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2023 FUEL SUBSIDY REMOVAL AND THE SMALL AND MEDIUM ENTERPRISES (SMES) IN ABUJA

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ABSTRACT
This study examined the impact of the 2023 fuel subsidy removal on the growth and operational sustainability of Small and Medium Enterprises (SMEs) in Abuja, anchored on the cost-push theory of inflation. Despite the policy's fiscal rationale, limited empirical evidence existed on its firm-level effects and the coping strategies adopted by SMEs. The study employed a mixed-method approach, combining structured questionnaires with key informant interviews. A proportionate stratified random sampling technique was used to select 349 respondents from a population of 2,825 SMEs, of which 315 valid responses were analysed alongside 6 interviews. Quantitative data were analysed using simple percentages, while qualitative data were thematically analysed. The findings revealed that 94.6% of SMEs were directly affected by the subsidy removal. Major impacts included increased transportation costs (95.9%), higher operational costs (94.0%), reduced profit margins (91.7%), and decreased consumer demand (80.3%). In response, SMEs adopted various adjustment strategies, including price increases (91.1%), workforce reduction (71.7%), use of alternative energy sources (56.5%), and supplier renegotiation (50.5%). These findings supported the cost-push theory, which posits that rising input costs compel firms to adjust prices or internal operations. However, the study found that SMEs were unable to fully transfer increased costs to consumers due to weak purchasing power. The study concluded that fuel subsidy removal significantly constrained SME growth and operational sustainability in Abuja. It recommended targeted government support, improved access to energy-efficient alternatives, and strategic business restructuring to enhance SME resilience in a post-subsidy economic environment.

Keywords: Fuel subsidy removal, SMEs, operational costs, cost-push inflation, business adaptation, Abuja

Introduction

The discovery of crude oil in commercial quantities at Oloibiri in 1957 marked a turning point in Nigeria's economic structure, shifting the country's productive base from agriculture to petroleum dependence. Since then, crude oil has remained the dominant source of national revenue. Within this context, the fuel subsidy regime emerged in the 1970s, particularly following the enactment of the Price Control Act of 1977, which regulated the prices of essential commodities, including petroleum products. The policy aimed to shield domestic consumers from volatile global oil prices by maintaining artificially low pump prices through government intervention.

Fuel subsidy, broadly defined, represents a fiscal mechanism that lowers the cost of petroleum products for consumers or compensates suppliers for price differentials through direct or indirect support measures such as tax exemptions, rebates, and price controls. Initially conceived as a short-term response to global oil price shocks, the subsidy regime became institutionalized in Nigeria's fiscal framework. Over time, however, increasing domestic consumption, exchange rate depreciation, and reliance on imported refined petroleum products significantly escalated the cost of maintaining the subsidy.

Empirical evidence indicates that subsidy expenditures grew substantially, reaching over ₦4.39 trillion annually by 2022, thereby exerting considerable pressure on public finances and crowding out critical investments in infrastructure, healthcare, and education. Despite its redistributive intent, the subsidy system has been widely criticized for inefficiencies, corruption, smuggling, and disproportionate benefits to urban consumers and petroleum marketers. Consequently, the anticipated welfare gains have not translated into improved living standards for the broader population.

In response to these fiscal and structural distortions, the Federal Government announced the complete removal of fuel subsidy on May 29, 2023. While the policy was justified on grounds of economic efficiency and fiscal sustainability, its immediate aftermath triggered inflationary pressures, increased cost of living, and widespread economic hardship. These effects have been particularly pronounced in the Small and Medium Enterprises (SMEs) sector, which constitutes a critical driver of employment generation, income distribution, and economic growth in Nigeria.

SMEs, especially within the Federal Capital Territory (Abuja), operate in an environment heavily dependent on fuel for transportation, production, and power generation due to inadequate electricity supply. The removal of subsidy has therefore raised critical concerns regarding the survival, growth, and adaptability of these enterprises. Reports from business associations indicate declining sales, reduced profitability, job losses, and, in some cases, business closures following the sharp increase in fuel prices. However, despite extensive discourse on fuel subsidy reforms in Nigeria, there is a paucity of empirical studies that specifically examine the micro-level impact of the 2023 subsidy removal on SMEs in Abuja, particularly in terms of their growth performance and adaptive strategies. This gap limits a nuanced understanding of how policy-induced cost shocks affect enterprise sustainability within urban contexts.

Against this backdrop, this study is guided by the following core questions: to what extent has the 2023 fuel subsidy removal affected the growth and performance of SMEs in Abuja, and what strategic responses have these enterprises adopted to mitigate its adverse effects? Accordingly, the study seeks to examine the impact of subsidy removal on SME growth and to assess the coping and adjustment strategies employed by SMEs in Abuja. In doing so, the study provides empirical evidence on firm-level responses to cost-push shocks, offering policy-relevant insights for designing targeted interventions to support SME resilience in post-subsidy Nigeria.

Statement of the Problem

Existing studies on fuel subsidy reforms in Nigeria have predominantly concentrated on macroeconomic outcomes such as inflation, public expenditure, and welfare distribution (e.g., Nwafor, Ogujiuba & Asogwa, 2006; Raji, 2018; Houeland, 2020). While these studies provide valuable insights into the broader economic implications of subsidy removal, they pay limited attention to firm-level effects, particularly on Small and Medium Enterprises (SMEs). More recent analyses (e.g., Edet, 2023; Evans et al., 2023) acknowledge rising operational costs and inflationary pressures but largely rely on generalized or national-level data, with insufficient empirical focus on how individual enterprises experience and respond to such shocks. Consequently, the micro-level dynamics of SME adaptation, survival, and growth under subsidy removal remain underexplored. Furthermore, prior studies have not adequately captured the unique context of the 2023 fuel subsidy removal, which represents a complete

and abrupt policy shift under more severe macroeconomic conditions, including high inflation, exchange rate volatility, and energy insecurity. This limitation is particularly significant for Abuja, where SMEs operate in a high-cost urban environment heavily dependent on fuel for transportation and electricity generation. The interaction between these structural constraints and the 2023 subsidy removal creates a distinct impact pathway that cannot be sufficiently explained by earlier studies or broader national analyses.

In addition, existing literature rarely integrates both quantitative and qualitative evidence to examine not only the extent of the impact but also the specific coping and adjustment strategies adopted by SMEs. This creates a gap in understanding how businesses navigate cost-push shocks in practice. Therefore, the core problem addressed by this study is the lack of empirical, location-specific, and strategy-oriented evidence on how the 2023 fuel subsidy removal affects the growth and operational sustainability of SMEs in Abuja, as well as the effectiveness of the adaptive measures they employ in response.

Research Questions

i. In what ways has the 2023 fuel subsidy removal affected the growth of SMEs in Abuja?
ii. What strategic adjustment can SMEs make to mitigate the adverse impact of the 2023 fuel subsidy removal on their operation in Abuja?

Research Objectives

i. To examine the effects of the 2023 fuel subsidy removal on the growth of Small and Medium Enterprises (SMEs) in Abuja.
ii. To assess the adjustment strategies adopted by SMEs to mitigate the adverse impacts of the 2023 fuel subsidy removal in Abuja.

Conceptual Review and Theoretical Framework

Subsidy

The concept of subsidy has been widely discussed in economic literature, though no single universally accepted definition exists. At its core, a subsidy refers to a government intervention designed to influence market outcomes by reducing the cost of production or consumption. The Organisation for Economic Co-operation and Development (OECD, 2005) defines a subsidy as a government action that confers an advantage on consumers or producers by lowering costs or increasing income. Similarly, the World Trade Organisation (WTO, 2016) conceptualises subsidy as a financial contribution by a government that benefits an entity, particularly through price support or income transfers. Both definitions emphasise the role of government in altering market prices and resource allocation.

While these institutional definitions focus on market outcomes, Abdulkadir, Funmilola, and Abdulkadir (2020) provide a more analytical perspective by describing subsidy as a "reverse tax." This characterization is significant because it frames subsidy as a fiscal tool that operates in the opposite direction of taxation—rather than extracting resources from economic agents, it injects resources to support specific sectors or groups. This perspective highlights the redistributive and policy-driven nature of subsidies, especially in developing economies where governments seek to stabilize prices, promote production, or protect vulnerable populations. In practice, subsidies can take various forms, including direct cash transfers, tax exemptions, price controls, and provision of goods and services at below-market rates. They are broadly categorized into consumer subsidies, which reduce the price paid by end-users, and producer subsidies, which lower production costs or enhance profitability. In oil-dependent economies such as Nigeria, fuel subsidies primarily function as consumer subsidies, aimed at keeping petroleum prices affordable and mitigating the impact of global price volatility.

Drawing from these perspectives, this study defines subsidy as a government-driven fiscal and policy instrument that reduces the effective cost of goods or services to consumers or producers through direct or indirect support mechanisms, with the objective of influencing economic outcomes and promoting social welfare.

Fuel Subsidy

Fuel subsidy, as a specific form of government intervention in the energy sector, does not have a universally agreed definition, as different scholars have attempted to define it to suit particular analytical contexts. However, the concept generally refers to a situation where the government bears a portion of the cost of petroleum products to reduce the price paid by consumers. In practical terms, it involves the regulation of pump prices below market levels, with the government covering the difference

between the actual cost and the official selling price (Iyobhebhe, 2011; Nwafor, Ogujiuba & Asogwa, 2006). Within the broader framework of energy subsidies, fuel subsidies are primarily consumer-oriented, aimed at lowering the cost of fuel consumption. Although subsidies may also target production, consumer subsidies are more prevalent in developing economies, where they are used to stabilise prices, reduce the cost of living, and support economic activities that depend heavily on fuel. In such contexts, fuel subsidy often takes the form of price controls that create a gap between market prices and regulated prices, which is financed by the government.

For the purpose of this study, fuel subsidy is defined as a government pricing intervention in the petroleum sector whereby the state absorbs part of the cost of fuel to maintain prices below market levels, with the objective of easing economic pressure on consumers and businesses.

Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are commonly defined as businesses with relatively small workforce sizes and limited capital bases compared to large corporations. While the specific criteria vary across countries and institutions, they are typically classified based on a combination of employee size, turnover, and asset value. For consistency, this study adopts the term *Small and Medium Enterprises (SMEs)* throughout, rather than "Small and Medium Scale Enterprises," to align with contemporary academic and policy usage.

In Nigeria, the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defines SMEs as enterprises with a workforce of between 10 and 249 employees and an annual turnover ranging from ₦5 million to ₦1 billion. This classification is widely used in policy and empirical studies. Similarly, the International Finance Corporation (IFC, 2021) defines SMEs as firms with fewer than 250 employees and annual revenues of up to $15 million, providing a globally comparable benchmark. Earlier studies, such as Lawal and Ijaiya (2007), emphasize that SME definitions are not static and often vary depending on economic conditions, policy objectives, and inflationary trends. This observation underscores the limitations of relying solely on quantitative thresholds, as such criteria may become outdated over time.

It is also important to note that the population estimate of 2,825 SMEs in Abuja, as reported by SMEDAN and the National Bureau of Statistics (2017), forms the basis for the sampling frame used in this study. However, this dataset may not fully reflect the current size and dynamics of the SME sector, given subsequent economic changes, business closures, and new enterprise formation. This represents a limitation that should be considered when interpreting the findings.

Impact of Fuel Subsidy Removal on SMEs

The fuel subsidy was originally implemented to stabilise fuel prices and reduce the cost burden on consumers and businesses. However, its removal typically leads to price increases and broader economic instability, particularly in developing economies. For Small and Medium Enterprises (SMEs), the removal of fuel subsidy has significantly increased operating costs, making transportation and energy more expensive and less predictable.

Empirical studies highlight several key impacts of fuel subsidy removal on SMEs. According to Edet (2023), one of the most immediate effects is the increase in operating costs, as higher fuel prices raise transportation and production expenses, thereby compressing profit margins. Similarly, Evans et al. (2023) note that rising fuel prices contribute to inflationary pressures and reduced purchasing power, which in turn lowers demand for goods and services produced by SMEs. In addition, Houeland (2020) emphasizes that fuel price increases can lead to supply chain disruptions, as higher logistics costs affect the movement of raw materials and finished goods. The study further argues that SMEs face heightened competition with larger firms, which are better positioned to absorb cost increases due to stronger financial capacity. Fuel subsidy removal also has significant labour market implications. Houeland (2020) observes that rising operational costs often force SMEs to adopt cost-cutting measures such as downsizing, leading to job losses and, in some cases, business closures. Furthermore, Edet (2023) argues that the combined effect of rising costs and declining demand can result in a short-term slowdown in economic growth, as reduced consumption weakens aggregate demand. Finally, Raji (2018) and Evans et al. (2023) highlight the broader social impact, noting that subsidy removal can lead to increased poverty and economic vulnerability, particularly in the absence of adequate social safety nets. This further constrains SMEs, as declining household income reduces market demand for their products and services.

Impact on Operational Costs

The removal of the fuel subsidy in 2023 caused a sharp increase in petroleum prices, with petrol and diesel rising from an average of ₦185 per liter to over ₦500 per liter by mid-2023 (Guardian Nigeria, 2023). This surge had a cascading effect on the operational costs of SMEs in Abuja.

Transportation Costs: SMEs engaged in logistics, retail, and service provision experienced substantial increases in transportation expenses. Delivery businesses, for example, faced higher costs in moving goods within and outside Abuja, forcing a difficult choice: raise prices and risk losing customers or absorb costs and reduce profit margins.

Energy Costs: Due to unstable electricity supply, many SMEs rely on generators. The spike in diesel prices compelled businesses to either reduce operating hours or invest in alternative energy solutions such as solar power, which required significant upfront capital (Premium Times, 2023). Tailoring shops, bakeries, and ICT firms reported spending 40–60% more on fuel for generators, directly impacting their profitability and production capacity.

Adaptation Strategies by SMEs

Empirical studies indicate that Small and Medium Enterprises (SMEs) adopt a range of adaptive strategies to cope with the adverse effects of fuel subsidy removal. One of the most common responses is the adjustment of pricing structures. Edet (2023) observed that many SMEs increase the prices of their goods and services to offset rising operational costs, particularly those related to transportation and energy. However, this strategy is often constrained by low consumer purchasing power, which limits the extent to which costs can be transferred to customers.

Another widely adopted strategy is cost reduction through internal restructuring. Houeland (2020) noted that SMEs frequently reduce staff strength, cut wages, or scale down operations in response to increased production costs. While this approach helps businesses remain operational in the short term, it may negatively affect productivity and service quality over time.

Empirical evidence also highlights the growing adoption of alternative energy sources as a coping mechanism. According to Afolabi and Ojo (2023), SMEs increasingly invest in solar power and other energy-efficient technologies to reduce dependence on petrol and diesel generators. Although this requires significant initial capital, it provides long-term cost savings and enhances operational stability. In addition, SMEs adopt supply chain adjustments such as local sourcing of raw materials and renegotiation of supplier contracts. This helps reduce transportation costs and minimize exposure to fuel price volatility. Some firms also diversify their products or markets to spread risk and create new revenue streams, thereby improving resilience in a volatile economic environment. Furthermore, digital transformation has emerged as a critical adaptation strategy. SMEs are leveraging online platforms, social media, and e-commerce channels to reduce physical operational costs and expand market reach. This shift not only lowers transportation and overhead expenses but also enhances competitiveness in an increasingly digital economy.

Empirical findings suggest that SME adaptation strategies are a mix of short-term survival mechanisms and long-term structural adjustments. While measures such as price increases and workforce reduction provide immediate relief, strategies like energy diversification, digitalisation, and market expansion offer more sustainable pathways for resilience in a post-subsidy economic environment.

Theoretical Framework: Cost-Push Inflation Theory

This study is anchored on the cost-push theory of inflation, which explains how increases in production costs influence business behavior, operational decisions, and firm survival. The theory is particularly relevant for analysing how Small and Medium Enterprises (SMEs) respond to the 2023 fuel subsidy removal in Abuja.

Cost-push inflation is primarily associated with structuralist economists, who emphasise that inflation originates from the supply side when the cost of key inputs rises independently of demand conditions. Unlike demand-pull inflation, cost-push inflation occurs when increases in the prices of

inputs—such as fuel, energy, transportation, and raw materials—force firms to raise output prices or adjust operations to maintain profitability. These adjustments often manifest in price increases, reduced output, workforce reduction, and changes in production techniques or business models.

In the Nigerian context, fuel represents a critical input across all sectors. The removal of the fuel subsidy in 2023 constitutes an exogenous, policy-induced cost shock that significantly increased operational costs for SMEs. These include higher transportation and distribution expenses, increased reliance on costly petrol and diesel-powered generators, rising raw material costs, and overall escalation in service delivery costs. SMEs are consequently compelled either to transfer these costs to consumers or adopt internal adjustment strategies to remain viable. The Cost-Push Theory assumes that such cost increases are externally imposed and beyond the control of firms, particularly SMEs, which typically operate with limited financial capacity and narrow profit margins. It further assumes that SMEs function in imperfectly competitive markets, where their ability to pass increased costs to consumers is constrained by competition and low purchasing power. Firms are therefore expected to respond rationally through cost-cutting, restructuring, and efficiency-driven strategies.

However, the theory has been criticized for underestimating the role of demand-side factors, such as declining consumer purchasing power, and for overgeneralizing firms' adaptive capacities, since not all businesses have the same flexibility. Monetarist scholars, such as Milton Friedman, further argue that sustained inflation is primarily a monetary phenomenon rather than a cost-driven one. Despite these critiques, the Cost-Push Theory provides a clear framework for understanding how the 2023 fuel subsidy removal cost pressures on SMEs in Abuja and triggered adaptive responses such as price adjustments, workforce reduction, operational restructuring, and energy substitution, while highlighting the constraints SMEs face in passing costs to consumers in a weak demand environment.

Methodology

Research Design

This study adopted a mixed-method survey research design, combining structured questionnaires with semi-structured interviews. The survey component allows for the collection of quantitative data from a selected sample of SMEs in Abuja, providing a basis for generalizing findings to the broader population. The inclusion of interviews complements this by generating qualitative insights, capturing the nuanced coping strategies and experiences of SME operators that cannot be fully measured through questionnaires alone (Creswell & Creswell, 2018).

Population of the Study

The population of this study comprised 2,825 Small and Medium Enterprises (SMEs) operating in the Federal Capital Territory (Abuja), as reported by the 2017 SMEDAN survey. It is important to note that this population figure is eight years old at the time of the study, which represents a methodological limitation, as the actual number of SMEs in 2023 may have changed due to new business formations, closures, or growth in the sector. This limitation is considered in interpreting the findings.

Sample Size Determination

SMEDAN established that 2,825 SMEs operated in Abuja. This study used Taro Yamane's (1967) formula to determine the sample size:

n=N1+N(e)2n=1+N(e)2N

Where:

NN = population size (2,825)

n = sample size

e = margin of error (0.05)

This yielded n=348.7n=348.7, rounded to 349. Thus, the sample size was 349.

Sampling Technique

A proportionate stratified random sampling technique was used. The population was stratified by sector to ensure each segment was appropriately represented. Respondents were then randomly selected from each stratum to maintain proportionality. This method enhanced the reliability of findings and minimized selection bias.

Sources of Data

Data were sourced from primary and secondary sources to attain adequate, balanced research. Primary data were collected via questionnaires administered to SME operators, management staff, SME owners, and KII respondents (SME operators and owners). KIIs obtained data where questionnaires

were not the best fit. Secondary data were sourced from journals, textbooks, articles, internet materials, and official publications of governmental or non-governmental organisations relevant to the subject.

Methods of Data Collection

Data were collected using questionnaires and interviews to gather testable data. Secondary data were collected through the documentary method.

The questionnaire included multiple-choice and fill-in questions, simplified and structured without ambiguity or technicalities. Most questions required respondents to tick appropriate responses. It gathered data on the 2023 fuel subsidy removal's impact on SMEs in Abuja and was structured into five sections (A-E). Section A covered demographic information of enterprise respondents; Section B addressed the impact of fuel subsidy removal; Section C examined government strategies' effectiveness; Section D assessed implementation limitations; and Section E allowed additional comments and recommendations.

The study adopted unstructured interviews. The researcher interviewed 6 key respondents using KIIs to obtain their views aligned with the research objectives. An interview guide with open-ended questions was used, allowing respondents freedom to express views beyond predetermined variables. Each interview lasted 20-30 minutes, was recorded using a phone audio recorder, transcribed, and arranged thematically. Unstructured interviews enabled the researcher to interject and elicit more information. They were significant for generating answers to key issues, helping the researcher understand the situation proficiently.

Methods of Data Analysis

Quantitative data from questionnaires were analysed using the Statistical Package for Social Sciences (SPSS), presented as simple percentages. Qualitative data from interviews were analysed using content analysis and presented in narrative terms.

Results

A total of 349 questionnaires were distributed to SME operators, owners, and management staff across stratified sectors in Abuja. Of these, 315 were retrieved and deemed usable after screening for completeness.

Analysis of the Demographic Characteristics of Respondents

This section provides insight into the socio-demographic characteristics of participating SMEs, focusing on industry type, enterprise size, years of operation, and primary energy source before the 2023 fuel subsidy removal. The tables below summarise responses, offering a clear picture of the sample composition.

Table 1: Distribution of Respondents by Industry Type

Industry Type	Frequency	Percentage (%)
Manufacturing	67	21.3
Agriculture	41	13.0
Retail/Wholesale	96	30.5
Service	78	24.8
Transport/Logistics	25	7.9
Other	8	2.5
Total	**315**	**100.0**

Source: Fieldwork, March 2025

Table 4.1 shows that retail/wholesale dominated (30.5%), followed by Services (24.8%) and Manufacturing (21.3%). Agriculture was 13.0%, Transport/Logistics 7.9%, and Others 2.5%. This reflects Abuja's urban-commercial focus.

Table 4.2: Distribution of Respondents by Size of Enterprise

Size of Enterprise	Frequency	Percentage (%)
Micro	102	32.4
Small	158	50.2
Medium	55	17.4
Total	**315**	**100.0**

Source: Fieldwork, March 2025

Table 2 reveals small enterprises dominated (50.2%), followed by micro (32.4%) and medium (17.4%). This aligns with lower entry barriers for smaller firms in Abuja's entrepreneurial environment.

Table 3: Distribution of Respondents by Years of Operation in Abuja

Years of Operation	Frequency	Percentage (%)
0-1 Year	37	11.7
1-5 Years	94	29.8
6-10 Years	119	37.8
10 Years and Above	65	20.7
Total	**315**	**100.0**

Source: Fieldwork, March 2025

Table 3 indicates most SMEs (37.8%) operated 6-10 years, followed by 1-5 years (29.8%) and over 10 years (20.7%). Newer firms (0-1 year) were 11.7%, suggesting stability amid economic challenges.

Table 4: Distribution of Respondents by Primary Source of Energy Before 2023 Fuel Subsidy Removal

Primary Energy Source	Frequency	Percentage (%)
Petrol	127	40.3
Diesel	82	26.0
Gas	28	8.9
Electricity	58	18.4
Solar	20	6.4
Total	**315**	**100.0**

Source: Fieldwork, March 2025

Table 4 shows heavy pre-subsidy reliance on petrol (40.3%) and diesel (26.0%), with electricity at 18.4%. This vulnerability to fuel price hikes is evident.

One respondent noted: "Before the subsidy removal, I ran my retail business primarily on petrol generators because electricity was unreliable. Costs were predictable, aiding planning and stable pricing." (Interviewee B1, Male, 42, March 2025).

Analysis of Research Questions

This section explores the 2023 fuel subsidy removal's impact on SME growth in Abuja, challenges faced, strategic adjustments made, and government interventions' effectiveness. Responses are analyzed in the tables below.

Research Question 1: Ways the 2023 Fuel Subsidy Removal Affected SME Growth in Abuja

Table 5: Direct Impact of 2023 Fuel Subsidy Removal

Response	Frequency	Percentage (%)
Yes	298	94.6
No	12	3.8
Not Sure	5	1.6
Total	**315**	**100.0**

Source: Fieldwork, March 2025

Table 5 shows 94.6% of respondents were directly affected, with only 3.8% unaffected and 1.6% uncertain, indicating widespread policy impact.

Table 6: Nature of Impact

Nature of Impact	Frequency	Percentage (%)
Very Negatively	187	59.4
Negatively	93	29.5
Not Sure	14	4.4
Positively	15	4.8
Very Positively	6	1.9
Total	**315**	**100.0**

Source: Fieldwork, March 2025

Table 6 reveals predominantly negative effects (88.9% combined), suggesting threats to SME survival and growth.

The fuel subsidy removal has had a negative effect on my business because operational cost has gone up over 300%, which has made us lay off two staff to stay afloat. We are also losing customers because many feel that, as a service provider, we shouldn't review prices—after all, fuel subsidy removal does not directly affect us, which is not true. (Interviewee B2, Male, 45 years old, March 2025).

Mukhtar A., Joseph D., and Nana U. (2025) asserted that fuel subsidy removal significantly influences SME operational efficiency, financial performance, and competitiveness in FCT Abuja.

Table 7: Specific Impacts on Business Growth (Multiple Choice; Percentages Exceed 100% Due to Multiple Selections)

Impact Type	Frequency	Percentage (%)
Increased Transportation Cost	302	95.9
Increased Cost of Raw Materials	278	88.3
Increased Operational Cost	296	94.0
Decreased Profit Margin	289	91.7
Decreased Demand for Products/Services	253	80.3

Source: Fieldwork, March 2025

Table 7 highlights multiple adverse effects, led by transportation (95.9%) and operational costs (94.0%).

Honestly, the fuel subsidy removal impacted us in many ways, mainly through increased operating costs, and demand for products has decreased since then. In the face of these challenges, we still have to pay staff. (Interviewee B5, Female, 35 years old, March 2025).

Table 8: Overall Impact Rating

Impact Rating	Frequency	Percentage (%)
Very Negative Impact	176	55.9
Negative Impact	102	32.4
No Impact	18	5.7
Positive Impact	13	4.1
Very Positive Impact	6	1.9
Total	**315**	**100.0**

Source: Fieldwork, March 2025

Table 8 confirms overall negative perceptions (88.3% combined).

The researcher observed that nearly all Abuja SMEs were negatively affected, with few exceptions. While long-term adaptation is possible, immediate operational threats endangered their existence.

Table 9: Operational Changes Due to Subsidy Removal (Multiple Choice; Percentages Exceed 100% Due to Multiple Selections)

Operational Changes	Frequency	Percentage (%)
Reduction of Staff Size	203	64.4
Reduction of Working Days	148	47.0
Cut Back on Services/Products	192	61.0
Reduction of Quality	127	40.3
None of the Above	24	7.6

Source: Fieldwork, March 2025

Table 9 shows common cutbacks, especially staff reductions (64.4%).

Since the fuel subsidy removal, our business has been severely affected. We've had to lay off three employees because we couldn't afford their salaries anymore. Our transportation costs have more than doubled, and customers are buying less because they're struggling too. We've reduced working hours to save costs, but revenue dropped about 45%. (Interviewee B3, Female, 38 years old, March 2025).

Research Question 2: Strategic Adjustments to Mitigate Adverse Impacts

Table 10: Key Challenges Faced (Multiple Choice; Percentages Exceed 100% Due to Multiple Selections)

Challenges	Frequency	Percentage (%)
Increased Price of Fuel	308	97.8
Rising Cost of Operations	297	94.3
Low Sales	273	86.7
Difficulty Maintaining Profit Margins	281	89.2
Reduced Access to Credit/Loans	162	51.4

Source: Fieldwork, March 2025

Table 10 underscores fuel prices (97.8%) and operations (94.3%) as top challenges.

Table 11: Strategic Adjustments Made (Multiple Choice; Percentages Exceed 100% Due to Multiple Selections)

Strategic Adjustments	Frequency	Percentage (%)
Increased Price of Products	287	91.1
Reduced Staff Size or Wages	226	71.7
Used Alternative Sources of Power	178	56.5
Diversified into Other Markets/Products	134	42.5
Renegotiated Supplier Deals	159	50.5

Source: Fieldwork, March 2025

Table 11 indicates price hikes (91.1%) as most common, followed by staff cuts.

Open-Ended Responses: Suggested Adjustments

Adoption of energy-efficient technologies for long-term cost reduction.
Collaborative purchasing/resource sharing via cooperatives.
Digitalization and e-commerce to cut physical costs and expand reach.
Local sourcing to minimize transport expenses.
Flexible working arrangements to lower energy use.

We've had to rethink our business model. We switched to solar for basic operations despite the upfront costs. We source raw materials locally now, trained staff for versatility, and operate leaner. It's challenging, but these keep us afloat. (Interviewee B6, Male, 45 years old, March 2025).

Discussion of Findings

The findings of this study reveal that the 2023 fuel subsidy removal had a predominantly negative impact on SMEs in Abuja, particularly through increased transportation and operational costs, reduced profit margins, and declining demand. These results strongly support the cost-push theory of inflation, which posits that increases in input costs—such as fuel—translate into higher production costs and compel firms to adjust prices or internal operations.

This finding is consistent with Edet (2023), who observed that fuel subsidy removal in Nigeria leads to increased operational costs and forces SMEs to adopt price adjustments and cost-cutting strategies. Similarly, the present study found that a significant proportion of SMEs increased prices (91.1%) and reduced workforce size (71.7%) as coping mechanisms. This alignment suggests that SMEs across different contexts in Nigeria respond predictably to fuel-induced cost shocks through internal restructuring and price transmission strategies.

The results also align with Houeland (2020), who reported that subsidy removal contributes to job losses and business downsizing in the informal sector. In this study, 64.4% of SMEs reduced staff size, reinforcing the argument that rising fuel costs directly affect employment levels within small businesses. However, while Houeland emphasises structural vulnerabilities in the informal sector, this study extends the analysis by showing that even relatively established SMEs in an urban center like Abuja experience similar pressures.

Furthermore, the finding of reduced consumer demand (80.3%) supports Evans et al. (2023), who noted that fuel price increases erode purchasing power and suppress consumption. This demand-side effect introduces a critical limitation to the cost-push theory. While the theory assumes that firms can pass increased costs to consumers, the present study shows that weak consumer demand constrains this ability, leading instead to reduced sales and profitability.

However, this study diverges slightly from Afolabi and Ojo (2023), who emphasised the growing adoption of renewable energy as a long-term adjustment strategy. However, this study found that 56.5% of SMEs adopted alternative energy sources; the relatively moderate level suggests that financial constraints limit widespread adoption. This indicates that while energy diversification is recognised as a viable strategy, its implementation remains uneven among SMEs in Abuja.

The findings confirm that fuel subsidy removal acts as a cost-induced economic shock, validating the core assumptions of cost-push theory, while also demonstrating that demand-side constraints and financial limitations significantly shape SME outcomes. This dual dynamic provides a more nuanced understanding of how SMEs respond to macroeconomic policy changes in developing economies.

Conclusion

This study examined the impact of the 2023 fuel subsidy removal on the growth and operational sustainability of Small and Medium Enterprises (SMEs) in Abuja, as well as the strategies adopted to mitigate its effects. The findings show that the subsidy removal significantly disrupted SME operations by increasing production and transportation costs, thereby constraining profitability and overall business growth. In response, SMEs adopted a range of adjustment strategies, including price increases, workforce reduction, operational restructuring, and, in some cases, reduced working hours (47.0%). However, the study demonstrates that these strategies have had limited effectiveness due to declining consumer purchasing power, which restricts the ability of SMEs to transfer increased costs to customers. This indicates that the impact of subsidy removal extends beyond cost pressures to include demand-side constraints, thereby intensifying the challenges faced by SMEs. Theoretically, the findings validate the relevance of the cost-push theory of inflation in explaining the effects of fuel price increases on business operations. At the same time, the study highlights its limitations by showing that market demand conditions play a critical role in shaping firm outcomes. From a policy perspective, the results underscore the vulnerability of SMEs to macroeconomic shocks in Nigeria's fuel-dependent economy. The study suggests that without targeted support mechanisms—such as access to affordable energy alternatives, financial assistance, and policies that stabilise operating environments—SMEs may continue to experience reduced growth and increased business failure rates.

Recommendations

i Given that increased transportation and energy costs significantly constrained SME operations, the government should introduce targeted energy support schemes, such as subsidized access to diesel alternatives, solar energy grants, or tax incentives. This would reduce operational cost pressures and improve business sustainability.

ii The limited adoption of alternative energy solutions (56.5%) indicates financial constraints. Government and financial institutions should provide low-interest loans, credit facilities, and grants specifically designed for SMEs to invest in energy-efficient technologies and business expansion.

iii To mitigate rising input and transportation costs, SMEs should be encouraged to adopt local sourcing strategies. Policymakers can support this by strengthening local production networks and reducing logistical bottlenecks within domestic supply chains.

iv With declining consumer demand (80.3%), SMEs should leverage digital platforms and e-commerce to expand market reach and reduce physical operational costs. Government agencies and business development organizations should provide training and infrastructure to support SME digitalization.

v Given the high rate of workforce reduction (64.4%), there is a need for SME-focused stabilization policies, such as temporary tax reliefs, wage support programs, or business continuity grants to prevent layoffs and business closures during economic shocks.

vi Since weak consumer purchasing power limited SMEs' ability to transfer costs, the government should implement macroeconomic policies that boost household income, such as targeted social support programs and inflation control measures, to stimulate demand for SME goods and services.

vii SME owners should be supported through training in cost management, business restructuring, and diversification strategies. This will help them move beyond short-term survival tactics (e.g., layoffs, price hikes) toward more sustainable long-term adjustments.

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