



Economic Impact Of Fuel Subsidy Removal On Small And Medium Enterprises In Akwa Ibom State

Abstract

SMEs are central to the Nigerian economy, contributing nearly half of national GDP and over 80% of employment, yet they remain highly vulnerable to external policy shocks. This study examined the economic impact of fuel subsidy removal on small and medium enterprises (SMEs) in Akwa Ibom State, Nigeria, with particular emphasis on operational costs, profitability, and coping strategies. Following the removal of fuel subsidies in 2023, petrol prices rose by over 200%, creating inflationary pressures and escalating the costs of transportation, production, and energy. This study adopted a mixed-methods design, combining a survey of 200 SMEs across agriculture, retail, hospitality, and manufacturing with semi-structured interviews involving 20 SME owners and 10 government officials. Descriptive statistical analysis revealed an average 122% increase in operational costs, with manufacturing firms recording the highest surge (150%). Profitability declined by an average of 64%, with the hospitality sector worst affected (75% reduction). Thematic analysis of qualitative data highlighted coping mechanisms such as price increases, staff reductions, revenue diversification, and limited adoption of alternative energy sources. However, these strategies were often insufficient, as declining consumer purchasing power further weakened demand. While government interventions, including renewable energy subsidies and support funds, were introduced, access remained limited, leaving most SMEs without adequate relief. The findings aligned with Keynesian economic theory, which associates contractionary fiscal policies with reduced aggregate demand, and Porter's theory of competitive advantage, which underscores the need for adaptive strategies. The study recommended targeted SME support, expedited disbursement of funds, low-interest financing for renewable energy, and phased subsidy reforms to minimize economic disruptions.

Keywords: Fuel subsidy, Economic Impact, Profitability, SME support, Renewable Energy, coping strategies, Akwa Ibom State.

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Introduction

Small and Medium Enterprises (SMEs) are widely acknowledged as the backbone of economic development, particularly in emerging economies. In Nigeria, SMEs account for approximately 48% of national GDP and over 84% of employment (NBS, 2023). In Akwa Ibom State, SMEs dominate the

local economy, representing more than 98% of registered businesses across agriculture, retail trade, hospitality, and manufacturing (Akwa Ibom Ministry of Commerce, 2023). Beyond their contribution to income and job creation, SMEs play a vital role in poverty reduction, innovation, and community development. However, they remain

highly vulnerable to economic shocks, especially policy changes that directly affect input costs.

One such shock was the removal of fuel subsidies in June 2023, implemented by the Nigerian government as part of fiscal reforms to reduce the budget deficit and free up resources for infrastructure and social investments. While the policy had macroeconomic justifications, its immediate consequences were severe. Fuel prices rose by over 200% within weeks, pushing petrol from ₦195 to over ₦600 per litre (NBS, 2023). For SMEs in Akwa Ibom State, which rely heavily on affordable fuel for transportation, production, and energy generation, this translated into soaring operational costs and declining profitability.

The ripple effects of subsidy removal have been far-reaching. Transportation costs for agricultural SMEs increased by 113%, making it harder to move goods from rural farms to urban markets (Akwa Ibom SME Development Agency, 2023). Hospitality and manufacturing firms, heavily dependent on diesel generators due to unreliable electricity, reported cost increases of over 130% and steep declines in profit margins. At the same time, inflationary pressures eroded consumer purchasing power, reducing demand for SME products and services (World Bank, 2023). These dynamics highlight how a macroeconomic policy designed for national fiscal stability can create disproportionate challenges for SMEs at the subnational level.

Despite these challenges, policy interventions have been limited and

poorly targeted. While the federal government announced a ₦500 billion SME support fund and the Akwa Ibom State government introduced renewable energy subsidies, only a small fraction of businesses have accessed these programs due to bureaucratic delays and limited coverage. This situation raises important questions about the resilience of SMEs, the effectiveness of coping strategies, and the adequacy of government interventions in cushioning the sector against policy-induced shocks.

This study therefore investigates the economic impact of fuel subsidy removal on SMEs in Akwa Ibom State, focusing on operational costs, profitability, sector-specific vulnerabilities, and adaptive responses. By employing a mixed-methods approach, the study provides empirical evidence to inform policy reforms and strengthen SME resilience in the face of fiscal transitions.

Statement of the Problem

The removal of fuel subsidies in Nigeria in 2023, while intended to reduce fiscal burdens and reallocate resources to critical sectors, has produced severe unintended consequences for small and medium enterprises (SMEs). These enterprises, which constitute over 98% of registered businesses in Akwa Ibom State and contribute significantly to local employment and income generation, are disproportionately exposed to energy price shocks due to their dependence on fuel for transportation, production, and daily operations. Following subsidy removal, petrol prices increased by more than 200%, translating into an average 122%

rise in SME operational costs (NBS, 2023). Profit margins across key sectors have contracted sharply, with manufacturing and hospitality enterprises reporting reductions of over 70%.

Despite these realities, policy responses have been inadequate. Programs such as the Alternative Energy Subsidy Scheme have reached only a fraction of SMEs, and disbursements from the ₦500 billion federal SME support fund have been slow and unevenly distributed. Without timely and targeted support, many SMEs risk downsizing or closure, exacerbating unemployment, poverty, and social instability in Akwa Ibom State.

While national studies have examined the broad macroeconomic implications of subsidy removal, there remains a critical knowledge gap regarding its microeconomic impacts on SMEs at the subnational level, particularly in Akwa Ibom State. Furthermore, existing literature has not sufficiently addressed sector-specific vulnerabilities or the effectiveness of coping mechanisms adopted by SMEs in this context. Addressing this gap is crucial for designing evidence-based policies that can cushion SMEs against the adverse effects of subsidy reforms while enabling them to remain competitive and sustainable.

Objectives of the study

The main objective was to examine the economic impact of fuel subsidy removal on small and medium enterprises (SMEs) in Akwa Ibom State.

Meanwhile the specific objectives include to:

- i. assess the effect of fuel subsidy removal on the operational costs of SMEs in Akwa Ibom State.
- ii evaluate how fuel subsidy removal has influenced the profitability and sustainability of SMEs across key sectors in the state.
- iii analyze the coping strategies adopted by SMEs in response to fuel subsidy removal and determine their effectiveness.
- v. examine the adequacy of government interventions and policy responses in supporting SMEs affected by fuel subsidy removal in Akwa Ibom State.

Research Questions

The following research questions were formulated to guide the study:

- i. What is the impact of fuel subsidy removal on the operational costs of SMEs in Akwa Ibom State?
- ii. How has fuel subsidy removal affected the profitability and sustainability of SMEs across key sectors in Akwa Ibom State?
- iii. What coping strategies have SMEs adopted in response to fuel subsidy removal, and how effective are these strategies?
- iv. How adequate are the government interventions and policy responses in mitigating the negative effects

of fuel subsidy removal on SMEs in Akwa Ibom State?

Literature Review

Fuel Subsidy Removal in Nigeria

Fuel subsidies have long been a cornerstone of Nigeria's economic policy, aimed at stabilizing domestic prices, curbing inflation, and shielding households and businesses from volatile global oil markets. In 2022, Nigeria spent approximately ₦4.3 trillion on subsidies, equivalent to 15% of its annual budget (World Bank, 2023). These subsidies kept petrol prices at ₦195 per litre, far below global market averages of about ₦680 per litre (NBS, 2023). However, the subsidy system was criticized for inefficiency, corruption, and inequitable distribution of benefits. Studies show that wealthy households captured 45% of subsidy benefits, while the poorest 40% received just 10% (World Bank, 2023). Furthermore, the system encouraged smuggling, with nearly 40% of subsidized fuel diverted to neighboring countries (IMF, 2022). Against this backdrop, the federal government removed fuel subsidies in June 2023, citing fiscal sustainability and economic reform.

SMEs and Economic Vulnerability in Nigeria

SMEs are critical drivers of Nigeria's economy, contributing nearly half of GDP and accounting for more than 80% of employment (NBS, 2023). In Akwa Ibom State, SMEs dominate the local economy, with agriculture (35%), retail trade (28%), hospitality (20%), and manufacturing (15%) forming the largest sectors (Akwa Ibom Ministry of Commerce, 2023). However, SMEs are

particularly vulnerable to energy shocks because they rely heavily on petrol and diesel to power operations amid unreliable electricity supply (Ogunleye, 2021). Following subsidy removal, SMEs reported dramatic increases in fuel-related expenses, with bakery owners in Akwa Ibom seeing monthly fuel costs rise from ₦110,000 to ₦250,000 (PwC, 2023). Many SMEs have responded with price increases, staff reductions, and reduced production shifts, but these measures often come at the expense of long-term sustainability (Taiwo et al., 2024).

International Experiences with Subsidy Removal

Comparative evidence suggests that the effects of subsidy removal vary depending on the policy design and availability of mitigating measures. Ghana's phased removal in 2015, accompanied by targeted SME grants and tax incentives, reduced business closures by 40% (IMF, 2022). Conversely, Sudan's abrupt removal in 2018 triggered inflation spikes of over 200% and widespread SME bankruptcies (World Bank, 2021). In Indonesia, a 2014 reform was cushioned by cash transfers and renewable energy incentives, helping SMEs adapt while reducing poverty rates by 1.5% (Asian Development Bank, 2020). These cases illustrate the importance of complementary policies that support SMEs during energy transitions.

Coping Strategies and Policy Responses

In Nigeria, SMEs have adopted diverse coping strategies, including raising product prices (74%), reducing staff

(35%), and turning to informal financing such as cooperative loans at high interest rates (CBN, 2023). However, adoption of alternative energy remains limited; only 8% of SMEs in Akwa Ibom have installed solar systems due to high upfront costs (Ogunleye, 2021). Government interventions have been criticized for limited reach and delayed implementation. For instance, the ₦500 billion SME support fund released in 2023 disbursed only ₦75 billion by year-end, with few SMEs in Akwa Ibom benefiting (CBN, 2023). Similarly, the state-level Alternative Energy Subsidy Scheme provided solar panels to just 200 SMEs, out of nearly 12,000 registered businesses.

Theoretical Perspectives

Keynesian economic theory argues that contractionary fiscal policies, such as subsidy removal, reduce aggregate demand by raising production costs and eroding household purchasing power (Keynes, 1936). This perspective is reflected in Akwa Ibom, where 62% of households reduced non-essential purchases post-subsidy (NBS, 2023). Porter's theory of competitive advantage (1985) highlights the need for SMEs to adapt through innovation, cost leadership, or differentiation. In this context, SMEs that diversify energy sources or adopt renewable energy demonstrate greater resilience and competitiveness despite fuel price shocks (Okafor et al., 2021).

Research Gap

Existing literature provides valuable insights into the macroeconomic implications of fuel subsidy removal in Nigeria and comparative lessons from

other developing economies. However, several gaps remain. First, there is limited empirical evidence on the microeconomic effects at the subnational level, particularly in Akwa Ibom State, despite its significant SME base. Second, while studies have documented cost increases and profit declines nationally, there is little focus on sector-specific vulnerabilities across agriculture, retail, hospitality, and manufacturing in Akwa Ibom. Third, the literature has yet to adequately assess the effectiveness of coping strategies and government interventions within the state context. This study addresses these gaps by providing state-level, sector-specific evidence on how SMEs in Akwa Ibom are affected by subsidy removal, how they are adapting, and what policy measures are most needed to support them.

Theoretical Framework

This study employs the theoretical frameworks of Michael Porter's Theory of Competitive Advantage and Keynesian Economic Theory to analyse how Small and Medium Enterprises (SMEs) in Akwa Ibom State adapt to the economic shock of fuel subsidy removal and its broader macroeconomic implications. The frameworks provide complementary insights into SME resilience and policy-driven economic dynamics. Below is a brief exposition of both frameworks:

i Michael Porter's Theory of Competitive Advantage

Michael Porter's Theory of Competitive Advantage holds that firms achieve sustained success by "strategically positioning themselves

through differentiation, cost leadership, or focus strategies" (Porter, 1985, p. 12). For SMEs facing external shocks like fuel subsidy removal, this theory underscores the importance of innovation and operational doggedness to maintain competitiveness. Porter's Five Forces Model (1985) identifies industry rivalry, supplier power, buyer power, the threat of substitutes, and the threat of new entrants as determinants of competitive intensity. In the context of Akwa Ibom SMEs, fuel subsidy removal reduces supplier power (e.g., fuel distributors) and increases operational costs, thereby heightening industry rivalry. To counter this, SMEs must adopt differentiation strategies, such as transitioning to renewable energy sources like solar power, to reduce dependency on costly diesel (Okafor *et al.*, 2021).

Investing in energy-efficient baking technologies can significantly reduce operational costs for bakers. For instance, ovens account for up to 65% of a bakery's energy expenses; therefore, optimizing their use and maintenance can lead to substantial savings (LESAFFRE Nigeria, 2023). This approach aligns with Porter's cost leadership strategy, which emphasizes achieving competitive advantage through operational efficiency and cost reduction (Porter, 1985). Research indicates that the removal of fuel subsidies in Nigeria has adversely affected SMEs, leading to increased operational costs and reduced profitability (Ilodigwe, 2023). However, SMEs that have diversified their energy sources or formed strategic partnerships have demonstrated greater resilience.

For These strategies reflect Porter's assertion that "competitive advantage grows fundamentally from the value a firm creates for its buyers" (Porter, 1985, p. 38).

ii. *Keynesian Economic Theory*

John Maynard Keynes' novel work, *The General Theory of Employment, Interest, and Money* (1936), captures the role of aggregate demand in driving economic activity and the need for government intervention during market failures. Fuel subsidy removal is a fiscal contractionary policy that reduces disposable income for households and businesses, leading to diminished demand for goods and services, a reality consistent with Keynesian predictions. In Akwa Ibom State, the multiplier effect of reduced consumer spending is evident. Post-subsidy data show that 62% of households cut non-essential purchases, directly impacting SMEs in the retail and hospitality sectors (NBS, 2023). Keynes argued that such demand-side contractions could trigger a vicious cycle of unemployment and reduced production (Keynes, 1936), a scenario that played out in Akwa Ibom, where 34% of SMEs laid off staff to mitigate rising costs (PwC Nigeria, 2023).

Keynesian theory also advocates for countercyclical fiscal policies to stimulate demand. For example, Ghana's phased subsidy removal in 2015 paired SME grants with infrastructure investments, cushioning demand shocks and reducing business closures by 40% (IMF, 2022). On the other hand, Nigeria's delayed implementation of a ₦500 billion SME

support fund with only 12% accessibility in Akwa Ibom shows a policy misalignment with Keynesian principles (CBN, 2023).

Methodology/Results

Population

As at 2021, Akwa Ibom State had approximately 11,990 registered Small and Medium Scale Enterprises (SMEs) (Udoinyang, 2024). This represents a significant increase from the 1,093 SMEs reported in the 2013 National MSME Survey conducted by the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) and the National Bureau of Statistics (NBS) (SMEDAN & NBS, 2013). These SMEs are distributed across key sectors as follows:

- Agriculture: 35% (4,200 SMEs)
- Retail Trade: 28% (3,360 SMEs)
- Hospitality: 20% (2,400 SMEs)
- Manufacturing: 15% (1,800 SMEs)

SMEs are defined as businesses with 5–199 employees and annual revenues of ₦5 million to ₦500 million (National Bureau of Statistics, 2023). The population of the study also includes SME owners, managers, and employees, reflecting the diverse nature of the SME sector.

Sample Size and Sampling Technique

A sample of 200 SMEs was selected using stratified random sampling to ensure representation across sectors and geographical locations (e.g., urban vs. rural areas). The strata were defined based on sectoral distribution, with the following breakdown:

- Agriculture: 70 SMEs (35%)
- Retail Trade: 56 SMEs (28%)
- Hospitality: 40 SMEs (20%)
- Manufacturing: 34 SMEs (15%)

This sampling strategy aligns with the approach used by the National Bureau of Statistics (2023) in its SME performance surveys. Additionally, a total of 50 SMEs will be selected for further analysis, ensuring adequate representation across key industries such as retail, manufacturing, and services. The stratification process enhances the generalizability of the findings by capturing sector-specific variations in the impact of fuel subsidy removal.

Data Collection

A structured survey questionnaire was administered to collect quantitative data on:

- Operational Costs: Changes in transportation, energy, and raw material expenses post-subsidy removal.
- Profitability: Trends in revenue, profit margins, and business sustainability.
- Coping Strategies: Adoption of alternative energy sources, price adjustments, and staff reductions.

The questionnaire consisted of 20 closed-ended questions rated on a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree). Surveys were distributed electronically and in person to ensure accessibility. The survey instrument was adapted from the PwC Nigeria (2023) SME Impact Assessment

Survey to ensure comparability with national data. The quantitative component aligns with previous studies that have examined the economic consequences of subsidy removal on small-scale industries in Nigeria (Titus *et al.*, 2024).

Qualitative Data Collection

Semi-structured interviews were conducted with 20 SME owners and 10 government officials to gain deeper insights into:

- **Challenges:** Specific difficulties faced by SMEs due to fuel subsidy removal.
- **Policy Recommendations:** Suggestions for government interventions to support SMEs.

Interview questions were open-ended, allowing participants to elaborate on their experiences. Each interview lasted approximately 30–45 minutes and was recorded (with consent) for accurate transcription. The inclusion of

government officials in the interview process provides a policy-oriented perspective, shedding light on regulatory responses and potential relief measures for affected enterprises (Taiwo *et al.*, 2024).

Data Analysis

This section presents the data analysis for the study on the Economic Impact of Fuel Subsidy Removal on SMEs in Akwa Ibom State. The analysis is divided into quantitative and qualitative components, with tables and descriptive statistics used to illustrate key findings.

1. Quantitative Data Analysis

Quantitative data were collected through a structured survey of 200 SMEs across four key sectors: agriculture, retail trade, hospitality, and manufacturing. The data were analysed using descriptive statistics (mean, standard deviation) to summarize trends and patterns.

1.1. Impact on Operational Costs

The table below shows the mean increase in operational costs across sectors following fuel subsidy removal.

Sector	Transportation Costs (₦)	Energy Costs (₦)	Raw Material Costs (₦)	Overall Increase (%)
Agriculture	120,000	85,000	50,000	113%
Retail Trade	80,000	60,000	30,000	95%
Hospitality	150,000	120,000	40,000	130%
Manufacturing	200,000	150,000	100,000	150%
Overall Mean	137,500	103,750	55,000	122%

Interpretation:

- Manufacturing SMEs experienced the highest increase in operational costs (150%), driven by rising transportation and energy expenses.
- Agriculture and hospitality sectors also saw significant cost increases (113% and 130%, respectively), reflecting their reliance on fuel for logistics and power generation.

1.2. Impact on Profitability

The table below summarizes the mean reduction in profit margins across sectors.

Sector	Pre-Subsidy Profit Margin (%)	Post-Subsidy Profit Margin (%)	Reduction (%)
Agriculture	25%	10%	60%
Retail Trade	30%	15%	50%
Hospitality	20%	5%	75%
Manufacturing	35%	10%	71%
Overall Mean	27.5%	10%	64%

Interpretation:

- The hospitality sector experienced the largest profit margin reduction (75%), followed by manufacturing (71%) and agriculture (60%).
- On average, SMEs across all sectors saw a 64% decline in profitability, threatening their sustainability.

1.3. Coping Strategies

The table below highlights the coping strategies adopted by SMEs to mitigate the impact of fuel subsidy removal.

Coping Strategy	Agriculture (%)	Retail Trade (%)	Hospitality (%)	Manufacturing (%)	Overall Mean (%)
Increased product prices	70%	80%	90%	60%	75%
Reduced staff	40%	30%	50%	20%	35%

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Adopted alternative energy sources	10%	5%	15%	25%	14%
Diversified revenue streams	20%	15%	10%	30%	19%

Interpretation:

1. Price increases were the most common coping strategy (75%), particularly in the hospitality sector (90%).
2. Alternative energy adoption was limited (14%), with manufacturing SMEs showing the highest uptake (25%).

Qualitative Data Analysis

Qualitative data were collected through semi-structured interviews with 20 SME owners and 10 government officials. Thematic analysis was used to identify recurring themes and insights.

2.1. Key Themes from SME Owners**Financial Constraints:**

The cost of diesel has tripled, and we can no longer afford to run our generators for more than 4 hours a day. (Retail SME Owner, Uyo). Transporting goods from rural farms to urban markets now costs twice as much, eating into our profits. (Agricultural SME Owner, Ikot Ekpene). The government promised palliatives, but we haven't received any support. It's all talk and no action. (Hospitality SME Owner, Eket). There is no clear plan to help SMEs transition to renewable

energy. We're left to fend for ourselves. (Manufacturing SME Owner, Abak).

Adaptive Measures:

We have started using solar panels to power our bakery, but the initial cost was a huge burden. (Retail SME Owner, Uyo). We have reduced staff and cut down on production shifts to stay afloat." (Manufacturing SME Owner, Abak).

The quantitative and qualitative findings are consistent, showing the severe impact of fuel subsidy removal on SMEs in Akwa Ibom State. Key points to note include:

- Operational costs have risen significantly, with transportation and energy expenses being the primary drivers.
- Profit margins have declined by an average of 64%, threatening the sustainability of many SMEs.
- Coping strategies such as price increases and staff reductions are widespread, but alternative energy adoption remains limited due to high upfront costs.
- Government interventions have been insufficient, with delays in disbursing funds and a lack of clear policy direction.

3. Tables Summarizing Key Findings

Table 1: Sectoral Impact of Fuel Subsidy Removal

Sector	Cost Increase (%)	Profit Reduction (%)	Margin	Common Strategies	Coping
Agriculture	113%	60%		Price increases, staff cuts	
Retail Trade	95%	50%		Price increases	
Hospitality	130%	75%		Price increases, energy shift	
Manufacturing	150%	71%		Diversification, energy shift	

Table 2: Coping Strategies Across Sectors

Strategy	Agriculture (%)	Retail Trade (%)	Hospitality (%)	Manufacturing (%)
Price increases	70%	80%	90%	60%
Staff reductions	40%	30%	50%	20%
Alternative energy adoption	10%	5%	15%	25%

Findings and Discussions

The findings of this study reveal significant economic consequences for small and medium enterprises (SMEs) in Akwa Ibom State following the removal of fuel subsidies. The quantitative analysis of survey responses shows a notable increase in operational costs across various sectors, with SMEs in manufacturing and transportation experiencing the most substantial impact. Rising fuel prices have led to higher expenditures on logistics, production, and energy consumption, affecting profit margins

and forcing businesses to adjust their pricing strategies to sustain operations. These findings are consistent with previous studies indicating that subsidy removal puts financial strain on small-scale industries, often resulting in reduced competitiveness and economic contraction (Titus *et al.*, 2024).

The study found that fuel subsidy removal led to a 122% average increase in operational costs across all sectors, with manufacturing SMEs experiencing the highest rise (150%). This is consistent with global studies on subsidy reforms, which show the

disproportionate impact on energy-intensive industries (World Bank, 2023). In Akwa Ibom State, the reliance on diesel generators for power and petrol-powered vehicles for logistics increased the cost burden. For example, transportation costs for agricultural SMEs increased by 113%, making it difficult to move goods from rural farms to urban markets. These findings align with Keynesian Economic Theory, which posits that abrupt fiscal policies like subsidy removal reduce aggregate demand by increasing production costs (Keynes, 1936). The ripple effects of higher operational costs are evident in reduced production volumes, layoffs, and price increases, further straining the local economy.

The study showed a 64% average reduction in profit margins, with the hospitality sector being the hardest hit (75% reduction). This is consistent with findings from PwC Nigeria (2023), which reported that 68% of Nigerian SMEs experienced profit margin declines of over 50% post-subsidy removal. In Akwa Ibom State, the hospitality sector's reliance on diesel generators for power and petrol for transportation made it particularly vulnerable to fuel price hikes. The decline in profitability has broader implications for economic stability.

To mitigate the impact of subsidy removal, SMEs adopted various coping strategies, including price increases (75%), staff reductions (35%), and alternative energy adoption (14%). While price increases were the most common response, they often led to reduced customer demand, particularly in the retail trade and hospitality sectors.

Although some manufacturing SMEs invested in solar panels, the high upfront costs (₦1.2 million for a 5kVA system) deterred widespread adoption. This finding aligns with Porter's Theory of Competitive Advantage, which emphasizes the importance of innovation and strategic adaptation in maintaining competitiveness (Porter, 1985). Without government incentives or subsidies for renewable energy, many SMEs lack the resources to transition away from fossil fuels.

Another key finding from the qualitative analysis is the broader economic implications of fuel subsidy removal on consumer behaviour and business sustainability. Many SME owners expressed concerns about declining consumer purchasing power due to inflationary pressures, which has led to reduced sales volumes. Businesses that cater to low- and middle-income consumers have been disproportionately affected, as households' struggle to afford goods and services amid rising living costs. The study's findings align with macroeconomic analyses suggesting that fuel subsidy removal contributes to inflationary trends that hinder economic growth and business expansion (Aniemeke, 2024; Okwa *et al.*, 2024).

The study found that government interventions have been largely ineffective in mitigating the impact of subsidy removal. The lack of clear policy direction and timely support has left many SMEs struggling to survive. For example, while the National Gas Expansion Program aims to promote Compressed Natural Gas (CNG) as an alternative, infrastructure

gaps have limited its uptake. Similarly, the Akwa Ibom State Government's Alternative Energy Subsidy Scheme provided solar panels to only 200 SMEs, a fraction of the 12,000 registered businesses in the state. Government officials interviewed in this study acknowledged the challenges faced by SMEs but emphasized the long-term benefits of subsidy removal, such as reducing fiscal burdens and promoting market efficiency. Some policymakers suggested that the funds saved from subsidy removal could be redirected toward SME development initiatives, including financial grants, tax relief, and infrastructure improvements.

The reduction in aggregate demand due to higher operational costs and reduced profitability aligns with Keynes' argument that fiscal contractions can trigger economic downturns (Keynes, 1936). Also, SMEs that adopted innovative strategies (e.g., solar energy, logistics partnerships) demonstrated greater resilience, underscoring the importance of strategic adaptation in maintaining competitiveness (Porter, 1985).

Conclusion

This study has examined the economic impact of fuel subsidy removal on Small and Medium Enterprises (SMEs) in Akwa Ibom State, Nigeria. The findings reveal that the policy change has had a profound effect on SMEs, significantly increasing operational costs, reducing profitability, and forcing businesses to adopt various coping strategies. The removal of fuel subsidies has posed significant challenges for SMEs in Akwa Ibom State,

but it also presents an opportunity for transformative change as the study has showed.

Recommendations

Based on the findings, the following recommendations are proposed: (i) Government should expedite the disbursement of the ₦500 billion SME support fund and ensure equitable access for SMEs in Akwa Ibom State. (ii) This will provide subsidies or low-interest loans for SMEs to adopt renewable energy solutions like solar power. (iii) Government should launch training programs to help SMEs diversify revenue streams and adopt innovative business models while implementing phased subsidy reforms, as seen in Ghana, to minimize economic shocks. (iv) Infrastructure for alternative energy sources like Compressed Natural Gas (CNG) should be strengthened.

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