



Fuel Subsidy Removal and Revenue Allocation to Local Government Councils: Implications for Rural Development in Akwa Ibom State, Nigeria

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Abstract: It is a known fact that fuel subsidy removal is one of the most significant fiscal and political reforms in contemporary Nigeria. While the policy is justified on grounds of fiscal sustainability and economic efficiency, its developmental consequences particularly at the sub national and rural levels remain deeply controversial. This paper assessed the implications of fuel subsidy removal for revenue allocation to local government councils and rural development in Akwa Ibom State, Nigeria. It is a theoretical paper therefore, relied on data obtained from relevant published textbooks, journals, internets, newspapers and conference papers. The data collected were analyzed through the descriptive method. Using the fiscal federalism theory propounded by Musgrave, 1959; Oates, 1972, decentralization and development theory propounded by Rondinelli, 1981, and political economy perspectives propounded by Suberu, 2013. The study argues that fuel subsidy removal can potentially enhance rural development in Akwa Ibom State if subsidy savings are transparently and equitably channeled to local governments. However, institutional weaknesses, state-level fiscal dominance, limited local government autonomy, and accountability deficits significantly constrain these prospects. Relying on secondary data, government reports, and scholarly literature, the paper demonstrates that although fuel subsidy removal expands Nigeria's fiscal space and increases statutory allocations to subnational governments, the translation of these gains into concrete rural development outcomes in Akwa Ibom State remains unbalance.. The paper concludes that aligning fuel subsidy reform with comprehensive local government and fiscal decentralization reforms is essential for sustainable rural development in Akwa Ibom State. It recommended, among others, strengthen fiscal autonomy of local governments in Akwa Ibom State, reform the State Joint Local Government Account system, and enhance transparency and citizen participation in budgeting and project monitoring.

Keywords: Fuel subsidy removal, revenue allocation, local government councils, rural development, fiscal federalism, Akwa Ibom State, Nigeria

1. Introduction

Fuel subsidy policy has pre- occupied a central position in Nigeria's political economy and public finance system and also

emerged as one of the most controversial public policy reforms in Nigeria's post-independence history. As postulated by

(Adenikinju, 2012), as an oil-producing country, Nigeria has long maintained subsidized petroleum prices as a means of stabilizing the cost of living, promoting social welfare, and maintaining political legitimacy. He further maintained that for decades, fuel subsidies were justified as a social welfare mechanism aimed at reducing the cost of living and cushioning the poor from market volatility

However, mounting fiscal pressures, corruption, inefficiency, and leakages in subsidy administration led successive governments to reconsider the policy. These challenges culminated in repeated reform attempts, most notably in 2012 and again in 2023, when the federal government undertook a comprehensive removal of fuel subsidies. However, over time, the fuel subsidy regime became fiscally unsustainable, administratively inefficient, and deeply entangled with corruption and rent-seeking (Suberu, 2013).

The eventual removal of fuel subsidy, particularly from 2012 and more decisively in 2023, has fundamentally altered Nigeria's fiscal and intergovernmental relations. Fuel subsidy removal has significant implications for Nigeria's federal structure and intergovernmental fiscal relations. By eliminating a major recurrent expenditure item, subsidy removal expands the fiscal space available to government and potentially increases the pool of revenue distributable through the Federation Account (IMF, 2022). Given Nigeria's revenue allocation system, changes in federally collected revenue directly affect allocations to states and local government councils.

In Akwa Ibom State, one of Nigeria's major oil-producing states, the implications of fuel subsidy removal are particularly significant. Akwa Ibom State comprises thirty-one local government councils, many of which are predominantly rural with development

challenges relating to infrastructure deficits, limited access to healthcare and education, youth unemployment, and rural poverty. As scholars such as Olaopa (2014) and Elensi (2018) emphasize, local governments play a critical role in addressing these challenges because of their proximity to rural communities.

Despite increased statutory allocations following subsidy removal, rural development outcomes in Akwa Ibom State remain mixed. While some local government areas have witnessed improvements in rural roads, healthcare facilities, and market infrastructure, many rural communities continue to experience poor service delivery. This paradox raises important questions about the relationship between fuel subsidy removal, revenue allocation to local governments, and rural development at the state and local levels.

At the same time, revenue allocation to local government councils (LGCs) remains a critical determinant of rural development, given that local governments are constitutionally assigned responsibilities for grassroots development (1999 Constitution of the Federal Republic of Nigeria, as amended). This paper examines how fuel subsidy removal affects revenue allocation to local governments and analyzes the implications for rural development in Akwa Ibom State in Nigeria.

2. Conceptual Clarifications

Fuel Subsidy Removal in Nigeria

Fuel subsidies occur when government pays part of the cost of so consumers pay lower prices at the pump. Subsidy removal means ending these payments so fuel prices are fully determined by global market prices or domestic costs. Policy goals often include reducing government cost, relocating spending, and improving economic efficiency.

.World bank, 2019, note that fuel subsidies as government action that lowers fuel prices

below cost recovery levels, often benefiting higher income groups disproportionately. Stiglitz (2012) defines fuel subsidy as a government policy that lower the price consumers pay for petroleum products below the market clearing level , often financed through public expenditure.

Samuel son and Nordhaus (2009), fuel subsidy is a price support mechanism where government intervenes to keep fuel prices artificially low in order to enhance consumer welfare

Fuel subsidy refers to government intervention in the petroleum market to reduce the pump price of fuel below its market value. In Nigeria, this involved government reimbursement to petroleum marketers for the price differential between import costs and regulated retail prices (Adenikinju, 2012). Adenikinju and Alaba (2018) demonstrate that although fuel subsidies were justified on equity grounds, they disproportionately benefited urban consumers and higher-income households.

Fuel subsidy removal entails the withdrawal of such government support and the liberalization of petroleum pricing. According to the IMF (2022), subsidy removal is a key fiscal reform tool that reduces budgetary pressures and reallocates public spending toward productive sectors. In Akwa Ibom State, subsidy removal indirectly affects development through changes in federal revenue allocation and increased fiscal transfers to the state and its local governments.

Revenue Allocation to Local Government Councils

Revenue allocation refers to the distribution of federally collected revenue among Nigeria's three tiers of government. Local governments receive allocations primarily through the Federation Account, disbursed via the State Joint Local Government Account (SJLGA.)

Revenue allocation involves the vertical and horizontal distribution of federally collected revenues among the three tiers of government—federal, state, and local governments. Local governments in Nigeria receive funds primarily through: Statutory allocation from the Federation Account, State Joint Local Government Account (SJLGA), and Internally Generated Revenue (IGR).

Olaopa (2014) argues that this arrangement undermines local government autonomy and weakens accountability at the grassroots level. When local government lack adequate revenue sources, fiscal dependence on central and state transfers can weaken accountability and service delivery.(Shah,2007).

In their contributions Olowu & Wunsch (2004) argued that equitable revenue allocation is vital for effective decentralization and sustainable local governance in Africa.

In Akwa Ibom State, local government councils rely heavily on statutory allocations, as internally generated revenue remains limited in many rural LGAs. Elensi (2018) observes that dependence on statutory transfers constrains local governments' fiscal independence and makes them vulnerable to state-level control.

Rural Development in Akwa Ibom State

Rural development refers to sustained improvements in the quality of life and economic well-being of rural populations. Todaro and Smith (2015) conceptualize rural development as encompassing income growth, access to basic services, and social inclusion. In Akwa Ibom State, rural development priorities include rural road construction, primary healthcare delivery, basic education, water supply, agricultural development, and youth empowerment.

Elensi (2020) emphasizes that rural development outcomes in Nigeria depend not only on financial resources but also on

governance quality and institutional effectiveness at the local level. This perspective is particularly relevant in Akwa Ibom State, where disparities exist among local governments in terms of administrative capacity and service delivery performance.

Local Governments in Akwa Ibom State/ Revenue Allocation Before and After Subsidy Removal

Akwa Ibom State has thirty-one (31) local government councils, many of them are predominantly rural depending heavily on statutory allocations for financing development projects. Elensi (2018) emphasizes that such dependence heightens the importance of federal revenue flows in shaping rural development outcomes.

Fuel subsidy removal expanded federally distributable revenue, leading to increased allocations to states and local governments (IMF, 2022). Subsidy removal therefore creates fiscal space which has been potentially reallocated to development-oriented sectors, including local governments. In Akwa Ibom State, local governments experienced nominal increases in statutory transfers, although real value gains were partially eroded by inflation.

With subsidy removal, funds previously used for subsidy payments have been redistributed through increased statutory allocation from the Federation Account, Special intervention funds for local governments, and increased transfers for infrastructure and social services. In theory, this should strengthen local governments' capacity to finance rural development projects such as feeder roads, rural electrification, water supply, and primary healthcare (Elensi, 2018).

The comprehensive fuel subsidy removal of 2023 marked a decisive policy shift. Successful subsidy reform requires transparency, social investment, and institutional credibility. (Okonjo-Iweala, 2012). In Akwa Ibom State, the 2023 reform

led to increased statutory allocations, raising expectations of improved funding for local government-led rural development projects.

3. Theoretical Framework

The study adopts fiscal federalism theory propounded by Musgrave, 1959; Oates, 1972, decentralization and development theory propounded by Rondinelli, 1981, and political economy perspectives propounded by Suberu, 2013

Fiscal federalism theory provides a useful framework for analyzing revenue allocation and rural development in Akwa Ibom State. Musgrave (1959) identifies allocation, distribution, and stabilization as the core functions of public finance, while Oates (1972) argues that sub-national governments are better positioned to provide local public goods due to their proximity to citizens. Applied to Akwa Ibom State, this theory suggests that increased revenue resulting from fuel subsidy removal should enhance the capacity of local governments to provide rural infrastructure and services. However, as Olaopa (2014) notes, Nigeria's centralized fiscal system limits the effectiveness of fiscal federalism by constraining local government autonomy.

Rondinelli (1981) argues that decentralization enhances administrative efficiency and development outcomes when authority and resources are devolved to local levels. In Akwa Ibom State, decentralization remains incomplete, as local governments depend heavily on state-controlled financial mechanisms. Elensi (2020) contends that decentralization without fiscal autonomy yields limited development outcomes. Consequently, the developmental impact of fuel subsidy removal in Akwa Ibom State depends on whether additional resources are genuinely decentralized to local governments.

The political economy perspective highlights the role of power relations and institutional interests in shaping policy outcomes. Suberu

(2013) argues that fuel subsidy reform in Nigeria is often constrained by elite resistance and governance deficits. Subsidy removal must be accompanied by transparency and social investment to gain public legitimacy. (Okonjo-Iweala, 2012). In Akwa Ibom State, political economy dynamics influence how increased revenues are allocated and utilized at the local level, affecting rural development outcomes.

4. Implications for Rural Development

Increased Funding for Rural Infrastructure

It is a known fact that through fuel subsidy removal statutory allocation from the federation account has been increased. However, improved revenue allocation creates opportunities for the local government Councils to initiate feeder road rehabilitation projects linking farm settlements to markets, rural road construction, water supply schemes, and electrification. Though, outcomes vary widely, reflecting differences in administrative capacity and political leadership. If subsidy savings are transparently allocated, local governments can improve rural roads, markets, and water projects. These investments stimulate agricultural productivity and rural livelihoods (Afolayan, 2019).

Enhanced Social Service Delivery

Local governments are responsible for primary education, healthcare, and sanitation. Increased revenue allocation can improve service delivery in rural communities, reducing poverty and inequality. Subsidy removal provides an opportunity for government to channel resources into local social structure including electrifications, primary healthcare and basic education. (Ajakaiye, 2014). Supporting the view, Van de Walle (1998) argues that public spending on basic services delivered by local government such as immunization, maternal

healthcare, and primary education- has a direct effect on human capital development. When fuel subsidy savings are invested in these sectors, local government can expand service coverage, improve service quality, and enhance social welfare.

Economic Diversification and Job Creation

Subsidy removal encourages investment in productive sectors rather than consumption subsidies. Local governments can support agriculture, agro-processing, and small-scale enterprises in rural areas. Over-reliance on natural resources such as oil, exposes economies to volatility and growth instability. (Sachs and Warner, 2001). To support the view, Auty (2004) argues that fuel subsidies have channeling scarce resources to consumption rather than productive investment. According to Elensi (2023), fuel subsidy removal creates a critical fiscal window for diversification by freeing resources that can be redirected into agriculture, manufacturing, solid minerals, and the service sector.

Health and Education Service Delivery

Local governments in Akwa Ibom State are responsible for primary healthcare and basic education. Increased allocations following subsidy removal have enabled some LGAs to renovate primary health centers and supply medical equipment. Relocating subsidy savings to health sector can strengthen service coverage, reduce out-pocket expenditures, and improve access for vulnerable populations. (Shang et. al, 2017). In the related development, McIntyre et. al (2017) argued that increased public health spending improve equity by reducing reliance on private healthcare, which often excludes low-income households

Education is another sector heavily affected by fuel subsidy reforms. According to Tilak (2002) sustained public investment is essential for achieving universal access to

equality education particularly in developing economies. Nevertheless, Elensi (2020) notes that weak maintenance culture and staffing shortages limit long-term impact.

Agriculture and Rural Livelihoods

Agriculture remains a key livelihood in rural Akwa Ibom State. Increased funding can support extension services, fisheries development, and rural enterprise schemes. In coastal LGAs in Akwa Ibom state fisheries development projects illustrate the potential of targeted local government interventions. Supporting the view, Elensi (2023), argues that fuel subsidy removal creates a critical fiscal window for diversification by freeing resources that can be redirected into agriculture, manufacturing, solid minerals, and the service sector.

5. Negative Implications/ Challenges

Though, fuel subsidy removal increases revenue and offers opportunities, there are negative implications including rise of transportation and production costs. Rural dwellers in LGAs in Akwa Ibom state face higher costs for farm inputs and market access, underscoring the need for compensatory social policies *Rising Cost of Living in Rural Areas*

Fuel subsidy removal increases transportation and production costs, disproportionately affecting rural dwellers that rely on fuel-powered transport and generators (Okonjo-Iweala, 2012).

Many local governments lack absorptive capacity including technical and administrative capacity to effectively utilize increased funds. Without capacity building, additional revenue may not translate into rural development.. Absorptive capacity involves knowledge acquisition, assimilation, transformation, and exploitation skills. Local government that lack absorptive capacity cannot translate macro reforms into effective local action. (Cohen&Levinthal, 1990

Despite increased revenues at the federal level, local governments often fail to benefit due to State control through the State Joint Local Government Account, Weak financial autonomy of local government, and Political interference and misappropriation of funds. Nigeria's local government system is "administratively decentralized but fiscally emasculated," limiting its development impact. Olaopa (2014). Weak accountability mechanisms at the local level can lead to diversion of funds, undermining the developmental benefits of subsidy removal (Suberu, 2013).

Major challenges include limited fiscal autonomy of local governments, weak administrative capacity, political interference, and inadequate community participation. Elensi (2020) emphasizes that without addressing these challenges, increased revenue alone cannot drive sustainable rural development.

6. Conclusion

Fuel subsidy removal presents both opportunities and challenges for revenue allocation to local government councils and rural development in Nigeria. While the policy can free substantial resources for development, its success depends on institutional reforms, fiscal decentralization, and effective governance at the local level. Without strengthening local government autonomy and accountability, subsidy removal risks exacerbating rural poverty rather than alleviating it. Sustainable rural development in Nigeria therefore requires aligning subsidy reform with comprehensive local government and fiscal federalism reforms.

7. Recommendations

The study recommended among others:

- 1) Fiscal autonomy should be granted to local governments to enhance accountability and development

effectiveness. This should be done through a direct allocation of subsidy savings to local government.

- 2) A good percentage of subsidy savings should be set aside for rural development projects at the local government level.
- 3) Training in budgeting, project management, and monitoring should be encouraged for effective utilization of increased revenues strengthening Local Government Capacity
- 4) Community Participation and Social Accountability should be encouraged by involving rural communities in planning and monitoring projects to enhance transparency and ownership.

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