

ISSN 1975-387X

# GLOBAL JOURNAL

OF HUMAN-SOCIAL SCIENCES: E

## Economics

Social and Psychological  
The Research on Utilization

Highlights

Assessment of Irrigated  
Companies Financial Report

Discovering Thoughts, Inventing Future

VOLUME 14

ISSUE 1

VERSION 1.0

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GLOBAL JOURNAL OF HUMAN-SOCIAL SCIENCE: E  
ECONOMICS

VOLUME 14 ISSUE 1 (VER. 1.0)

OPEN ASSOCIATION OF RESEARCH SOCIETY

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GLOBAL JOURNAL OF HUMAN SOCIAL SCIENCE: E  
ECONOMICS

Volume 14 Issue 1 Version 1.0 Year 2014

Type: Double Blind Peer Reviewed International Research Journal

Publisher: Global Journals Inc. (USA)

Online ISSN. 2249-460X & Print ISSN: 0975-587X

## Social and Psychological Effects of the Removal of Fuel Subsidy on the Nigerian Family

By George Tayo, Elegbeleye, Ayotunde, Chukwuedozie, Onyeka & Idowu Esther, A.

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**Introduction-** Nigeria is the largest in Africa and the sixth largest oil producing country in the world. The country's economic strength is derived largely from its oil and gas wealth, which contribute 99 per-cent of government revenues and 38.8 per of GDP (National Budget, 2010). Despite these positive developments, successive Nigerian governments have been unable to use the oil wealth to significantly reduce poverty, provide basic social and economic services her citizens need (Ering and Akpan, 2012).

Despite, the huge resources the country has realized from crude oil, Nigeria ranks 156 out of 187 countries on the Global Human Development Index (HDI) in the 2011 Human Development Report released by the United Nation Development Programme. The HDI is a comparative measure of life expectancy, literacy, education and standards of living for countries worldwide.

*GJHSS-E Classification : FOR Code: 149999*



SOCIAL AND PSYCHOLOGICAL EFFECTS OF THE REMOVAL OF FUEL SUBSIDY ON THE NIGERIAN FAMILY

*Strictly as per the compliance and regulations of:*



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# Social and Psychological Effects of the Removal of Fuel Subsidy on the Nigerian Family

George Tayo<sup>a</sup>, Elegbeleye, Ayotunde, Chukwuedozie, Onyeka<sup>d</sup> & Idowu Esther, A.<sup>e</sup>

## I. INTRODUCTION

Nigeria is the largest in Africa and the sixth largest oil producing country in the world. The country's economic strength is derived largely from its oil and gas wealth, which contribute 99 per-cent of government revenues and 38.8 per of GDP (National Budget, 2010). Despite these positive developments, successive Nigerian governments have been unable to use the oil wealth to significantly reduce poverty, provide basic social and economic services her citizens need (Ering and Akpan, 2012).

Despite, the huge resources the country has realized from crude oil, Nigeria ranks 156 out of 187 countries on the Global Human Development Index (HDI) in the 2011 Human Development Report released by the United Nation Development Programme. The HDI is a comparative measure of life expectancy, literacy, education and standards of living for countries worldwide. The HDI further reveals that non-oil producing countries like Tunisia, Gabon, Egypt, Namibia, South Africa and Togo ranked better than Nigeria on all HDI indicators. It is against this background that Nigerians are opposed to any policy that would further increase their misery index such as the removal of fuel subsidy (Ering and Akpan, 2012). The history of fuel subsidy removal in Nigeria has been a complex subject and oftentimes an emotional debate. This study therefore examines critically the social and psychological effects of fuel subsidy removal on the Nigerian family.

## II. FUEL SUBSIDY

The subsidy is a form of price manipulation whereby the government fixes the pump price for sale to consumers and pays the retailer the difference between the actual market price and the regulated or official price per litre. Through fuel subsidy, millions of Nigerians have access to cheap refined petroleum products (Iyobhebhe, 2012).

Fuel subsidy is one of the critical issues that dominate public debate in oil exporting developing nations and among the G-20. In Nigeria, larger proportion of the citizens are seriously resisting the government-planned policy to remove fuel subsidy

which according to them is against the Millennium Development Goals (MDGs) of the government which aim to reduce the number of people living in poverty to less than 50% by 2015. Some public analysts believed that the pressure to remove subsidy is designed by experts with insufficient understanding of the Nigerian economy or who choose to ignore the inability of client governments to effectively implement anti-poverty programmes (Akinwale et al., 2013).

However, the proponents of fuel subsidy removal continue to show low efficiency in energy use, wastage of huge sum of resources on subsidies which are needed to transform national development, reduction of CO2 emissions, higher benefits for the rich with little or no benefits for the poor, and poor technology management of the refinery among others as part of the problems of oil subsidy (Akinwale et al., 2013).

### a) Why Removal of Fuel Subsidy

The Nigerian government states that its Medium Term Fiscal Framework won't work unless the fuel subsidy is scrapped or to put it another way: that the scrapping of the subsidy is an integral part of its MTF. That it needs the US\$6B savings for critical infrastructural development projects. This is the view of the Finance Minister & Coordinating Minister for the Economy, Dr. Okonjo Iweala. The government is effectively arguing that the country can no longer afford it and that due to structural inefficiencies in the Nigerian downstream industry the ordinary man that was intended to benefit from fuel subsidy does not really get the benefit as retailers refuse to pass on the subsidy to consumers at petrol stations. Government say they inherited the scheme. They are simply trying to get rid of a policy that various governments have attempted to reform but failed (Iyobhebhe, 2012).

### Advantages of Subsidy Removal

- Government hopes that the removal will: Save government about US\$6B per annum
- Help address the great imbalance between recurrent and capital expenditure in Nigeria.
- Encourage foreign investment in downstream infrastructure
- Free more funds for local investment in the oil sector
- Increase local refinery production
- Reduce importation of refined products in the medium to long term

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- Eventually stabilise market prices as completion increases

### III. HISTORY OF FUEL SUBSIDY REMOVAL IN NIGERIA

The executive arm of the Federal Government has taken the view that subsidy removal is an important element in the larger scheme to accelerate Nigeria economic development (Centre for Public Policy Alternatives, 2011). The history of fuel subsidy removal in Nigeria is rather a long one particularly with the negative effects it has on the polity. Specifically the story of subsidy removal dates back to 1978 when the then military government of Gen. Olusegun Obasanjo reviewed upward the pump price of fuel which was at 8.4 kobo to 15.37 kobo. The concern was for government to generate enough money to run the administration particularly when it was preparing for the 1979 democratic elections and also to cater for the social needs of Nigerians (Ering and Akpan, 2012).

Moreover, Gen. Olusegun Obasanjo second coming as a civilian president did not help matters as he unleashed a reign of terror on Nigerians. In his eight years reign, the nation witnessed several rounds of fuel price increases. The first started on June 1st, 2000, where the petrol price per litre was raised to N30.00 but only to be reduced to N25 one week after due to massive protests by organized labour, civil society organizations and the ordinary Nigerians. Five days later, on June 13, 2000, the pump price was further adjusted to N22.00 per litre. On January 1st, 2002, Obasanjo regime increased the price from N22.00 to

N26.00 and to N40.00 on June 23, 2003 just one year after. In June, 2007, also the same regime raised the price of fuel per litre to N70, but the Yardua's regime later reviewed it downward to N65 on assumption of office in May 2007 (Ering and Akpan, 2012).

This was how it remained until President Goodluck Jonathan regime's decision at an outright removal of fuel subsidy. Interestingly the then Nigeria Labour Congress, President, Comrade Adams Oshiomole who had led several fights against fuel subsidy removal including fighting Olusegun Obasanjo, and as a sitting governor of Edo State, joined his fellow governors and the Federal Government to argue strongly for the complete removal of fuel subsidy. The issue was that, while the nation-wide consultations and discussion on fuel subsidy removal was still going on, the Petroleum Product Pricing Regulatory Agency (PPPRA) on January 1st, 2012, announced the outright removal of fuel subsidy (Ering and Akpan, 2012).

This decision by the Goodluck Jonathan administration did not go down well with the masses of Nigerians. It resulted in massive strike actions and protests by the Nigerian Labour Congress (NLC), Trade Union Congress of Nigeria, PENGASAN, Civil Society Organisations, Academic Staff Union of Universities (ASUU) and the generality of Nigerians. The mass protests almost transformed into the "Nigerian spring" which would have brought down the regime. The regime quickly entered into a negotiation with the organized labour and rescinded its decision of an outright removal to a partial removal and reduced the pump price to N97 (Ering and Akpan, 2012).

*Table 1* : provide a clearer picture of the different pump prices by the different administrations from 1978 to Jan. 2012 (Ering & Akpan, 2012).

S/N	Date	Administration	Price	Percentage Change
1	1978	Gen. Olusegun Obasanjo (as Military	15.37k	
2.	1982	Alh. Shehu Shagari	20k	
3	1990	Gen. Ibrahim Babaginda	60k	300%
4.	1992	Gen. Ibrahim Babaginda	70k	17%
5.	1992	Gen. Ibrahim Babaginda	N3.25k	364%
6.	1993	Gen. Ibrahim Babaginda	N5.00	54%
7.	1994	Chief Ernest Shonekan	N11.00	120%
8.	1994/98	Gen. Sani Abacha	N11.00	-
9.	2000	Olusegun Obasanjo (as Civilian Ruler)	N20.00	82%
10.	2000	Olusegun Obasanjo (as Civilian Ruler)	N22.00	10%
11.	2001	Olusegun Obasanjo (as Civilian Ruler)	N26.00	18%
12.	2003	Olusegun Obasanjo (as Civilian Ruler)	N40.00	54%
13.	2004	Olusegun Obasanjo (as Civilian Ruler)	N45.00	13%
14.	2007	Olusegun Obasanjo (as Civilian Ruler)	N70.00	56%
15.	2007-	Alh. Umaru Shehu Yardua	N65.00	0.07%
16.	2012	Dr. Goodluck Jonathan	N141.00	117%

Source: Communique by South-South Elders & Leaders, 2012.

#### IV. IMPLICATIONS OF THE FUEL SUBSIDY REMOVAL ON THE NIGERIAN FAMILY

The abolishment of fuel subsidy creates local winners and losers on the short to medium term. Losers include the state/welfare services sector, education, health, standard of living for the poor will suffer, state security, the poor and vulnerable groups, elderly, students, women and lower middle class (Centre for Public Policy Alternatives, 2011).

There are contending arguments on the merits and demerits of fuel subsidy increases or removal. The protagonists argue that fuel subsidy removal is a step in the right direction and in the interest of Nigerians. They maintained that it will help eliminate incentives for corruption and excess profiteering by an unpatriotic cabal in the petroleum sub sector. It will minimize borrowing and save money for investing into job creation, power and transport infrastructure and others. It will eliminate capital flight and build Nigeria's foreign reserve in order to position the economy for speedy growth and global competitiveness (Ering and Akpan, 2012).

Fuel subsidy removal Jonathan and his cohorts argue that it will trigger private sector investment in a deregulated downstream petroleum sector and enthrone efficiency and catapult the development of the nation's productive sector such as agriculture and industries. And according to the 2012 – 2012 Medium Term Fiscal Framework (MTFF) and the Fiscal Strategy Paper (FSP) which President Jonathan sent to the national assembly, he stated among other things, that fuel subsidy will free up to about N1.3 trillion, that is, about \$8 billion dollars in savings. This money he added will be deployed into providing safety nets for segment of the society which will help to ameliorate the effects of subsidy removal (Ering and Akpan, 2012).

Furthermore, subsidy removal and the money generated would guarantee the success of the (MTFF). Money realized will be used to build more refineries and buy buses that will help cushion the effect of the subsidy removal. The point however that is since the protests were called-off the strategies that were initially rushed have suddenly disappeared. The antagonists of the fuel subsidy removal present a contrary view. They argue that the total amount that will be generated and the actual sharing have not been revealed by the federal government. In other words what will actually go to the states and local governments and what will be left for the federal government has not been worked out. The effect this will have on the infrastructural development as being put by the president and his economic advisers has not really been clear (Ering and Akpan, 2012).

Therefore, it was premature to speak of the benefits of the removal of subsidy. Fuel subsidy removal automatically leads to increases in the pump price of

fuel. This was shown by the difference pump prices witnessed across the country when the subsidy removal was announced and these ranged from N141 to N200 naira per litre. In some other states especially eastern states of the country, a litre of petrol was sold for as much as N250 naira. Other marketers created artificial scarcity in order to raise the pump price. Therefore, certain sectors of the economy were adversely affected.

##### a) Social Effects

###### i. Transportation

Fuel subsidy removal affected transport fares and motorist doubled transport charges. And since this happened during the Christmas period when many Nigerians and their families had travelled to celebrate the Christmas with their families including extended families, many were stranded. Those who could afford it did so by abandoning their families in their villages. For many Nigerian these were indeed interesting times requiring interesting approach to life. Although the pump price of petrol has been reduced to N97 naira the costs of transport as well as other products and services are yet to reflect the reduction thereby forcing people to rethink on their life style and mode of transportation as a strategy for surviving the hard times (Ering and Akpan, 2012).

For instance, people now ride on horse-powered taxis, some choose cow-powered land cruisers and even do motorcycle powered tourist wagon, all in an attempt to avoid the use of petrol and its cost. Increases in transportation always have ripple effects on other social issues. The prices of food stuff also went up. The logic here was that food sellers use transportation to bring in food items and cars and vehicles have to struggle to get fuel at very exorbitant prices. The result was that the food sellers had to factor in the increment in order to make marginal gain (Ering and Akpan, 2012).

###### ii. Education

Fuel subsidy removal has negative effect on every aspect of the economy including the education sector. The rate of dropouts increase, while school enrolment have reduced because most parents find it difficult to send their children to school as a result of the high cost of living and fee increment. Owing to the rate of school drop-out, more children are engaged in child labour. School fees and charges were not spared, as school fees have increased. Most parents were left with no choice than to withdraw their children and wards from schools (Ering and Akpan, 2012).

###### iii. Housing

Furthermore, house rents across the country increased dramatically and the argument is that fuel price increase had affected the prices of cement astronomically. Before the fuel subsidy removal there were indications that cement price may crash following

the take-off of Dangote, Lafarge Cement Company in Ogun State. But the withdrawal of subsidy on January 1st, 2012, catapulted the price of cement to over N2000 naira per bag thus affecting the prices of house rent. According to Iroegbu-Chikezie (2012), a cement dealer retorted that he had to raise the price of the product because he was made to pay double the cost of transporting cement to his shop. Fuel subsidy removal also affected the cost of haulage of basic building materials such as iron rods, roofing sheets, flooring materials and others (Ering and Akpan, 2012).

#### iv. Industry

Agboola (2012) maintained that the Organised Private Sector (OPS) were not happy with the removal of fuel subsidy. It described the policy as a deliberate move by the federal government to worsen the decaying industrial sector with high cost of generating plants.

Similarly, the Small and Medium Enterprises (SMEs) are also affected since most of them use petrol for their relatively smaller power generating plants (Ering and Akpan, 2012).

The Nigerian Employers Consultative Association (NECA) have argued that government should have fixed or put in place a number of measures and infrastructures before going ahead to remove fuel subsidy. That is, the problem of power should have been fixed so that Nigerians would have to contend only with the fuelling of their cars instead of also looking for ways to power offices, industrial generation's plants and other things. New refineries should have been built and the older ones put into functioning so that the availability of the product locally will impact on the economy and play a role in bringing down the price of the pump price (Ering and Akpan, 2012).

*Table 2* : shows the fuel prices per litre and the minimum wage for both Oil Producing and Exporting Countries (OPEC) and non OPEC countries.

S/N	Countries	Fuel Price Per Litre	Minimum Wage N
1	Venezuela	3.61	95,639
2	Kuwait	34.54	161,461
3	Saudi Arabia	25.12	99,237
4	Iran	102.05	86,585
5	Qatar	34.54	101,250
6	UAE	70.18	103,112
7	Algeria	63.55	55,937
8	Libya	26.69	23,813
9	Iraq	59.66	25,813
10	Nigeria	141.00	18,000

S/N	Countries	Fuel Price Per Litre	Minimum Wage N
1	USA	157.00	197,296
2	UK	334.41	295,644
3	Oman	48.67	91,583

Source: Ering & Akpan, 2012.

Going further, a comparative analysis of the pump price shows that Nigeria has the highest fuel pump price and the lowest minimum wage. Moreover, the basis for Nigeria's political elite to compare the pump price of fuel to other countries was not there. The reason is not far-fetched, in most of the countries listed; there is stability of basic utilities like stable power, availability of portable water, good roads and other factors. More so, and as seen on table 2, the minimum wage of N18, 000 and even at this, a number of states are yet to implement it.

The minimum wage of a country to a large extent defines the purchasing power of individuals. In the case of Nigeria, available statistics show there are among the lowest paid in the world (Ering & Akpan, 2012).

#### b) Psychological Effects

Soremekun (2012) has argued that the issue of fuel subsidy essentially originated from government's inability to process the crude oil within the country. Oil subsidy simply means import-inspired deregulation in an oil-producing country. It is a clear indication of governments' failure and bankruptcy, in terms of running the industry. The psychological effect of fuel subsidy increases and removal could lead to cases of depression and suicide. The Central Bank of Nigeria (CBN) official statistics show that over 70 per cent of Nigerians live below the poverty line (CBN, 2011).

Poverty line refers to the value of income or consumption necessary for a minimum standard of nutrition and other necessities of life. It is normally computed as those living below one US dollar per day. The implication here is that fuel subsidy removal will



further cause emotional trauma and torture on the psyche of those who are struggling to feed and to some extent may commit suicide. This fact is corroborated by the report of International Labour Organisation (ILO) a UN agency which maintains that 900 million workers are living below \$2 a day, worldwide. Similarly, the removal of subsidy and its attendant consequences could result in broken homes and increase cases of divorce (Todaro and Stephen, 2005).

When people cannot fend for themselves and their families, there is the likelihood that husbands and wives would separate. This may consequently lead to discomfort, anger and even death. There is also the serious dimension that the removal of fuel subsidy may result to. It could lead to rebellion against government and anarchy. This was exemplified by the massive protests that took place across Nigeria, after Jan, 1st, 2012 announcement by Petroleum Product Pricing Regulatory Authority (PPPRA). The fear was that it was evolving into the "Nigerian Spring" to borrow from the "Arab Spring" that is the massive social protests that engulfed the Arab nations of Tunisia, Egypt, Yemen, Libya, Qatar and Syria to mention but these few (Ering and Akpan, 2012).

The fact remains that, the removal of fuel subsidy have had a number of negative socio-economic consequences on the Nigerian populace. Even when the federal government has promised and taken a number of rushed and un-sustained remedial measures (palliative) to cushion the effects of the fuel subsidy removal on Nigerians, there are not far reaching enough. The effects of the palliatives are not being felt; the argument is that these so called palliatives should have been put in place before the removal of the subsidy (Ering and Akpan, 2012).

## V. RECOMMENDATIONS

The family unit whether good or bad is at the receiving end of government actions and policies, therefore, efforts should be made to ameliorate the hardship they already experience. Hence, the following recommendations are given;

### a) Grass-root Development

Decision making must be participatory. Government must sufficiently involve the citizenry in the process of decision and policy making particularly on issues and policies that affect their lives. This could be through town hall meetings with all segments of society and making the necessary contacts with members of the grass-root and civil society organizations. To do this, government could employ the services of Non-Governmental Organizations (NGOs) and National Orientation agencies across the country (Ering and Akpan, 2012).

Social services must be put in place and seen to be working. Such social services are power supply,

portable water supply, roads, health services, housing and enabling policies put in place to ensure adequate food supply for local consumptions and for export. Government must also tackle the problem of security of lives of people in the country. Peace and progress of any society is not just the absent of a shooting war and political insurgents but is a function of the availability and functioning of such social services for the benefit of the people (Ering and Akpan, 2012).

### b) Local Refineries

The Nigerian government should firstly focus on various ways to improve the performance of the local refineries since none of them is working at optimum. The private sectors should be allowed to invest in the refineries' operation so that the necessary technology management can be harnessed. Also, government should provide a conducive environment and policies that will motivate the development of various renewable energies (Akinwale et al., 2013).

### c) Transparent and Realistic Policies

Furthermore, there should be an effective publicity campaign that lasts for a long period sensitising the citizens about the benefits of removing petrol subsidy and the cost of leaving subsidy. The campaign should cut across the Academic Staff Union of Universities, polytechnics, all the labour unions and the entire ministries. This should then be followed by the transparent policy on how the government will spend the money saved from subsidy on infrastructure such as good roads, on targeted education, on health care, on job creation, on electricity provision among others that will benefit the no/low income earners. Afterwards, the subsidy can then be removed gradually before it is finally phased out.

Nigerian government should engage independent consultant who will audit the activities surrounding the price of fuel and also how the money saved is spent. The consultant will then publish its reports regularly for public accessibility (Akinwale et al., 2013).

It is imperative also, that the estimated US\$6B savings per annum is used judiciously. The government must show real improvement in local refinery output; transport, road and communications infrastructure must feel the benefit; electricity generation and distribution must improve. If Nigerians can see where, how and when the US\$6B savings is utilised then Nigerians may bear the pain. But if the roads are worse than ever or refined petroleum products and power supply does not improve and hyperinflation ensues, then Nigerians may find it difficult to accept. It would simply be a case of short term pain for no long term benefit (Iyobhebhe, 2012).

#### d) *Eradicating Corruption*

In summary, the issue is not choosing between removal or retaining fuel subsidy. The real issue is transparent and honest leadership that will rid the nation of corruption. It is only in Nigeria that thieves are celebrated and given honorary awards. It is here you see corrupt men and women wasting our resources and inflicting hardship on the masses. The removal of corruption in the Nigerian government is the solution to the controversial fuel subsidy.

### VII. CONCLUSION

This paper has critically reviewed the social and psychological effects of fuel subsidy removal on the Nigerian family. The result shows that phasing out fuel subsidy will reduce indiscriminate fuel consumption which will lead to reduction in carbon emission, and money saved could be channelled towards infrastructural development, revitalising the local refineries among other factors that will transform Nigerian economy.

However, the strong and transparent institutional framework that could transform the money saved from subsidy removal to economic growth is very weak in Nigeria. Nigeria government should ensure that policies that will improve the welfare of the low income citizens, strong institutional framework and improved refinery technology are enforced before fuel subsidy is totally phased out. There is the need to meet the short term plan before the long term plan can be actualized.

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