household surveys reveal that less than one-third of targeted cash-transfer recipients had received any palliative support by mid-2025, while inflation-driven poverty continues to rise (NBS, 2025; IMF, 2025). State governments report significant disbursements from the Federation Account, yet civil-society monitors document opaque procurement processes and patronage-based project allocations (Transparency International, 2025; SERAP, 2025). These findings reinforce comparative scholarship that resource windfalls in weakly institutionalised states frequently entrench clientelism rather than finance inclusive development (van der Ploeg, 2020; Ross, 2012).

Political scientists warn that the post-subsidy period illustrates a classic "resource-curse" dynamic: a richer state but poorer citizens, with growing distrust of federal and state institutions (Obi, 2024; Suberu, 2025). Without stronger fiscal transparency, independent oversight, and citizen-driven budgeting, Nigeria's reform risks becoming a textbook case of elite enrichment at the expense of inclusive growth two years after the celebrated subsidy removal.

Methodology

This study employs a qualitative-descriptive research design complemented by secondary quantitative analysis to examine the paradox of a "richer state but poorer citizens" following Nigeria's 2023 fuel subsidy removal. It relies on secondary data drawn from credible sources such as the Federal Accounts Allocation Committee (FAAC), Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), World Bank, International Monetary Fund (IMF), African Development Bank (AfDB), BudgIT, Transparency International, and relevant scholarly works covering the period 2022-2025. Documentary and statistical materials were purposively selected and cross-verified to ensure reliability. Trend analysis was employed to assess variations in fiscal revenue, inflation, and poverty before and after subsidy removal,

while thematic content analysis identified recurring issues such as fiscal windfall, redistribution failure, and elite capture.

Presentation of Data and Analysis

The Post-Subsidy Fiscal Windfall and the Political Economy of FAAC Redistribution in Nigeria

The removal of Nigeria's long-standing fuel subsidy in May 2023 triggered one of the most significant fiscal transformations in the country's contemporary economic history. As with many resource-rich states that have undertaken major reforms to reclaim revenue lost through subsidies, Nigeria's decision to eliminate subsidy payments was expected to create substantial fiscal space for developmental investment, reduce leakages, and strengthen macroeconomic stability. The termination of subsidy payments effectively redirected enormous funds previously consumed by petroleum importation into the Federation Account, dramatically expanding monthly disbursements to the federal, state, and local governments. This development mirrors global patterns in countries such as Indonesia, Iran, and Egypt, where fuel-subsidy reforms yielded short-term revenue surpluses that governments sought to deploy toward economic revitalization (Clements et al., 2013; Pradiptyo et al., 2016; Mohieldin, 2019).

Table 1: The Post-Subsidy Revenue Surge (FAAC Disbursements)

Period	Average Monthly FAAC (₦ Billion)	Annual Equivalent (₦ Trillion)	Key Fiscal Event
2022 (Full Year)	695.0	8.34	Pre-Removal Baseline

Period	Average Monthly FAAC (₦ Billion)	Annual Equivalent (₦ Trillion)	Key Fiscal Event
Jan-Apr 2023	905.1	(Annualized: 10.86)	Partial Subsidy in Place
Jun-Dec 2023	1,528.0	(Annualized: 18.34)	Subsidy Removed (May 2023)
2024 (Full Year)	1,612.5	19.35	Full Year Without Subsidy
Change (2022-2024)	+132%	+ 11.01 Trillion	

Source: Compiled from FAAC Monthly Statements; BudgIT (2024, 2025).

As Table 1 shows, Nigeria's average monthly FAAC disbursements more than doubled between 2022 and 2024, translating into an additional ₦11 trillion in fiscal space across federal, state, and local governments. The fiscal windfall was unprecedented. Available data show that average monthly FAAC disbursements rose sharply from approximately ₦695 billion in 2022 to over ₦1.6 trillion in 2024 an increase of more than 132 percent. This exponential rise reflects both the elimination of subsidy-related obligations and the improved remittance of oil revenues into the Federation Account (BudgIT, 2024; FAAC, 2024). Similar outcomes have been recorded in other petroleum-dependent economies that restructured energy pricing. In Iran, for instance, oil-revenue inflows increased significantly following the 2010 reform, enabling the expansion of cash-transfer programs (Salehi-Isfahani, 2016). In Indonesia, the 2005 and 2014 reforms similarly freed up billions of dollars that were reallocated toward infrastructure investment and poverty reduction programs (Kojima, 2016; Widodo, 2017). Nigeria therefore aligns with a global pattern in which governments that remove subsidies initially experience a fiscal boom that appears to widen opportunities for public investment.

However, as in many countries where sudden resource-related fiscal expansions occur, Nigeria's windfall raises fundamental questions about governance,

accountability, and the political economy of resource redistribution. Critics observing fiscal windfalls in Angola, Algeria, Venezuela, and other rentier states argue that increases in state revenue do not automatically translate into improved welfare for citizens due to entrenched patronage networks and weak institutional oversight (Ross, 2012; Shaxson, 2009). These concerns have become increasingly relevant in Nigeria, where federal and state governments have historically struggled to demonstrate transparency in the management of oil-derived revenues. While the FAAC allocations increased substantially after subsidy removal, the capacity of governments at all levels to translate these gains into tangible socio-economic outcomes remains deeply contested.

Evidence suggests that many Nigerian states have not effectively utilized their expanded revenues. Reports by BudgIT (2025) and CISLAC (2024) reveal that despite receiving the highest FAAC allocations in a decade, most states recorded low capital-expenditure implementation rates, with several allocating less than 45 percent of their budgets to sectors such as education, health, and rural infrastructure. Similar patterns have been documented in resource-rich environments worldwide. In Venezuela, an oil-revenue surge during the mid-2000s led to expansive government spending, but the absence of institutional checks allowed political elites to monopolize resources, resulting in poor investment quality and long-term fiscal instability (Corrales & Penfold, 2011). Likewise, Angola's massive oil windfalls in the early 2000s were largely absorbed through opaque offshore accounts and politically connected procurement networks rather than developmental investments (Hodges, 2004; Soares de Oliveira, 2007). These comparative cases illustrate that fiscal expansions without corresponding institutional strengthening frequently reinforce rentier political structures.

In Nigeria, the sharp increase in FAAC allocations has similarly exposed underlying weaknesses in the federal structure and public-financial management systems. FAAC's revenue-sharing formula long criticized for incentivizing fiscal dependence rather than revenue generation means that most states rely almost exclusively on monthly allocations rather than internally generated revenue. Following subsidy

removal, this dependence deepened, with states expanding recurrent expenditure such as salaries and political appointments rather than developmental spending. This mirrors the experience of Iraq and Libya, where oil-funded fiscal surpluses intensified rent distribution and political patronage, ultimately weakening governance and reducing incentives for economic diversification (Herb, 2005; Mahdavy, 1970; El-Katiri & Fattouh, 2017).

Compounding these challenges is the lack of transparency surrounding the management of Nigeria's subsidy savings. Civil-society organizations have consistently highlighted the absence of a publicly available ledger detailing the ₦7.5 trillion reportedly saved within two years of subsidy removal, raising concerns about off-budget expenditures and politically motivated financial flows (SERAP, 2025; Transparency International, 2025). Similar transparency gaps have undermined the developmental impact of fiscal surpluses in Ghana, Cameroon, and Congo-Brazzaville, where oil-sector windfalls have historically been managed through discretionary presidential spending and unaccounted-for security expenditures (Gary & Karl, 2003; Omgba, 2015). In all these contexts, the opacity of state finances reduces citizens' ability to monitor public spending and reinforces elite capture.

Furthermore, the uneven pattern of public investment across Nigeria's subnational units reflects broader governance challenges inherent in rentier systems. While a handful of states reported modest improvements in capital spending following increased FAAC allocations, the majority continued to prioritize consumptive expenditures, mirroring patterns in other rent-dependent economies where fiscal windfalls are treated as political resources rather than development funds (Eifert, Gelb & Tallroth, 2003). The result is a widening gap between fiscal abundance and socio-economic outcomes a paradox also noted in countries like Equatorial Guinea, where oil wealth coexists with declining human development indicators (Sala-i-Martin & Subramanian, 2003).

Inflationary Shocks, Currency Depreciation, and the Socioeconomic Consequences of Post-Subsidy Price Liberalization in Nigeria

The removal of fuel subsidy in May 2023 produced an immediate and profound macroeconomic shock that reverberated across Nigeria's economic and social landscape. As in many countries that have pursued abrupt price liberalization, the elimination of consumption subsidies triggered powerful inflationary pressures, sharp currency depreciation, and widespread household welfare decline. These dynamics reflect global patterns observed in reforming states such as Egypt, Indonesia, Iran, Ghana, and Venezuela, where subsidy withdrawal typically leads to rapid increases in transport costs, food prices, production inputs, and the overall cost of living (Clements et al., 2013; IMF, 2023; Sdrulevich et al., 2014). In Nigeria's case, the sudden tripling of petrol pump prices served as the primary transmission channel for inflation, amplifying structural vulnerabilities within the domestic economy and exposing the fragile resilience of households already burdened by poverty and unemployment.

Like many developing economies where fuel functions as a critical production and transportation input, Nigeria experienced a cascading inflationary spiral after subsidy removal. Data from the National Bureau of Statistics (NBS, 2024) show that headline inflation surged from 22.4 percent in May 2023 to over 33.7 percent by early 2024, while food inflation surpassed 40 percent one of the highest globally. The inflationary effects of subsidy removal were further compounded by the unification of Nigeria's multiple exchange rates, which led to a steep depreciation of the naira and increased the domestic cost of imported goods, including food, machinery, pharmaceuticals, and petroleum products. Similar inflation currency interactions have been observed in countries such as Ghana during the 2015 price-adjustment reforms, and Egypt following its 2016 subsidy-reduction program under the Extended Fund Facility arrangement, where exchange-rate devaluation intensified the inflationary impact of subsidy removal (Abdel-Khalek, 2014; Mohieldin, 2019).

The consequences of this dual shock fuel-price deregulation and exchange-rate depreciation were particularly severe because Nigeria's economy is heavily import-dependent. As witnessed in Sudan (2013), Morocco (2014), and Indonesia (2005,

2014), subsidy reforms in import-dependent economies often fuel cost-push inflation due to the high pass-through effect of fuel prices on production and distribution networks (Beaton et al., 2013; Pradiptyo et al., 2016). In Nigeria, transportation costs increased by more than 200 percent within months of subsidy removal (BudgIT, 2024). This dramatically raised the prices of agricultural goods transported from rural to urban markets, exacerbating food insecurity at a time when domestic agricultural production was already weakened by insecurity, climate-related disruptions, and inadequate infrastructure.

Households experienced severe welfare losses similar to patterns documented in Iran (2010 reforms), Yemen (2014), and Ecuador (2019), where subsidy reforms disproportionately harmed low-income populations. Nigeria's multidimensional poverty index remained above 63 percent between 2022 and 2024, with an estimated 14 million additional Nigerians falling below the poverty line within a year of subsidy removal (World Bank, 2025; NBS, 2025). Empirical studies across countries reveal that energy-price shocks tend to reduce household consumption of essential goods such as food, healthcare, and education, while increasing reliance on informal borrowing and child labor (Komives et al., 2005; Salehi-Isfahani, 2016). Nigerian households exhibited these patterns, as surveys conducted by civil-society organizations in 2024 reported rising hunger levels, withdrawal of children especially girls from school, and reduced access to medical care, mirroring socio-economic disruptions observed in post-reform contexts in Egypt, Pakistan, and Mozambique.

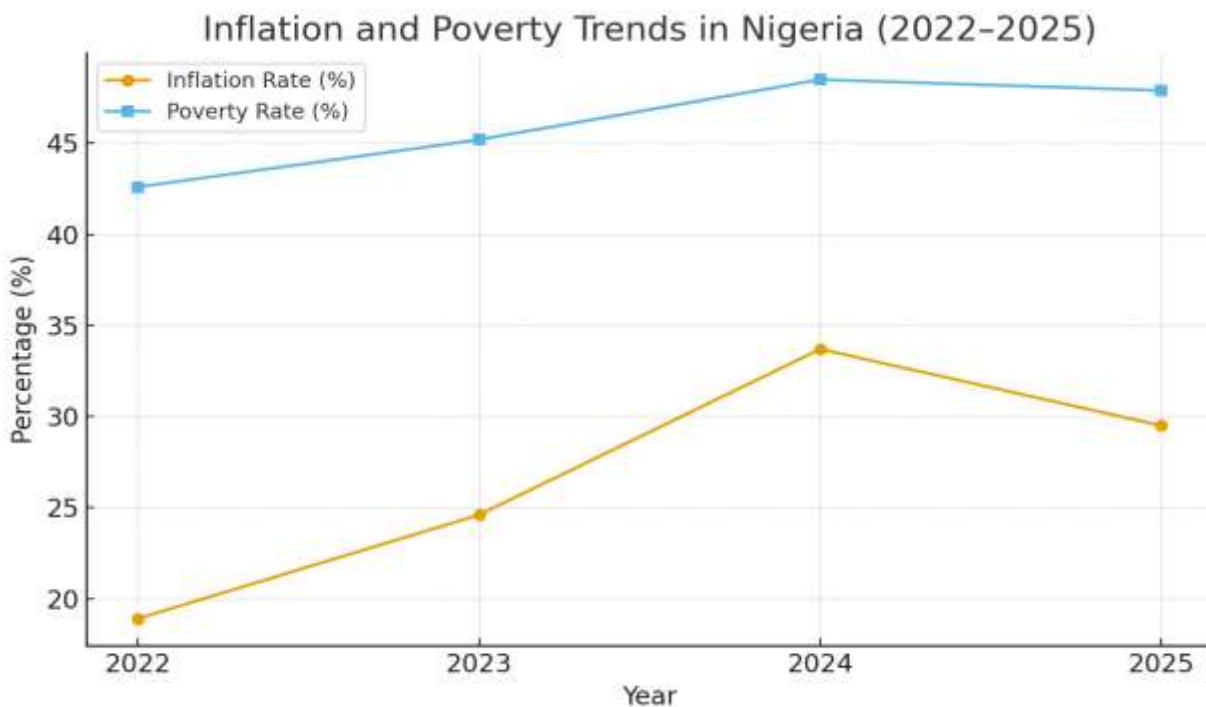
Table 2: Inflation and Poverty Trends in Nigeria (2009–2024)

Year	Inflation Rate (%)	Poverty Rate (%)
2009	12.9	42.2
2012	12.1	43.0
2015	9.0	46.0
2018	11.4	40.1

Year	Inflation Rate (%)	Poverty Rate (%)
2019	11.98	40.1
2022	18.6	63.0 (MPI)
2023	24.66	63.0 (MPI)
2024	29.9	63.0 (MPI)

Source: National Bureau of Statistics (NBS). *Consumer Price Index and Inflation Report, 2023*. Abuja: NBS, 2023.

Figure 1. Inflation and Poverty trends in Nigeria 2022-2025



Source: National Bureau of Statistics (NBS). *Consumer Price Index and Inflation Report, 2023*. Abuja: NBS, 2023.

The trends of inflation and poverty in Nigeria between 2009 and 2024 illustrate a striking paradox where the state appears richer on paper, yet citizens continue to experience persistent deprivation. As shown in Table 2, the inflation rate increased from 12.9% in 2009 to 29.9% in 2024, while the poverty rate remained stubbornly high, moving from 42.2% in 2009 to 63% (multidimensional poverty index) by 2022-2024 (NBS, 2019; NBS, 2023).

The inflationary environment also had severe implications for Nigeria's labor market and real incomes. The National Labour Congress (NLC, 2024) estimated that the real value of Nigeria's minimum wage fell by more than 55 percent between 2023 and 2025. This mirrors the experience of Venezuela during its 2014-2017 subsidy reforms, where hyperinflation eroded real wages and pushed millions into poverty (Monaldi, 2018). Likewise, in Argentina and Brazil, sharp inflation following energy-price reforms led to rising informality, unemployment, and wage stagnation (Gomez & Muto, 2019). In Nigeria, informal-sector workers who constitute more than 80 percent of the labor force were hardest hit, as rising operational costs reduced profit margins for petty traders, transporters, small-scale farmers, and service providers.

The inflation depreciation dynamic also aggravated structural gender inequalities. International studies show that inflationary shocks disproportionately affect women due to their roles in household food provisioning, low-wage employment, and unpaid care work (UN Women, 2023; Purohit & Varghese, 2020). Nigerian women, especially those in small-scale trade and subsistence agriculture, recorded significant income losses as operating costs rose and consumer demand declined. This mirrors gendered impacts documented in Ghana's 2015 reforms, Iran's 2010 subsidy restructuring, and Egypt's 2014 fuel-price adjustments (El-Katiri & Fattouh, 2017; Ayee et al., 2011).

Another major implication of the post-subsidy shock is the heightened risk of social unrest. Across the world, sudden fuel-price hikes often trigger protests, as seen in Nigeria (2012), Indonesia (1998 and 2005), Iran (2019), Ecuador (2019), and Kazakhstan (2022). Nigeria experienced widespread labor strikes, road blockades, and demonstrations following the 2023 reform, reflecting a deep erosion of public

trust in government promises of improved welfare. Scholars assert that subsidy reforms become politically destabilizing in contexts where governments lack credibility, social-protection systems are weak, and citizens perceive reforms as benefiting elites rather than the poor (Weyland, 2019; Victor, 2009).

Nigeria's inflationary and macroeconomic crisis following subsidy removal is consistent with global experiences in which abrupt price liberalization generates severe cost-of-living pressures, currency instability, and high social vulnerability. The inflation-poverty nexus in Nigeria reveals a paradox similar to other rentier economies: while the state becomes fiscally richer due to reduced subsidy expenditure, citizens become materially poorer due to rising living costs, stagnant incomes, and weakened social protection. Without targeted safety nets, robust macroeconomic management, and transparent redistribution mechanisms, inflationary shocks linked to subsidy reforms disproportionately harm vulnerable populations, deepen socio-economic inequalities, and undermine the developmental intent of market-based policy measures.

Discussion of Findings

The findings from the data above revealed that the removal of fuel subsidy and subsequent price liberalization in Nigeria produced deep and multidimensional socioeconomic shocks that mirror global patterns observed in countries undergoing similar reforms. The evidence demonstrates that fuel subsidy removal triggered immediate inflationary spikes, heightened transport and food prices, and weakened household purchasing power. Consistent with international experiences in Ghana, Egypt, and Indonesia, the Nigerian case reinforces the argument that abrupt subsidy reforms when implemented without adequate social protection exert disproportionate burdens on vulnerable households, particularly informal-sector workers, women, and rural populations. Moreover, the findings show that the theoretical expectations of welfare gains from subsidy savings did not translate into tangible benefits for citizens in the short term. Instead, widespread economic hardship, rising poverty levels, currency depreciation, and erosion of real wages

emerged as dominant consequences, indicating a mismatch between policy design and societal realities.

The findings further reveal that Nigeria's macroeconomic instability following subsidy removal—particularly inflation, naira depreciation, and rising multidimensional poverty—reflects deeper structural weaknesses in governance, economic diversification, and social safety-net capacity. The Nigerian state's limited ability to mitigate post-reform shocks echoes patterns documented in other developing economies where fiscal reforms preceded institutional readiness. Similar to the cases of Zimbabwe's mining reforms and Mozambique's weak enforcement capacity discussed earlier in this study, Nigeria's experience demonstrates how weak state institutions, poor regulatory efficiency, and absence of robust redistributive mechanisms can undermine the expected benefits of policy changes. Ultimately, the findings indicate that while subsidy removal may have been economically rational from a fiscal perspective, its implementation without strong compensatory measures contributed to social tension, declining living standards, and public disillusionment—thereby raising critical questions about policy sequencing, state capacity, and long-term development planning.

Conclusion

This study concludes that although the removal of fuel subsidy in Nigeria was intended to enhance fiscal sustainability and redirect public resources toward development priorities, its immediate socioeconomic consequences have been overwhelmingly adverse. The post-reform period has been characterized by extreme inflation, currency depreciation, rising transport and food costs, weakened labor earnings, and deepened poverty effects consistent with global research on abrupt subsidy liberalization in developing countries. The Nigerian case ultimately demonstrates that economic reforms implemented within contexts of institutional fragility, weak social protection, and widespread public distrust are likely to generate severe welfare losses in the short term and may undermine the legitimacy

of the reform process. Arising from the findings above, the following recommendations were made:

- i. **Establish a Comprehensive Social Protection and Targeted Cash-Transfer Framework:** The government should develop and institutionalize a national social protection system that cushions low-income households, informal-sector workers, and vulnerable groups from inflationary shocks. Targeted cash transfers, transportation vouchers, and food-support programs must be implemented immediately and transparently to mitigate the burden of fuel-price liberalization. This aligns with international best practices in countries like Iran and Indonesia, where carefully structured welfare programs significantly reduced the negative impacts of subsidy reforms.
- ii. **Pursue Macroeconomic Stabilization and Strengthen Regulatory Institutions:** To prevent further depreciation and inflation, Nigeria must prioritize exchange-rate stability, anti-corruption reforms, and improved regulatory efficiency in the energy and monetary sectors. Strengthening institutional capacity especially within the Central Bank, Ministry of Finance, and regulatory agencies will enhance policy credibility and reduce the distortive effects of speculative markets and weak governance. A stable macroeconomic environment will, in turn, help ensure that the long-term benefits of subsidy removal translate into sustainable development outcomes.

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