

Resolving the Fuel Subsidy and Welfare Dilemma in the Nigerian Economic Space

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ABSTRACT

Nigeria started subsidizing the prices of its petroleum products in response to the oil shocks of the 1970's as the state-owned Nigerian National Petroleum Corporation (NNPC) attempted to unify the prices of Petroleum Products with emphasis on what obtains in the international market. Evidently the fuel subsidy regime has produced some cushioning effect but its wrong implementation has also done some damages to the Nigeria nation. Given the divisive nature of the subsidy issue, it continues to evoke need for urgent and stringent solutions in view of its welfare adversities on the people. It is recommended that Nigeria being a developing economy and now adjudged the poverty headquarter of the world should consider partial deregulation rather than full deregulation of petroleum product pricing in the economy. This is essentially in rebalancing the demand and supply side while achieving the social benefit of promoting people's welfare.

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Introduction

One of the most nagging eco-political issues that the economy of Nigeria has faced since the discovery of oil in commercial quantity is arguably fuel subsidy and petroleum product pricing [1]. Nigeria started subsidizing the prices of its petroleum product in the 1987's and it became institutionalized in 1977 [1]. That was during the military regime of President Olusegun Obasanjo as the state-owned Nigerian National Petroleum Corporation (NNPC) attempted to unify the prices of Petroleum Products with emphasis on what obtains in the international market. According to Muntaqa the grand design was to keep the price of petroleum products low and affordable for the ordinary citizens [2]. According to Oluabunwa in Atojoko "subsidy evolved due to the depreciation of the naira over the years as Nigeria went into the Structural Adjustment Programme and the naira began to depreciate against the dollar and it was difficult for government to allow recovery of costs because of the earning power of the average Nigerian" [3].

Aside being a major revenue earner for the government, the oil industry is very important to the Nigerian economy. This is evidenced from the high transmission effect of policy outcomes from the industry to both the subsidiary industries and the economy at large.

With a population of well over 200 million people and a status of a developing economy, the Nigerian economy which was hitherto

agrarian seems to have fallen into the Dutch Disease class following the emergence of oil as the primary foreign exchange earner [4]. Biting poverty rate, inordinate policy direction, high level of unemployment, exchange rate decay with ever increasing appetite for imported goods have become visible features of the Nigerian economy. It led to the neglect of agricultural sector, education, primary health and deplorable level of domestic production that have direct impact on the people [5]. This is because it takes a healthy nation to go to farm and only a nation with food security that can boast of good health while education is needed for all round development.

Around all these unpleasant economic signals lies a petroleum industry that is bedeviled by corruption, policy summersault and oscillating pricing and earnings. For instance, the Price Water Cooper (PwC) report emphatically indicted NNPC over double subsidy payments on Premium Motor Spirit, otherwise known as patrol and dual purpose kerosene, (DPK). It found out that some PMS and DPK imports verified by Petroleum Products Prices Regulatory Agency, PPPRA, were paid for more than once by NNPC. Specifically, the firm alleged repeated subsidy payment for patrol and Kerosene amounting to N3.7 billion (\$23.9 million) and N6.169 billion (\$39.8 million) respectively. The firm added that there was another 36.05 million dollars overstatement in PPPRA's subsidy payment advice to the NNPC on patrol. In view of that, the former Minister of Petroleum Resources Madueke in 2012 said that "The Nigerian government was virtually subsidizing the entire Economic Community of West African States (ECOWAS)

Community as the subsidized petrol is smuggled out of the country to neighboring ECOWAS countries". While Kerobokan argued that fuel subsidy is synonymous to massaging the ego of the rich by the poor [6]. A development he argued is not sustainable otherwise the Nigerian economy will bleed to death.

The situation surrounding the policy debates on fuel subsidy which has on one hand provided anchor for politicians and their cronies who ceaselessly loot the public treasury and on the other positive hand provided a seemingly marginal relief to most of the people who bear the brunt of any increase in prices of petroleum product [7]. Each time fuel subsidy debates arise, two dichotomous views pop-up. On one hand is the populist view that is based on the perception that fuel subsidy minimizes the prices of the vastly used petroleum products to the advantage of the people. This shade of opinion has been variously attacked by opponents of government, human rights groups, and more informed public commentators. Their reservations spring from the fact that fuel subsidy is not only unsustainable but also shows the inability of the country to refine crude locally [8]. This is in addition to its testament to the dysfunctional state of the refineries that took a colossal sum of public funds to build [9]. Buttressing this point, Olarewaju in Ajanaku argues that government should give subsidy to primary health, agriculture and education, the sectors where the direct and indirect benefits will improve the welfare of the citizens. He went further to say that government logic of subsidizing household kerosene known as DPK used by the masses in the rural areas to check tree felling at about N45 ex depot price to marketers who resell same to the ordinary Nigerian at N170 per liter instead of N50 is not sustainable. Not just in Nigeria but globally speaking, it has arguably been held that pricing fuels below cost is not only inefficient but also leads to over consumption [10,11].

Ngozi Oconto-Iweala, the former finance minister said that federal government paid N451 billion as fuel subsidy in the first half of the year 2012 while N1.3 trillion has also been paid as arrears of 2011 subsidy on 33 million liters of fuel, bringing the total to N1.75 trillion. The account also had it that in 2006, the sum of N200 billion was paid as subsidy for 27 million liters of petrol. In the year 2008 when the average crude oil price per barrel was 100 dollar, a total of N501 billion was wasted on 33 million liters of petrol in the name of subsidy. She concluded that obviously, that was not sustainable for an economy whose managers were raising the alarm over a possible recession [8].

On the opposite side of the divide lies the perception that fuel subsidy is a creation of the government designed to be a conduit for siphoning public funds [12]. It is held along this line that owners of refining facilities outside the country, as well as those who control importing facilities, take advantage of fuel subsidy regimes to achieve personal economic gains, albeit disadvantageous to the vast majority of the people. The divergence in views, as shown by extant literature in this area, has been the reason for the government to intractably cling to fuel subsidy regardless of its obvious disadvantages and unsustainability [13].

It is also based on this outcry that it became an issue of public interest to remove fuel subsidy. Successive governments had attempted, at one time or the other, to remove subsidy partly or wholly, but all these have been met with stiff resistance from labor unions and Civil Society Groups (CSGs). Nigeria's previous attempt to reduce or remove fuel subsidy in 2012 provoked widespread protestations and condemnation. The first reaction of civil society and organized labor was to shut down the economy alleging that the government would not

punish the people for its incompetence and criminal complicity Punch Newspaper. Admittedly, the spontaneous uprisings were responses to anti-people economic signs of the forceful and unsystematic removal of fuel subsidy that has been around since 1980 when it was first introduced.

As observed by Ajanaku like his predecessors Goodluck Jonathan's administration attempt to remove fuel subsidy was frustrated by an unprecedented groundswell of opposition that shut down the national economy for days.

More so, the people's harsh reactions were not unexpected as these were precipitated by:

- Over 120% increase in pump price of petroleum products that are vastly used by the low income earning people (N65 to N141).
- High pitched food price inflation
- Double Jump cost of living.

As the heat waves of the people's protests surged across the country, the government capitulated and reinstated the fuel subsidy not in full but in parts. It however created the SURE-P designed as a palliative policy whose focus will be to mop up and reinvest the hitherto wasted subsidy fund into people oriented programmed/projects. An assessment of the programmed three years down the line would show a fair rating of what the programmed achieved. Oma fume held that the programmed helped in creating scores of physical infrastructure, maternal health care facilities, youth empowerment as well as other social palliative schemes.

With the advent of a new administration after the 2015 general election, the issue of subsidy with its allied matters was revisited and the new government fully dropped all forms of subsidy. This was greeted with spontaneity in terms of economic reactions. Inflation rate shot up astronomically, prices of petroleum products moved up with the most basic (fuel) jumping from N61 to N143 with other negative externalities and transmission effects on other key areas of the economy.

Notably, foreign exchange rate depreciated, high cost of doing business led to job losses and ultimately the economy got into recession. The standard of living fell in the face of a rising cost of living. Nigerians had to pay more for fuel locally than what obtains in the international market.

One of the first policy pronouncements of the regime launched in 2023 as taken from KPMG appears thus [14]:

"President Bola Ahmed Tinubu, GCFR during his Inauguration Speech on 29th May 2023, announced to Nigeria and the world that: "the Fuel Subsidy is gone!" signaling the end of the fuel subsidy on Premium Motor Spirit ('PMS'). This was immediately followed by increases in PMS prices nationwide, with the Nigerian National Petroleum Company ('NNPC') Limited, on 31st May 2023, adjusted retail prices for PMS to prices ranging between NGN 488/liter in Lagos State to NGN 555/liter in Maiduguri, Borno State"

The price of Premium Motor Spirit (PMS) has increased several times and now currently trades at retail outlets above ₦1,000 per liter [15]. Inflationary pressures, further exacerbated by foreign exchange challenges, have worsened the living standards of the average Nigerian [16]. With these developments, opinions remain divided as to the justification for the removal of the subsidy regime, given the level of hardship it has imposed on the people.

Table 1: National Budget and Subsidy Payment 2006-2016

Year	National Budget (In Billions)	Subsidy Payment (In billions)	Subsidy Payment as % of National Budget
2006	1900	151.9	7.99
2007	2300	188	8.17
2008	2450	256.3	10.46
2009	3039	421.5	13.82
2010	4600	1300	28.26
2011	4900	2190	44.69
2012	4700	1049	22.32
2013	4980	971	19.5
2014	4690	971	21.63
2015	4490	1000	22.27
2016	6069	0	0

Source: Culled and Modified from Point Blank News (pointblanknews.com)

The table shows that about N8.5tr was spent on fuel subsidy over the last decade. The growth trend as shown in Fig.1 below only suggests that fuel subsidy increased over time indicating a rising appetite for it in the economy. This leaves a strong consideration on whether there was no more efficient and alternative uses for the money that was sunk into fuel subsidy. This question was even made more apt by the fact that the economy has always been in need of bailout from decaying infrastructure, collapsing educational system, poor health system, increasing rate of unemployment, rising crime wave caused by economic hopelessness on the part of the unemployed and restive youth.

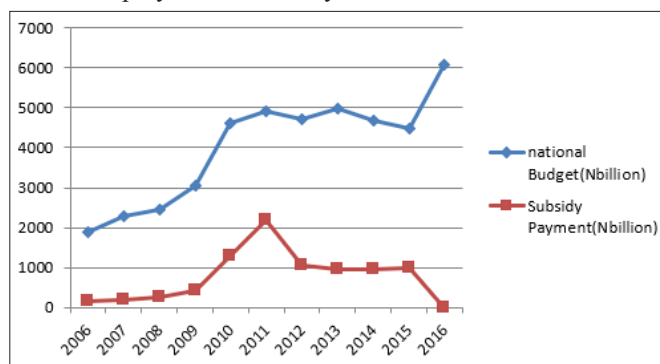
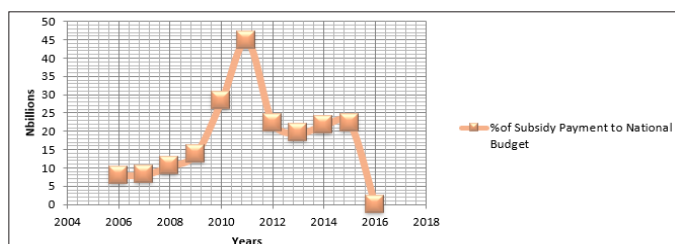


Figure 1: National Budget and Subsidy Relationship over the last 10-year

Transmission Effects of Fuel Subsidy and Allied Policies in Nigeria



A Different Coloration of Fuel Subsidy in Nigeria Resurgence Of Subsidy In Disguise (Post 2016 Era)

The inability of Nigeria’s oil industry to produce and supply adequate fuel to satisfy the daily internal demand, estimated at between 35 and 40 million liters per day, led to the importation

of fuel at prevailing dollar rates to meet demand. This shortfall is attributed to the nation’s refineries being crippled either by archaic technology or the handiwork of a cartel of individuals, including collusion by government officials [17]. Upon assuming office in 2007, the late President Umaru Aradia reportedly allocated \$57 million to the former Group Managing Director (GMD) of the NNPC, Abubakar Aradia, to repair the nation’s four refineries. That amount, along with an additional \$20 million spent on maintaining the Kaduna Refinery, reportedly yielded no tangible results. Consequently, the GMD lost his position while the nation continues to count its losses [18].

Available records have it that between 2005 and the first quarter of 2015, a total of N7.9 trillion was spent on subsidizing petroleum products. Its attempt by the Jonathan administration to remove subsidy on January 1, 2012 was frustrated by labor, human rights group and other stakeholders who felt it was denying Nigerians the right to enjoy their oil wealth [19]. The then finance minister, Ngozi Oconto-Iweala reportedly warned that by disallowing the removal of fuel subsidy, Nigerians were eating up their future and those of their children [20]. Unarguably, a wholesale removal of fuel subsidy comes with some challenges. On the other hand, reckless and abuse of the nation’s wealth in the guise of subsidizing fuel products by the politically exposed persons and elites is more criminal and should be condemned. To buttress this point, Tell reported that between the year 2005 and the first quarter of 2015, a total sum of N7.19 trillion was spent on subsidizing petroleum products [20]. As at today, the present administration has continued the fuel conundrum under different guise including “Under Recovery” (A fancy name for fuel subsidy and a way of denying the continued existence of fuel subsidy).

Actual Beneficiaries of Subsidy

It is held in some quarters that refineries in Nigeria (Kaduna, Warri, and Port Harcourt) do not function so that Nigeria would continually import petroleum products for the economic benefit of certain members of the society [21]. This business of importing refined petroleum products has become so lucrative and profitable that it would be difficult to stop, given the involvement of political and state elites [22]. The Nigerian people, particularly the masses, bear the brunt as they are subjected to exploitative practices by both fuel importers and government failures. For instance, some operators collected licenses and funds to import petroleum products but criminally kept the licenses and money without importing any products, while still demanding payment for services not rendered. Tajudeen Suleiman in his special report on Tell reported that 17 oil marketers allegedly collected various amounts for fuel importation that was never delivered [23]. Lawan Committee of 2012 also found that Petroleum Products Pricing Regulatory Agency (PPPRA), during the period abused the Petroleum Support Fund (PSF) and made the country lose billions of naira by paying the beneficiary marketers without due diligence and many false claims for payment were made in connivance with PPPRA officials. The most damning of the report was that PPPRA officials were alleged to have paid themselves the sum of N156,455 billion in 2009, N155,824 billion in 2010 and N312,279 in 2011. The report heavily indicted management and board of NNPC for deducting N310,414,963,613 as subsidy for kerosene in clear violation of a presidential directive, received the sum of N285.098 billion in excess of the PPPRA recommended figure for 2011 and was also found to have made direct deductions from the Federation Account in contravention of section 162 of the Nigerian constitution among several other infractions. Also benefitted from the fuel subsidy scam were the ministers and government officials.

For instance, the former chairman of the People's Democratic Party who doubled as the board of PPPRA from 2009 to 2011, Ahmadu Ali and two former executive secretaries of the agency, Mr. A. Ibikunle and Mr. Goddy Agbaje were not left out of the fuel scam [24]. It is evident that the real beneficiaries of fuel subsidy in Nigeria have never been the people for whom it is intended; rather, it has been a leakage exploited by the government for the benefit of the economic elites.

Fuel Subsidy (Global Practices)

Subsidizing petroleum products is intended to cushion the effects of the soaring cost of crude oil in the international market on the populace by governments. Several countries had in the past trodden this path to bring sanity to their oil sector and economies and to prevent the ugly consequences of political unrest, and are better for it today. Such countries as Bolivia, Malaysia, Indonesia, China, Egypt, Japan, the Netherlands, the Republic of Korea, Singapore, and the United Arab Emirates had done so with varying results [25,26]. In these aforementioned countries, the removal of such subsidies caused serious uproar and unrest, and governments had to introduce palliatives of varied nature to assuage the poor who were mostly affected by the removal. Available records show that in Bolivia, for instance, the removal of such subsidies caused serious unrest, forcing the government to revert to the status quo ante. However, this was not the case with Indonesia and Malaysia, where governments found ways to manage the transition [27]. Malaysia announced a yearly cash rebate to its citizens to cushion the effect of the hike while Indonesia excluded the rich from subsidy while limiting cheap fuel to public transport and motorcycles [20]. Certainly, wholesome removal of fuel subsidy is fraught with its socio-economic/political unrest that may lead to a change of government. United States of America and United Kingdom run their oil sector as commercial entities and also generate incomes outside their shores.

Conclusion and Recommendation

Evidently fuel subsidy regime has done incalculable damage to the Nigeria nation. No doubt it has increased the prices of goods and services, increased workers salary agitations, increased the poverty level of its citizens and threatened the corporate existence of Nigeria as it is. It therefore requires urgent and stringent solutions now in view of the existence of COVID-19 with its negative effects on the global economy and Nigeria in particular. For instance, the minister of finance, budget and national planning, Mrs Zainab Ahmed warned that "Nigeria may go into recession if the COVID-19 continues for the next couple of months unless Federal and State governments struggle in terms of revenue as long as crude oil price remain low" in Naira metric, April 16 [28].

In view of this, we recommend that Nigeria being a developing economy and now adjudged the poverty headquarter of the world would not embrace full deregulation rather partial deregulation of the economy, (oil sector inclusive) is the right way to go to open up such economy, bring more investment that would address the supply side of the equation and eventually lead to the fall in unit price of oil products especially now that international price of oil is falling. Eliminate corruption in the oil sector by introducing transparency and accountability in the system. Finally, we recommend that the Petroleum Industry Bill be quickly signed into law as the bill seeks among other, to overhaul the nation's petroleum industry, optimize government revenue, create efficient and effective regulatory agencies while deregulating and liberalizing the downstream sector in addition to creating jobs [20].

This study finds agreeable some recommendations raised in KPMG 2023 reports focused on how best to use subsidy savings to the advantage of the people. These recommendations include using revenue from subsidy to finance fiscal deficit, concessional financing for the rural and urban development and provision of interventionist projects and palliatives.

Much as this study does provide all the answers to the subsidy questions as it remains an ongoing issue, but it is believed that it can stimulate further discussion on this for Nigeria and other economies facing subsidy related problems [21-37].

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