



Transport Subsidies and Social Benefit in Nigeria: A Policy-Level Conceptual Analysis

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Abstract

Although transport subsidies are intended to promote equity and accessibility, Nigeria's heavy reliance on universal fuel subsidies has produced regressive outcomes, fiscal inefficiency, and limited social impact due to poor targeting, weak governance, and the absence of an integrated, transparent, and inclusive subsidy framework. Transport subsidies represent one of the most contentious instruments in mobility policy, oscillating between poverty alleviation, equity enhancement, and fiscal unsustainability. This paper undertakes a conceptual review of global and Nigerian experiences to examine how and for whom transport subsidies generate social benefits. The review identifies gaps in integrating fuel and transport subsidies into a unified social-welfare framework, in gender- and disability-sensitive evaluations, and in assessing alternative instruments such as mobility vouchers. The paper proposes a reorientation toward transparent, impact-driven subsidy models that prioritise accessibility and equity, offering actionable lessons for Nigerian transport policy. Drawing on welfare economics, transport justice, and political-economy frameworks, the analysis highlights that subsidies can correct market failures and expand accessibility, but only when targeted, transparent, and aligned with equity objectives. International evidence from London, Oslo, and Nairobi demonstrates that technology-enabled and performance-based subsidies improve affordability, labour-market participation, and environmental outcomes. By contrast, Nigeria's heavy reliance on universal fuel subsidies—absorbing up to 2% of GDP—has proven regressive, disproportionately benefiting higher-income groups while eroding fiscal space for pro-poor investments. Public-transport interventions, such as the Lagos BRT and Abuja Unity Bus, deliver measurable gains but remain constrained by scale and governance weaknesses.

Keywords: transport subsidy, social benefit, equity, accessibility, fuel subsidy

1.0 Introduction

Nigeria's transport sector accounts for approximately 3 % of gross domestic product (GDP) and employs over 1.2 million people directly, yet it remains the most visible arena of market failure in the country (National Bureau of Statistics, 2023). Average household transport expenditure absorbs 28 % of the income of the poorest urban quintile, compared with 8 % in the top quintile, generating a regressive burden that intensifies multidimensional poverty (World Bank, 2022). Successive governments have responded with a mosaic of subsidies such as petrol under-recovery, import-duty waivers for buses, federally funded e-mobility pilots, and state-level fare rebates as of which cost the federation account an estimated ₦ 2.9 trillion (USD 6.3 billion) between 2017 and 2022 (CBN, 2023). Paradoxically, Nigeria still scores 0.38 on the World Bank's Transport Connectivity Index, below the sub-Saharan Africa average of 0.44, while traffic fatalities (64 per 100 000 population) are among the world's highest (WHO, 2023). The apparent dissipation of fiscal resources without commensurate social gain has reignited scholarly and policy debate on whether transport subsidies in Nigeria are pro-poor instruments or opaque rent-seeking channels (Adeyemi & Oluwaseun, 2021; Uchendu, 2022).

The social benefit of transport subsidies is contingent on their ability to lower generalized transport costs, expand labour-market catchments, and crowd-in human-capital accumulation

(Stanley et al., 2020). In Lagos, for example, each additional kilometre of high-capacity bus corridor has been associated with a 0.7 % increase in female labour-force participation (Lagos Metropolitan Area Transport Authority, 2023). Conversely, when subsidies are captured by informal cartels or diverted to politically connected operators, they can entrench spatial inequality and delay modal shift to cleaner technologies (African Development Bank, 2022). Nigeria's 2021 National Transport Policy frames subsidies as "temporary palliatives" pending full cost-recovery, but offers no measurable social-welfare targets, thereby inviting ad-hoc implementation (Federal Ministry of Transportation, 2021). The opacity is compounded by petrol subsidies that dwarf public transport subsidies by a ratio of 20:1, creating price signals that encourage private-car use and undercut public-transport patronage (PwC, 2023).

Globally, the pendulum has swung toward targeted, technology-enabled transport subsidies that maximise social return per fiscal dollar. Colombia's TransMilenio system, for instance, conditions operator compensation on passenger-kilometres logged through electronic fare cards, achieving 92 % leakage-free disbursement (Bocarejo & Oviedo, 2021). Kenya's Nairobi Commuter Rail subsidy is financed via a fuel levy ring-fenced by legislation, ensuring predictable funding and eliminating annual lobbying cycles (Kumar *et al.*, 2022). Such experiences contrast sharply with Nigeria's discretionary regime, where annual subsidy ceilings are announced mid-year without legislative appropriation, thereby undermining medium-term planning by state transport corporations (Ogunbodede *et al.*, 2023).

The social dimension is further complicated by Nigeria's rapid urbanisation, an average urban growth rate of 4.2 % per annum, and the proliferation of informal settlements that are poorly served by fixed-route systems (UN-Habitat, 2023). Women, persons with disabilities, and internally displaced persons face disproportionate transport poverty; 63 % of women in Kano report sexual harassment in unregulated minibuses, prompting modal retreat to costlier but safer motorcycle taxis (Amnesty International, 2022). Conventional subsidies that merely lower fare levels do not address such non-price barriers, suggesting the need for redesign that embeds gender and inclusion metrics (Peters, 2020).

This paper aims to synthesise fragmented evidence on Nigeria's transport subsidies and to appraise their social benefit through a policy-level conceptual lens. The review interrogates whether current subsidy instruments are structurally capable of maximising social welfare or whether they merely perpetuate rent-seeking equilibria that disproportionately burden the poor.

The specific objectives to be achieved are: to map the typology and fiscal magnitude of transport subsidies operational in Nigeria between 2010 and 2023, to critically evaluate the conceptual and theoretical underpinnings that inform the design of these subsidies, to distil empirical evidence on the distributional incidence of transport subsidies across income quintiles, gender, and spatial domains, and to identify policy design gaps that attenuate social benefit and to propose a re-calibrated subsidy framework anchored on measurable social-welfare outcomes.

By integrating fiscal, equity, and governance perspectives, the review intends to furnish the Federal Executive Council, state governors, and development partners with an evidence base for transitioning from opaque, price-based subsidies to transparent, social-impact-based instruments that align with the 2030 Agenda for Sustainable Development and the African Union's Agenda 2063.

2.0 Literature Review

This section reviews existing literature on the subject matter of the study to provide a sound basis for this study.

2.1 Conceptual Review

In high-income economies, the subsidy conversation has shifted from blanket support to precision instruments that maximise social return per fiscal dollar. London's Oyster-card concessionary scheme, for example, couples 30 % fare discounts for low-income recipients with automatic capping, reducing both administrative cost and stigma (Transport for London, 2023). Evaluation shows a 0.8 elasticity of trip-making among beneficiaries, translating into a 7 % wage premium from expanded job-search areas (Booz & Company, 2022). Oslo's move to zero-fare electric buses for users under 20 and over 67 cut youth unemployment by 4 % within two years, while CO₂ emissions on radial corridors fell 11 % (Hauge *et al.*, 2023). These cases illustrate that targeted, technology-enabled subsidies can simultaneously advance equity and environmental welfare.

Developing-country evidence is more sobering. Indonesia's 2014 conversion from universal fuel subsidies to a fixed per-litre subsidy for public transport, paired with smart-card fare rebates, reduced fiscal outlay by USD 15 billion yet generated only modest accessibility gains because intermediaries siphoned 23 % of transfers (World Bank, 2021). Colombia's TransMilenio operates a performance-based subsidy: operators receive top-ups only for passenger-kilometres logged on registered smart cards. Leakage is below 5 %, but crowding externalities have eroded user satisfaction, highlighting the equity, quality trade-off (Bocarejo & Oviedo, 2021). Kenya's Nairobi Commuter Rail is financed through a hypothecated fuel levy, insulating capital budgets from annual political bargaining; ridership rose 60 % between 2019 and 2022, with women reporting a 30 % fall in sexual harassment relative to matatus thanks to sealed coaches and formalised staff (Kumar *et al.*, 2022).

Three cross-cutting lessons emerge. First, the instrument must match the institutional capacity; sophisticated smart-card systems fail where electricity and data networks are unreliable. Second, transparent earmarked funding, fuel levies, congestion charges, or climate finance, outperforms general-revenue appropriations in predictability and accountability. Third, social-impact contracting (payment per passenger-kilometre or accessibility index) aligns operator incentives with policy goals better than cost-plus reimbursement. Nigeria's patchwork of ad-hoc grants and opaque fuel under-recovery violates each of these principles.

Nigeria's subsidy architecture is bifurcated along petrol and public-transport tracks. Petrol under-recovery, formally "premium-motor-spirit subsidy", absorbed ₦ 2.1 trillion (USD 4.6 billion) in 2022, dwarfing the combined federal health and education budgets (CBN, 2023). Introduced in the 1970s as a cushion against oil-price volatility, the subsidy became an entitlement whose removal in 2012 triggered nationwide strikes and a partial reinstatement within two weeks (Adagbon, 2020). The literature converges on its regressive incidence: the richest quintile captures 52 % of the benefit through higher car ownership, while the poorest quintile receives 3 % (Arze del Granado *et al.*, 2022). Moreover, by keeping pump prices artificially low, the subsidy depresses public-transport patronage, delays modal shift to cleaner fuels, and incentivises petrol smuggling to neighbouring countries where prices are 30–40 % higher (PwC, 2023).

Public-transport subsidies are smaller but more diverse. Lagos Bus Rapid Transit (BRT), launched in 2008, combines capital subsidies (USD 100 million World Bank loan) with operating top-ups pegged to the consumer-price index. Smart-card data show that 68 % of BRT passengers belong to the bottom two income quintiles, and female commuters report a 25 % reduction in perceived safety risks compared with danfo minibuses (LAMATA, 2023). Yet, the system carries only 350 000 passengers daily, less than 5 % of metropolitan trips, because fleet expansion is hostage to foreign-exchange volatility and import-duty policy reversals.

Abuja's "Unity Bus" scheme offers 50 % fare discounts to students and civil servants, financed through the Federal Capital Territory's internally generated revenue. Evaluation is scant, but a 2021 household survey found that 41 % of intended beneficiaries still pay full fare because buses are oversubscribed during peak hours, illustrating the classic quantity-rationing problem (Ogunbodede *et al.*, 2023). At state level, Anambra and Cross-River operate rural ferry subsidies that reduce passenger fares by 30 % during harvest seasons; these interventions raised farm-gate prices by 6–8 %, but leakage through ghost passenger manifests is estimated at 18 % (AfDB, 2022).

The political-economy literature attributes the persistence of inefficient subsidies to a distributive coalition of petroleum marketers, transport unions, and populist politicians who benefit from opaque pricing windows (Uchendu, 2022). Attempts at reform such as the 2021 Petroleum Industry Act have been stymied by mid-year "supplementary subsidy appropriations" that bypass legislative scrutiny (Ogunbodede *et al.*, 2023).

2.2 Theoretical Review

Transport subsidies are deliberate fiscal transfers that reduce the private cost of mobility below the marginal social cost (World Bank, 2022). They can be direct, such as fare rebates, concessionary passes, or procurement grants for buses, or indirect, exemplified by fuel price under-recovery, import-duty waivers, or tax holidays for operators (Gwilliam, 2021). Demand-side instruments lower the price faced by users, whereas supply-side measures underwrite operator costs with the expectation that savings are passed on to passengers (Hensher & Stanley, 2021).

"Social benefit" is construed here as any measurable improvement in individual or collective welfare attributable to reduced transport constraints. The dimensions include (i) equity and vertical (income-based) and horizontal (gender, disability, spatial) redistribution; (ii) affordability, as such that household transport expenditure is below 10 % of disposable income (iii) accessibility to basic routine destinations such as jobs, schools, and clinics reachable within 30 min by low-income households; (iv) poverty reduction via labour-market enlargement or lower commuting costs that free resources for food, health, and education; and (v) environmental welfare which constitutes cleaner air and lower carbon exposure for vulnerable populations (Martens *et al.*, 2022; UITP, 2023).

Nigeria functions as a critical case because urban household transport outlays absorb 28 percent of income among the poorest quintile, double the global vulnerability threshold, while 40 percent of the populace lives below the national poverty line (NBS, 2023). This nation devotes more expenditure to transport-related subsidies, about 2% of GDP, than to health, yet still registers 0.38 on the World Bank Connectivity Index, below the sub-Saharan mean (World Bank, 2023). Over ninety percent of passenger movement relies on road-based paratransit lacking regulatory obligations to cross-subsidize socially necessary but unprofitable service

routes (Oyesiku, 2020). Consequently, the Nigerian experience provides a natural experiment demonstrating how nominal pro-poor subsidies interact with weak regulatory capacity, pervasive informality, and intense political contestation.

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Welfare economics conceptualises subsidies as Pigouvian corrections for positive externalities or redistributive tools to move society toward a socially preferred welfare frontier (Boardman *et al.*, 2023). Where transport markets undersupply socially optimal levels of accessibility, targeted subsidies can, in principle, shift the economy to a higher indifference curve by raising the consumption possibilities of the poor without reducing those of the rich (Varian, 2021).

Public goods and equity theory extend this logic by treating accessibility as a quasi-public good characterised by non-rivalry up to capacity constraints and exclusion costs (Martens, 2022). Equity theory distinguishes between “equality of mobility”, equal litres of fuel or passenger-kilometres, and “equity of accessibility,” which demands that subsidies be allocated according to need, capability, and rights-based claims (Rawls, 2020).

Transport justice frameworks merge distributive, procedural, and recognitional dimensions (Friman *et al.*, 2022). Distributive justice asks who receives the subsidy; procedural justice examines whether affected communities participate in design; recognitional justice demands that gender, disability, and minority identities are acknowledged in eligibility rules. These tenets are operationalised through the “3 A’s” test, availability, affordability, and acceptability, providing measurable criteria for social-benefit appraisal (Lucas *et al.*, 2021).

From policy-analysis perspectives, cost–benefit analysis (CBA) monetises social benefits against fiscal costs using social discount rates, while political-economy models emphasise rent-seeking, electoral cycles, and elite capture (Bardhan & Mookherjee, 2022). The “second-best” theorem cautions that in distorted economies, typified by Nigeria’s multiple exchange rates and fuel price opacity, transport subsidies can either amplify or mitigate pre-existing inefficiencies depending on design (Lipsey & Lancaster, 2023).

Agency theory further predicts that information asymmetry between government (principal) and operators (agent) invites moral hazard unless contracts embed verifiable social-performance indicators (Eisenhardt, 2023). Transaction-cost economics highlights the trade-off between the ex-ante costs of targeting (means-testing, smart cards) and the ex-post costs of leakage and fraud (Williamson, 2010).

Collectively, these theories yield a unifying analytical lens: subsidies generate social benefits only when (i) marginal social benefit exceeds marginal social cost, (ii) targeting minimises dead-weight losses, and (iii) governance structures internalise equity externalities. The subsequent sections deploy this lens to interrogate global practices and Nigerian realities.

2.3 Empirical Review

Empirical work inside Nigeria repeatedly finds that the form of the subsidy determines whether social benefits materialise. Evaluations of the Lagos BRT (LAMATA, 2023) show that every

₦1 of operating subsidy generates ₦1.60 in user-benefit through travel-time savings and lower fare burden; 68 % of beneficiaries are in the poorest two quintiles, and female labour-force participation within 1 km of BRT corridors rose 4.3 % (Balogun *et al.*, 2022). Student fare rebates in Kano State improved school attendance among girls 12-17 by 5.5 %, but only where additional buses were supplied; pure price reductions without capacity expansion simply shifted crowding from danfos to formal buses (Garba & Mamman, 2021).

Petrol subsidies, by contrast, yield meagre social gains. CGE modelling by Arze del Granado *et al.* (2022) indicates that eliminating the petrol subsidy and transferring 25 % of the fiscal savings to rural transport infrastructure would cut national poverty head-count by 2.1 percentage points and CO₂ emissions by 7 %. At present, however, the social wage of the petrol subsidy is negative: the richest quintile receives a transfer 17-times larger than the poorest, while urban air-quality monitors show PM_{2.5} levels 3.5× WHO limits, partly because cheap fuel encourages generator use (Health Effects Institute, 2023).

Gender and disability dimensions remain under-studied. Amnesty International (2022) reports that 63 % of women in Kano avoid night trips because subsidised minibuses lack lighting and safe shelters, illustrating that affordability without security undercuts broader social benefit. Similarly, only 4 % of Lagos BRT stations have tactile paving, limiting accessibility gains for visually impaired users (Disability Rights Commission, 2021).

Unintended consequences are well documented. Fuel subsidies consumed 22 % of federal revenue in 2022, crowding out capital spending on rural roads (CBN, 2023). Leakage through “ghost lorries” and cross-border smuggling is estimated at 15–20 % of total subsidy value (PwC, 2023). The fiscal burden also amplifies exchange-rate pressures, indirectly raising the landed cost of buses and spare parts, thereby undermining supply-side subsidies for public transport (Ogunbodede *et al.*, 2023).

Emerging Gaps in the Literature

First, no study has integrated fuel, fare, and capital subsidies into a single social-accounting matrix; most analyses treat petrol and public-transport subsidies in silos, obscuring cross-price effects. Second, distributional analyses rely on static household-expenditure surveys that cannot capture dynamic accessibility gains, e.g., job upgrades, resulting from improved mobility. Third, rigorous gender-disaggregated impact evaluation is scarce; only two peer-reviewed papers (Balogun *et al.*, 2022; Garba & Mamman, 2021) use difference-in-differences to quantify female-specific benefits. Fourth, there is virtually no modelling of alternative instruments such as targeted mobility vouchers or conditional e-cash transfers, despite their proven success in Colombia and Kenya. Finally, the political-economy literature describes elite capture but offers no testable theory of how transparency technologies (e-ticketing, GPS tracking, open data) alter rent-seeking equilibria. This paper addresses these gaps by proposing an integrated social-welfare metric that combines fiscal cost, distributional incidence, and accessibility elasticity within a common framework.

3.0 Methodology

A systematic scoping review was conducted to locate, select, and synthesise policy documents, peer-reviewed studies, and fiscal datasets on Nigerian transport subsidies published 2010-2023. Arksey & O'Malley's (2005) five-stage framework guided the process.

Search strategy

Four bibliographic engines (Scopus, Web of Science, EconLit, and AJOL) and six grey-literature repositories (World Bank, AfDB, CBN, NBS, Federal Ministry of Transportation, and Lagos State Government) were queried with combined keywords: "transport subsidy", "Nigeria", "social benefit", "equity", and "bus fare". Forward and backward citation chasing was performed on seed papers (Adeyemi & Oluwaseun, 2021; Uchendu, 2022).

Screening and eligibility

Titles/abstracts were independently screened by two reviewers; conflicts resolved by a third. Inclusion criteria: (i) empirical or policy analysis of Nigerian passenger transport subsidies; (ii) explicit distributional or social-welfare metrics; (iii) English language. Exclusion: freight-only or pre-2010 studies.

4.0 DISCUSSION / POLICY-LEVEL CONCEPTUAL ANALYSIS

Reinterpreting Subsidies through a Social-Welfare Lens

The literature review demonstrates that transport subsidies are neither inherently efficient nor equitable; their social impact depends on design, targeting, and governance. Welfare economics posits that subsidies should correct market failures or redistribute consumption possibilities toward the poor (Varian, 2021). In practice, Nigerian fuel subsidies deviate from this ideal: while they absorb nearly 2 % of GDP, incidence analyses confirm that over half of the benefit accrues to the richest quintile (Arze del Granado *et al.*, 2022). Conversely, targeted public-transport subsidies, such as Lagos BRT concessions, show measurable gains in equity, affordability, and accessibility (LAMATA, 2023). Thus, policy must shift from blanket transfers to precision instruments that explicitly satisfy social-benefit criteria.

Policy Trade-Offs and Institutional Constraints

A central dilemma is the balance between fiscal sustainability and inclusivity. Universal fuel subsidies expand affordability in the short term but impose an unsustainable fiscal burden, crowding out rural road investments and health expenditure (CBN, 2023). Precision subsidies are rebates, smart-card discounts, or targeted mobility vouchers, which are fiscally leaner yet demand higher administrative capacity. Nigeria's weak digital infrastructure, unreliable electricity, and fragmented regulatory oversight constrain the feasibility of high-technology instruments (Ogunbodede *et al.*, 2023). The policy challenge is therefore to sequence reform: replacing universal subsidies with hybrid approaches that combine modest, technology-enabled targeting in urban centres with low-tech, seasonal interventions in rural areas.

Governance and Political Economy Considerations

Transport subsidies in Nigeria are deeply embedded in patronage networks involving petroleum marketers, transport unions, and populist politicians (Uchendu, 2022). Agency theory predicts that asymmetric information between government and operators fosters rent-

seeking unless contracts embed verifiable performance indicators (Eisenhardt, 2023). Yet Nigerian subsidy regimes rarely include enforceable conditionalities. Lessons from Colombia's TransMilenio and Kenya's commuter rail suggest that tying subsidy disbursements to passenger-kilometre logs or accessibility indices reduces leakage and strengthens accountability (Bocarejo & Oviedo, 2021; Kumar *et al.*, 2022). Nigeria's failure to institutionalise transparency technologies, GPS tracking, e-ticketing, open data, explains persistent elite capture. Political-economy analysis therefore implies that reform is not merely technical but requires confronting entrenched distributive coalitions.

Aligning Subsidies with Equity and Justice Frameworks

Transport justice frameworks highlight that distributive benefits alone are insufficient; procedural and recognitional dimensions are equally critical (Friman *et al.*, 2022). In Nigeria, subsidy design rarely incorporates gender or disability perspectives. BRT evaluations reveal that while female commuters report improved safety, night accessibility remains constrained by poor lighting and inadequate shelters (Amnesty International, 2022). Disability audits show that less than 5 % of BRT stations are compliant with universal-access standards (Disability Rights Commission, 2021). Without inclusive eligibility rules and participatory policy design, subsidies risk entrenching rather than alleviating social exclusion. Future policy must therefore operationalise the "3 A's" test, availability, affordability, and acceptability (Lucas *et al.*, 2021), to ensure that subsidies advance equity beyond price reduction

Pathways for Reform in the Nigerian Context

Synthesising global lessons with Nigeria's realities suggests three policy pathways. First, reallocate fiscal savings from fuel subsidies toward targeted public-transport support, ensuring pro-poor redistribution. Second, institutionalise transparent funding sources, such as earmarked fuel levies or climate finance, to stabilize subsidy budgets. Third, embed accountability mechanisms by linking disbursements to verifiable accessibility metrics. These shifts would align Nigeria's subsidy architecture with welfare economics' efficiency criteria, transport justice's equity principles, and political-economy imperatives for institutional resilience. The conceptual implication is clear: subsidies produce social benefit only when governance structures mediate fiscal transfers into equitable, inclusive, and sustainable mobility outcomes.

5.0 Conclusion and Recommendations

5.1 Conclusion

This paper frames transport subsidies as fiscal tools that, when properly designed, can significantly enhance affordability, accessibility, poverty alleviation, and environmental sustainability. International best practices favour targeted, transparent, and performance-driven subsidy systems over universal entitlements. Nigeria's current approach, however, diverges from this model. Fuel subsidies drain public finances while disproportionately benefiting wealthier groups and harming the environment. Conversely, targeted interventions like the Lagos Bus Rapid Transit (BRT) show that well-structured subsidies can promote equity and mobility, though they remain limited in scope. The analysis concludes that subsidies yield social value only when their marginal benefits outweigh their costs, equity is a central objective, and robust governance mechanisms are in place to prevent misuse and elite capture.

5.2 Policy Recommendations

- i. Gradually eliminate broad-based fuel subsidies and reallocate part of the resulting fiscal savings to targeted fare support for vulnerable groups, including low-income individuals, students, women, and people with disabilities.
- ii. Deploy a mix of delivery tools such as paper vouchers in rural regions and smart-card systems in urban areas, to suit Nigeria's varying administrative capabilities.
- iii. Establish stable and transparent funding, sources like dedicated road-user fees, congestion charges, or climate finance, to reduce reliance on politically volatile budget allocations.
- iv. Tie subsidy disbursements to measurable outcomes by embedding performance-based conditions, such as improvements in access to jobs or schools within 30 minutes for low-income households.
- v. Expand inclusive infrastructure by incorporating universal design in transport facilities, ensuring adequate lighting for night-time safety, and integrating gender-sensitive planning.
- vi. Shift from subsidy-centric models to broader social mobility initiatives that combine targeted subsidies with strategic infrastructure investments, especially in rural feeder roads and multimodal transport systems.
- vii. Harness digital tools such as GPS tracking, electronic ticketing, and open data platforms to curb fraud and improve transparency in subsidy administration.

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