

# Assessing the Implication of Fuel Subsidy Removal in Nigeria: Economic, Social and Political Considerations

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Fuel subsidies in Nigeria were initially introduced in the 1970s as a means to alleviate the impact of rising global oil prices on the Nigerian population. At the time, Nigeria was experiencing a significant increase in oil revenues due to the oil boom, and the government sought to use a portion of these revenues to subsidise petroleum products, particularly gasoline (also known as Premium Motor Spirit or PMS).

"What is fuel subsidy all about?" This question has been widely discussed in recent days, revealing a lack of understanding among the general public. To provide a straightforward explanation, subsidy refers to the indirect financial support provided by a government, organisation, institution, or individual to specific individuals, organisations, or entities. A relatable example was shared on social media to illustrate this concept using a fantasy-like scenario.

*"In a faraway kingdom, there was a flourishing realm with a thriving population. One day, at the court, the king contemplated how to improve the lives of the citizens. Consequently, he summoned all the wood suppliers in the kingdom and proposed that for every kilogram of wood sold to the kingdom's citizens, he would subsidize 50% of the cost. For instance, if a kilogram of wood is sold at ₦1/kg, the king would pay the wood supplier 50 kobo, while the citizen would only have to pay the remaining 50 kobo to obtain the ₦1/kg wood." This simplified example serves to illustrate the concept of a subsidy.*

The Nigerian government justified fuel subsidies as a means to ensure the affordability of petroleum products for its citizens, especially those in lower-income brackets. Subsidies were also seen as a mechanism to support economic growth, maintain social stability, and stimulate development by reducing the cost of transportation and goods.

Over time, fuel subsidies became a substantial financial burden on the Nigerian government. This was primarily due to



a combination of factors, including increasing domestic fuel consumption, inefficient refineries, importation of refined products, smuggling, and corruption. As a result, the cost of subsidising petroleum products rose significantly.

Nigeria Extractive Industries Transparency Initiative's (NEITI's) latest policy brief, titled 'The cost of fuel subsidy: A case for policy review,' revealed that Nigeria expended over ₦13tn (US\$74bn) on fuel subsidies between 2005 and 2021.

"The figure in relative terms is equivalent to Nigeria's entire budget for health, education, agriculture, and defence in the last five years, and almost the capital expenditure for 10 years between 2011-2020.

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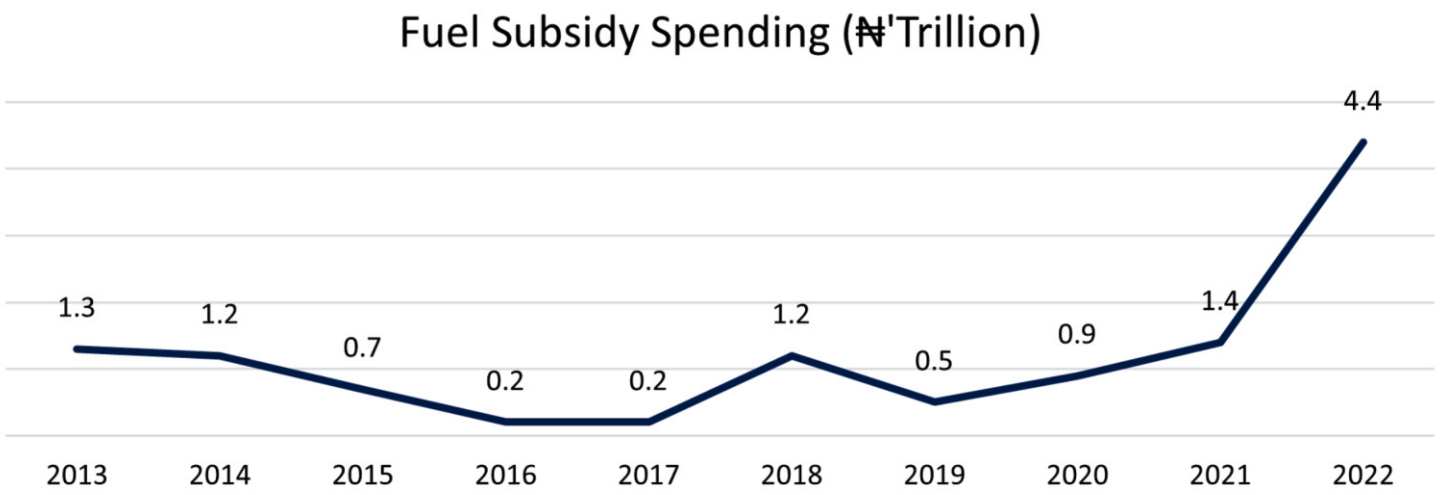
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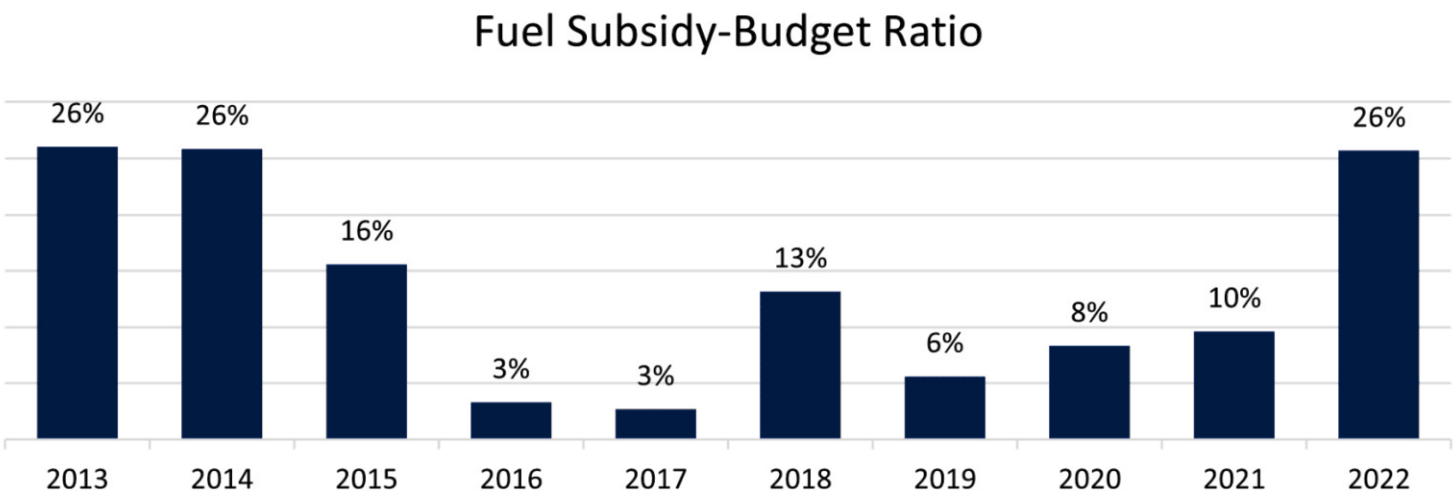


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Source: Sahara Reporters, Pedabo Analysis

The growing cost of fuel subsidies began to strain the finances of the Nigeria government. Subsidy expenditures accounted for a significant portion of the national budget, diverting funds that could have been allocated to critical sectors such as healthcare, education, infrastructure, and social welfare programs.



Source: Sahara Reporters, Pedabo Analysis

Nigeria's fuel subsidy regime was particularly vulnerable to fluctuations in global oil prices. When international oil prices surged, the cost of subsidising fuel imports increased, further exacerbating the subsidy burden on the government. Conversely, when oil prices declined, the government faced challenges in meeting the rising demand for subsidies due to reduced revenues.

The fuel subsidy regime in Nigeria became marred by corruption and rent-seeking practices. The system provided an avenue for powerful individuals and groups to exploit loopholes, divert funds, and engage in fraudulent activities. This led to the misallocation of resources and perpetuated a culture of corruption within the petroleum sector.

Over the years, there have been various attempts to reform or remove fuel subsidies in Nigeria. These reform efforts aimed to address the financial strain on the government, reduce corruption, promote market efficiency, and redirect funds to more productive sectors.

In 2012, the Nigerian government, led by former President Goodluck Jonathan, made a bold move to remove the subsidy on Premium Motor Spirit (PMS). The subsidy was costing the government over N1 trillion annually, and its removal aimed to redirect funds toward economic stability and infrastructure development. However, this decision ignited widespread protests, strikes, and public unrest. Eventually, the government yielded to public pressure and partially restored the subsidy.

In 2015, faced with declining oil prices and limited financial reserves, President Muhammadu Buhari's administration announced a gradual phasing out of fuel subsidies over the course of 2016. Extensive consultations were held with stakeholders, including political leaders, oil sector investors, and civil society organisations. However, before a consensus was reached, a new regime was introduced allowing independent importers and marketers to access foreign currency for fuel imports, capped at N145.6 per litre.



The journey of fuel subsidies in Nigeria highlights the delicate balance between economic reforms and social impact. Attempts at removal have been met with public backlash due to concerns about increased living costs. The compromises made by successive administrations reflect the challenges in finding sustainable solutions that address fiscal pressures and social welfare simultaneously.

President Bola Ahmed Tinubu, GCFR, during his Inauguration Speech on May 29th, 2023, made a significant announcement that “the Fuel Subsidy is gone!”, declaring the end of the fuel subsidy on Premium Motor Spirit (PMS) in Nigeria. This momentous decision sent shockwaves across the nation and reverberated globally. The immediate consequence of this announcement was the swift adjustment of PMS prices throughout the country.

In response to the President’s pronouncement, the Nigerian National Petroleum Company (NNPC) Limited, on May 31st, 2023, implemented changes to the retail prices of PMS. These adjustments resulted in varying prices nationwide, with Lagos State experiencing PMS prices of around N488 per litre, while in Maiduguri, Borno State, the prices reached approximately N555 per litre.

The removal of the fuel subsidy represents a significant shift in Nigeria's energy policy and has wide-ranging implications for the economy, society, and the daily lives of its citizens. While the exact motivations and considerations behind this decision are multifaceted, it is clear that the government seeks to address the long-standing challenges associated with fuel subsidies, including financial strain, corruption, and market inefficiencies.

By removing the fuel subsidy, the government aims to redirect the substantial financial resources that were previously allocated to subsidising petroleum products toward critical sectors such as infrastructure development, education, healthcare, and social welfare programs. This strategic reallocation of funds is expected to foster economic growth, enhance service delivery, and improve the overall well-being of the Nigerian people.

However, the immediate consequence of the subsidy removal has been the upward

adjustment of PMS prices, which has caused concerns among the populace. The increase in fuel prices has implications for transportation costs, the cost of goods and services, and the overall cost of living. These price adjustments may present challenges, particularly for lower-income individuals and vulnerable segments of the society.



It is essential for the government to address these concerns by implementing measures to mitigate the potential adverse effects of increased fuel prices. This may involve the development of targeted social safety nets, the promotion of substitute energy sources, and the enhancement of public transportation systems. Additionally, effective communication and transparency regarding the government's plans and initiatives will be crucial in building trust and understanding among the public.

The subsequent part of this article aims at delving into the economic, social, as well as political implications of the removal of fuel subsidy in Nigeria.

ECONOMIC, SOCIAL, AND POLITICAL

IMPLICATIONS OF FUEL SUBSIDY REMOVAL

Every government policy or decision comes with resulting effects. In this article, we examine the economic, social, and political implications of fuel subsidy removal.

Economic Implications

1. Fiscal Sustainability

Fuel subsidies have imposed a substantial financial burden on the Nigerian government, diverting resources that could be allocated to other critical sectors such as healthcare, education, and infrastructure. The removal of the subsidy would allow the government to redirect these funds toward essential services and development projects, potentially improving the overall economic outlook.

2. Budgetary Control

Fuel subsidies often lead to budgetary uncertainties, as fluctuations in global oil prices impact subsidy costs. By eliminating the subsidy, the Nigerian government will have better control over its budget and reduce fiscal deficits, promoting economic stability and investor confidence.

3. Encouraging Market Efficiency

Fuel subsidies distort market forces and discourage private sector participation in the petroleum industry. Removing subsidies can foster competition, encourage investment, and promote efficiency in the downstream oil sector, leading to improved productivity and long-term economic growth.

4. GDP and Economic Growth

The removal of the subsidy is expected to provide the government with more funds to invest in other sectors of the economy, potentially leading to economic growth. However, it is important to note that economic growth is not solely dependent on fund availability; the quality of expenditure and corresponding policies play a crucial role. Nonetheless, the removal of fuel subsidy is widely seen as a step in the right direction and could provide the government with at least an additional N4 trillion to allocate to other sectors of the economy.

5. Businesses and Employment

In the short term, the cost of running businesses is expected to increase as fuel is a major source of energy for most businesses, especially the small and medium enterprises (SMEs). Higher fuel prices will likely impact business expenses. While this may not have an immediate significant effect on employment rates, it depends on the government's implementation of proactive solutions to justify the subsidy removal.

6. Investment Possibilities

The removal of fuel subsidy and the determination of prices based on market forces (demand and supply factors) are expected to attract more investors to the oil and gas industry. This, in turn, can lead to

the establishment of more modular and standard refineries in the future. Businesses will invest more in developing efficient means of providing fuel, as well as other alternative sources of power, thereby increasing competitiveness within the industry.

“...the fuel subsidy removal was a necessary step, and it is now essential for the government to enact measures...”

7. Inflation

Given the strong positive correlation between pump fuel prices and the cost of goods and services in Nigeria, an increase in fuel prices is likely to lead to higher prices for goods and services. Inflation may rise initially as a logical economic reaction to fuel price subsidy removal.

8. Social Welfare

While the removal of fuel subsidy is a welcome development, it significantly affects the lower economic class citizens, who form a major part of the country's economic strata. The current minimum wage of N30,000 can only purchase 60 litres of fuel at an average pump price of N500 per litre. This amount is insufficient for a country that heavily relies on fuel for electricity generation. The increased fuel pump price has diminished the economic power of citizens, particularly those in the lower economic class. If the government fails to implement an appropriate response, the middle economic class citizens may also be pushed into the lower economic class. This shift would result in a drop in the country's GDP and economic stagnation. Unfortunately, the government has not introduced any policies or schemes to aid the economic recovery of the lower economic class citizens.

These economic implications are interconnected and require careful consideration. While fuel subsidy removal is not the sole factor influencing these outcomes, it plays a significant role. The government's response to these observations is crucial to mitigating negative consequences and

ensuring sustainable growth and development.

Social Implications

1. Income Distribution

Fuel subsidies disproportionately benefit higher-income groups who consume more fuel. The removal of the subsidy has immediately resulted in an increase in fuel prices of at least 150% (though expected to progressively reduce with market activities over time) which given the resulting increase in the cost of living has surely impacted the lower-income households disproportionately. To mitigate this, the government must consider implementing targeted social safety nets to protect vulnerable populations from the immediate effects of subsidy the removal.

2. Social Safety Nets

Following the fuel subsidy removal, the average fuel price has increased by 150%, resulting in a rise in prices across the country, including basic food items and transportation. While the removal of fuel subsidy is seen as a step in the right direction, the government has not implemented any safety net programs to alleviate the impact of this policy on citizens. In 2012, former President, Goodluck Jonathan proposed a robust mass transit infrastructure program alongside the subsidy removal to help mitigate transportation costs during this period. The introduction of such a cushioning program would help alleviate the short-term effects of this policy.

3. Public Infrastructure and Services

The increase in fuel prices has put additional strain on public infrastructure, such as the BRT system in Lagos. Due to the higher fuel costs, some individuals have opted for public transportation, leading to increased demand, and longer waiting times. This has negatively affected citizens' productivity and overall well-being.

4. Social Mobility

Nigeria has faced economic challenges in recent years, with a growing concern about the disappearing middle class and increasing numbers of people moving into the lower economic class. The removal of

fuel subsidy is expected to further impact the economic power of the majority of the population, potentially resulting in a higher percentage of downward social mobility compared to upward social mobility in the short term. The government should introduce policies that address the negative impact of subsidy removal to mitigate these effects.

5. Economic Opportunities

The removal of fuel subsidy has notably increased the cost of doing business in the country, leading to higher transportation costs and prices of goods and services. However, the economy has not provided sufficient incentives for businesses to increase their revenues and income in tandem with these rising costs. Aspiring entrepreneurs looking to start new businesses may face challenges due to the current exponential growth in costs. Thus, the impact of this policy on economic opportunities is currently negative.

The social implications of fuel subsidy removal are currently negative, as both the populace and businesses require time to fully adapt to the new realities whilst waiting in anticipation for the economy to stabilise.

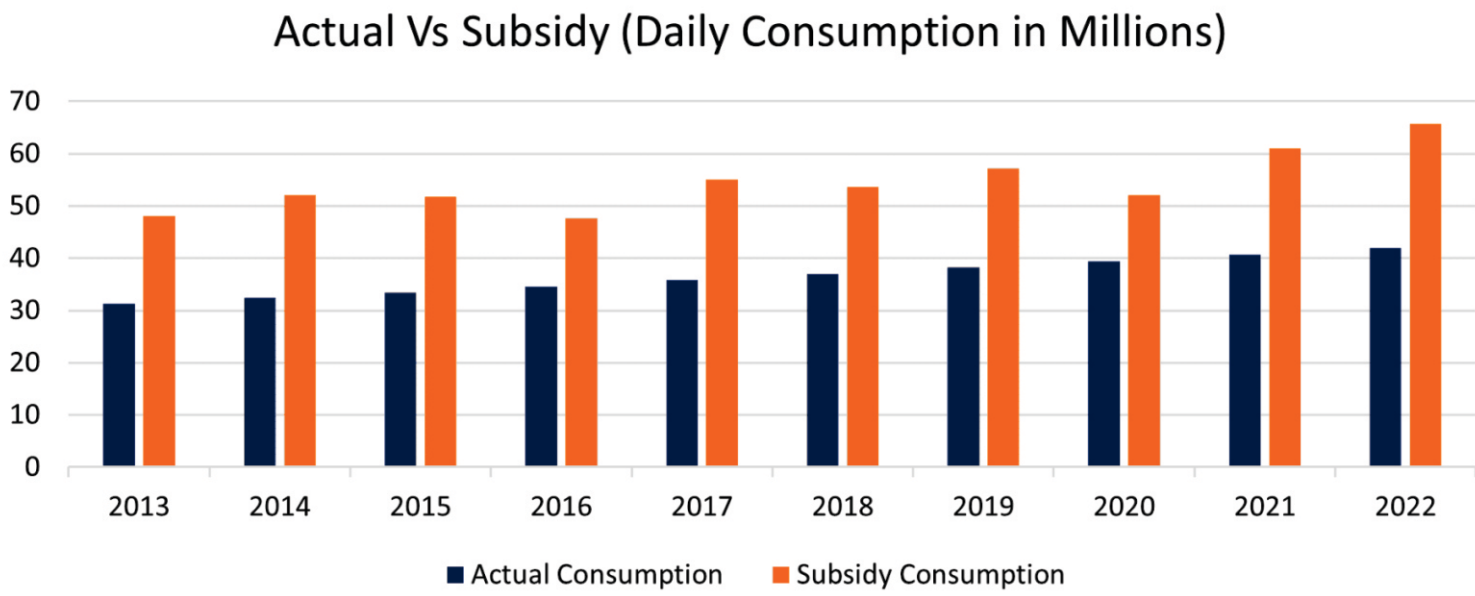


Political Implications

1. Governance and Accountability

Fuel subsidy has long been associated with a lack of transparency in its payment and the actual quantity of fuel being paid for. With the removal, there is an opportunity to improve transparency in accurately tracking the consumption of fuel. The absence of subsidies provides less





Source: Dataphyte, Pedabo Analysis

incentive for data falsification, leading to increased accuracy. Additionally, this removal can foster greater transparency in the trading of fuel by the NNPC. These improvements in governance and accountability are positive outcomes of the fuel subsidy removal.

2. Public Perception and Trust

The removal of fuel subsidy enhances transparency in fuel consumption and the operations of the NNPC. Despite the difficulties it has brought, this policy has gained widespread acceptance among the populace. The increased transparency and the perception of addressing economic obstacles and corruption contribute to the positive reception of the policy.

3. Political Legacy

The current administration's decision to remove the fuel subsidy reflects its commitment to addressing barriers to economic development and tackling corruption. This move has generated goodwill among the population, making them more receptive to the future policies of this administration. The removal can leave a positive political legacy by signaling a bold and proactive approach to economic challenges.

4. Political Stability

The instantaneous response of the current government in taking a stance on fuel subsidy removal has sent a clear signal across the country that they have a focused agenda and the determination to implement it. This decisive action promotes political stability and provides

room for the current administration to effectively execute its plans.

Addressing issues of governance, transparency, public perception, and stability, the removal of fuel subsidy can have several positive political implications for the country's development.

## CONCLUSION

The removal of fuel subsidy, although anticipated and necessary, has brought about both positive and negative implications across various aspects of the country. It is a decision that affects the economy, society, and politics. While the burden and issues associated with the fuel subsidy were well-known to the public, government, and international bodies, the removal was not without its challenges.

Despite the challenges, the removal was a welcomed decision. However, it is crucial for the government to implement supporting policies that can mitigate the adverse effects of the subsidy removal. These policies should aim to cushion the impact and effectively utilise the additional funds generated from the subsidy removal to foster the development and growth of the economy and the country as a whole.

In summary, the fuel subsidy removal was a necessary step, and it is now essential for the government to enact measures that address the implications and ensure a positive outcome for the nation's progress.