



THE EFFECT OF THE INCREASED PREMIUM MOTOR SPIRIT (PMS) PRICE AND INFLATION ON SMALL AND MEDIUM ENTERPRISES IN YOLA NORTH LOCAL GOVERNMENT AREA, ADAMAWA STATE

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ABSTRACT

This paper examines the effect of increased Premium Motor Spirit price (PMS) on Small and Medium Enterprises in Yola North Local Government area, Adamawa State. Therefore, the paper's main objectives are to determine the causes of the increase in the Premium Motor Spirit (PMS) Price and its economic effects on Small and Medium Enterprises in the Yola North Local Government area. The study employed the survey design research, in which a questionnaire was used to draw data for the study. The instrument was designed as a structured questionnaire with only two responses: Agreed or Disagreed. The study population consists of seven thousand (7000) enterprises operating in the Yola North. The study adopted the random sampling were two hundred and one respondents (201) are selected randomly. The reliability coefficient of the questionnaire was calculated to be 0.85 using the One Simple Test Correlation Coefficient. The Statistical Package for Social Sciences (SPSS) was used to analyse the data. The data is analysed and presented in tables in mean, standard deviation, and variance. The study discovered that the increased Premium Motor Spirit and inflation were caused by the government policies centred on the deregulation of the economy. The study also discovered that the increased Premium Motor Spirit and inflation adversely affect the Small and Medium Enterprises (SMEs). Therefore, the paper recommended that government should improve the fiscal and monetary policies to address inflation, repairing and installing new refineries at each part of Nigeria, loan facilities to SMEs and each doing business in Nigeria.

Keywords: Premium Motor Spirit (PMS), Inflation Rate, Deregulation, Small and Medium Enterprises, Yola North.

INTRODUCTION

Subsidy removal of the Premium Motor Spirit (PMS) and naira devaluation pushed food inflation to 23.44, 24.01% in 12 months in 2023 (T. Jaiyeola & O. Abimbola, 2023). Hence, food prices, among other necessary items, increased the Consumer Price Index (CPI) to 26.72% in September. The statistics showed a 0.92% increase from the 25.80% reported in August 2023 (NBS, 2023). This inflation rate of 5.94% points is higher than the rate recorded in September 2022, which was 20.77%. The skyrocketing inflation severely affected the country's small and medium enterprises, affecting many Nigerians' purchasing power (NBC, 2022). In addition, inflation has foisted challenges on small businesses, leading to increased costs for goods, services, and operational expenses against this background (Aro-Lambo, B., 2024). This paper examines the effects of increased Premium Motor Spirit price (PMS) and inflation on small and medium enterprises in Yola North (Jimeta), a local government area of Adamawa State.

AIM AND OBJECTIVES

This paper examines the effect of increased Premium Motor Spirit price (PMS) and inflation on Small and Medium Enterprises in Yola North Local Government area, Adamawa State. Therefore, the objectives of the paper are to specifically:

- i. Examine the causes of the increased Premium Motor Spirit (PMS) Price in Yola North Local Government area;
- ii. Find out the effects of the increased price of Premium Motor Spirit (PMS) and inflation on small and medium enterprises in the Yola North Local Government area.

CONCEPTUAL REVIEWS

Premium Motor Spirit (PMS)

Premium Motor Spirit (PMS) is popularly named petrol. It is a complex mixture of hydrocarbons produced by mixing fractions obtained from the distillation of crude oil with brand-specific additives to improve its performance (Onyinye, C., & Nkechi, H. (2015). Premium Motor Spirit (PMS) covers the oil, which is used in vehicles and small electricity-generating plants to distinguish it from other products such as Liquefied Petroleum Gas (LPG), which is used mainly for household cooking, and Dual Purpose Kerosene (DPK) (Household kerosene primarily used in homes and industries to produce insecticides and other pest control products (Gatawa & Abdullahi, 2022).

According to National Bureau of Statistics (2024) report on Premium Motor Spirit (Petrol) Price Watch (September, 2023) shows that the average retail price paid by consumers for Premium Motor Spirit (Petrol) for the month of September 2023 was N626.21, indicating a 226.75% increase when compared to the value recorded in September, 2022 (N191.65). Likewise, comparing the average price value with the previous month (i.e. August, 2023), the average retail price decreased by 0.08% from N626.70.

Small and Medium Enterprises (SMEs)

Small and Medium Enterprises (SMEs) are usually defined according to the individual country. In Nigeria, an SME is defined as any enterprise with a maximum asset base of N500,000,000, excluding land and working capital, with the number of employees not less than ten or more than three hundred (Ndaghu, J. T., Bello, D. V., Bawuro, F. A., & Stephen, G. 2019). According to the Central Bank of Nigeria (CBN), **Small and Medium-Scale Enterprises (SMEs) are companies with a workforce of fewer than 300 individuals** (Uchenna, 2023). Recent research reveals that approximately 96% of businesses owned by Nigerians fall into this classification. The remarkable proliferation of SMEs in Nigeria is a positive development. However, the United Nations Industrial Development Organization (UNIDO) has observed that merely 20% of these SMEs sustain their operations beyond five years. This statistic is disheartening and presents a significant challenge (Uchenna, 2023).

Inflation Rate in Nigeria

Inflation means a continuous rise in the general price level of goods and services in an economy and is of primary concern to all stakeholders. Even without economic shocks, inflation displays the tendency to reproduce itself from one period to the next. In other words, inertial inflation is when prices keep rising because of past inflation despite the lack of structural reasons.

Trading Economics (2024) reported that Nigeria's annual inflation rate increased to 28.9% in November 2023, the highest since August 2005 and above market expectations of 27.9%, up from 27.3% in the previous month. Inflation accelerated for food and non-alcoholic beverages (32.6% vs 31.3% in October), clothing and footwear (16.6% vs 16.4%), housing and utilities (23.4% vs 22.9%), health (23.9% vs 23.3%), recreation & culture (8.8% vs 8.4%) and restaurants & hotels (24.1% vs 24%). Conversely, prices eased for communication (6.1% vs 6.3%), education (20.4% vs 21.1%) and miscellaneous goods services (21.6% vs 22%). Meanwhile, inflation remains unchanged for alcoholic beverages, tobacco and kola (16.5%) and furnishings and household equipment (16.3%). Monthly, consumer prices grew 2.1% in November, following a 1.7% rise in October. The Table below shows the inflated rate in the last Quarter of 2023

Table 1: inflate rate in the last Quarter of 2023

Month	October	November	December
All Items (Year on Change)	27.33	28.20	28.92
All Items (12 Months Avg. Change)	23.44	24.01	24.66
Food (Year on Change)/1	31.52	32.84	33.93
Food (12 Months Avg. Change)/1	26.33	27.09	27.96
All Items Less Farm Produce (Year on Change)/2	22.69	22.55	23.07
All Items Less Farm Produce (12 Months Avg. Change)/2	20.25	20.61	20.99
All Items Less Farm Produce and Energy (Year on Change)/3	22.58	22.38	23.06

All Items Less Farm Produce and Energy (12 Months Avg. Change)/3	19.98	20.35	20.76
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Source: Central Bank of Nigeria <https://www.cbn.gov.ng/rates/inflrates.asp>

Deregulation

Deregulation is the reduction or elimination of government power in a particular industry, usually allowing competition and minimising government expenditure within the industry. Hence, the government removes or reduces the restrictions in a particular industry to improve business operations and increase competition. The government removes specific regulations when businesses complain about how the regulation impedes their ability to compete. In his inaugural speech on Monday, 29th May 2023, President Bola Tinubu said Nigeria's fuel subsidies would be scrapped, citing budgetary concerns. The decision led to a steep rise in fuel prices and widespread panic buying. Some bus companies have been unable to refuel their vehicles, leaving many stranded.

EMPIRICAL REVIEW

The work of Samson, B., Peter, F., & Cynthia, D. (2023) on Fiscal Policy and Inflation in Nigeria is relevant to this study. This paper empirically examined the impact of fiscal policy on inflation in Nigeria. The authors used time series data on inflation, government revenue, government expenditure, and gross domestic product sourced from the Central Bank of Nigeria (CBN). Findings from the study showed that government expenditure and revenue both have a positive relationship with the inflation rate, and there is a positive but insignificant relationship between inflation and gross domestic product. The paper recommends that the Nigerian government at all levels tactfully use fiscal policy tools to avoid triggering inflationary pressure and its adverse multiplier effects on the welfare of its citizenry.

Another related work was that of Collins & Azunwo (2018). The authors adopted the analytical review method to examine Nigeria's petroleum marketing changes since 1903. The research's essence was to unveil politics' influence on the petroleum industry. The role of NNPC, foreign marketers, and regulatory agencies, as well as the changes that have been effected when indigenous firms took over the industry's fate, were examined. How various marketing strategies of the government, independent marketers, and crude oil exchange policies marred the industry's growth in divergent ways was examined. The paper, moreover, examined the causes of poor fuel supply, fluctuations in pump prices, delivery huddles, and corruption.

Lionel E. & Samuel E. E. (2018) work on provided empirical evidence to support the thesis that both internal and external factors are critical success determinants of SMEs in Nigeria. Relying on the primary survey instrument and analysing the data utilising the multiple regression analysis, findings indicate that external environmental factors of infrastructure and institutions matter for SME success, though they constrain variables to SMEs' performance. Marketing practices indicated a negative and insignificant

relationship with SMEs' profitability. Both the government and the private sector require policy actions to address the yawning deficit in infrastructure and institutional efficiency.

In addition, the paper of T. Manishimwe & Lukman Raimi (2001) explored the causal relationship between entrepreneurial marketing (EM) and organisational performance has produced mixed findings in the developed context. The paper examined the impact of EM on the organisational performance of small business enterprises (SBEs) in Yola, a region in Northeast Nigeria grappling with the onslaughts of Boko. The study concludes that EM practices significantly positively influence the overall organisational performance of SBEs in Yola, Nigeria. The study recommends that SBE managers or owners review their implemented entrepreneurship-oriented strategy measures, formulate and implement effective measures, emphasise the CO measure and engage all their employees in EO and CO to increase the effectiveness of EM practice.

METHODOLOGY

The study employed the survey design research, in which a questionnaire is used to draw data for the study. The instrument is designed as a structured questionnaire with only two responses: Agreed or Disagreed. The study population consists of seven thousand (7000) enterprises operating in the Yola North. The study adopted the random sampling were two hundred and one respondents (201) are selected randomly. The reliability coefficient of the questionnaire was calculated to be 0.85 using the One Simple Test Correlation Coefficient. The Statistical Package for Social Sciences (SPSS) was used to analyse the data. The data is analysed and presented in tables in mean, standard deviation, and variance.

RESULTS

Table 2: Causes of Price Increase of Premium Motor Spirit (PMS) Price

		N	Sum	Mean	Std. Deviation	Variance	status
1	The Premium Motor Spirit (PMS) increase is caused by the Federal Government's removal of the petroleum subsidy.	201	237.00	1.1791	.38440	.148	Accepted
2	The distance and transportation costs are among the reasons for the increase in petroleum prices.	201	278.00	1.3831	.48735	.238	Accepted
3	One of the reasons for the increased petroleum price is that petroleum is not refined in Nigeria.	201	265.00	1.3184	.46702	.218	Accepted

4	The devaluation of the naira is one of the factors that led to the increased petroleum price.	201	259.00	1.2886	.45422	.206	Accepted
5	Adopting a free Economy that includes the deregulation of the petroleum sector is one of the causes of the increased petroleum price.	201	308.00	1.5323	.50020	.250	Accepted

Table 2 above shows that the respondents accepted that the Premium Motor Spirit (PMS) increase was precipitated by the petroleum subsidy removal with standard derivation of 0.38440. The distance and transportation costs are among the reasons for 0.48735 accepted the increase in petroleum prices. In addition, the reasons for the increased petroleum price is because the product is not refined in Nigeria is accepted with 0.46702 while for the devaluation of the naira as one of the factors that led to the increased petroleum price was also accepted with standard derivation of 0.45422 from the mean of 1.2886. Lastly, on the table 2, respondents agreed with the adopting a free Economy is one of the causes of the increased petroleum price was accepted with 0.50020.

Table 3: Effects of the Increased Price and the Inflation

Descriptive Statistics							
		N	Sum	Mean	Std. Deviation	Variance	Status
1	The increased petroleum price and inflation lead to a reduction of purchasing power to run your business successfully.	201	246.00	1.2239	.41788	.175	Accepted
2	The increase in the petroleum pump price leads to hyperinflation that affects your business.	201	237.00	1.1791	.38440	.148	Accepted
3	Interest rates in banks have increased due to the increased inflation in Nigeria.	201	257.00	1.2786	.44943	.202	Accepted
4	The inflation forced you to look for more capital	201	263.00	1.3085	.46301	.214	Accepted

	to keep up with the business standards.						
5	The cost of petroleum required to run some of your business activities forces you to increase the price of your goods or services.	201	209.00	1.0398	.19598	.038	Accepted
6	Inflation leads to difficulties in credit facilities as you need more than before.	201	265.00	1.3184	.46702	.218	Accepted
7	The inflation leads to the higher cost of maintenance and repairs of your facilities and equipment.	201	213.00	1.0597	.23752	.056	Accepted
8	Inflation comparably leads you to have lower profits and higher expenditures.	201	251.00	1.2488	.43337	.188	Accepted

The Table 3 above shows that the increased petroleum price and inflation lead to a reduction of purchasing power to run the business successfully is accepted with 0.41788 while the increase in the petroleum pump price leads to hyperinflation that affects the business stands for 0.38440. Moreover, the table shows that the increased PMS Price due to the increased inflation in Nigeria was accepted with 0.44943. In addition, the inflation forced the entrepreneurs to look for more capital to keep up with the business standards stands 0.46301, which is also accepted. However, the cost of petroleum required to run some of the business activities forces the increase the price of goods or services agreed with 0.19598 and 0.46702 stands for inflation leads to difficulties in credit facilities as you need more than before. Equally, the view on the inflation leads to the higher cost of maintenance and repairs of your facilities and equipment is accepted with 0.23752 as 0.43337 reveals that inflation comparably leads you to have lower profits and higher expenditures.

RECOMMENDATIONS

Based on the finding of the study, the paper offers the following recommendation:

- i. The policymakers at Federal Government should consider the adverse effects of exchange rate on inflationary pressures and the government should develop strategies to manage and stabilize exchange rates.
- ii. Government through NNPC should facilitate the chapter petrol for running the small and medium enterprises such as repairing the existence refineries and

- supporting for the establishment of the new one in every part of the country to reduce the import and transportation costs.
- iii. Government should develop a strategy for improving the operation of the small and medium enterprises such as provision of low interest loans and grants.
 - iv. SMEs should form a well-structured and strategic marketing plan for their development plan on light with the current economic hardship augmented by inflation and the increased petroleum pump price.
 - v. Government should as mater of emergency address the deficit of infrastructure such as roads, telecommunications, railways, electricity, etc. that are vital to the development of the Nigeria SMEs.
 - vi. Similar interventions are required to strengthen the various institutions in the country by a drastic cutting in the cost of doing business in Nigeria. SMEs should also initiate in recruitment, selection, rewards, and compensation processes. Besides relying on government hand-outs in the form of short-term loans, SMEs might consider alternative ways of funding, as the shrinking revenues of government occasioned by the recession might not ensure the sustainability of government finance to the sector in the long term.

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