Subsidy Removal Policy: Analysis of Issues, Challenges and the Way Forward in Nigeria

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Abstract

While the concept of subsidy is noble, its administration has been plagued with serious issue of corruption and mismanagement thereby causing a huge gap of budget deficit in Nigeria. Successive governments have contemplated the idea of removing subsidy albeit with no effect until May, 2023. This paper examines the contending issues of subsidy removal and discussed the challenges it has incurred while also providing recommendations for the way forward. Relying on secondary data and sustainable development theory, the paper discussed the contending issues that characterized the fuel subsidy regime which are: the Unsustainable subsidy costs, huge distortion of the economy, illegal trade of petroleum products, pervasive corruption and investment related issues. Since the subsidy was removed, it has created nationwide challenges which the paper itemized as purchasing power reduction due to a high inflation rate, dwindling economic activities, prevalence of social unrests in the country and astronomic rise in the prices of petroleum products. The paper therefore concluded that the study therefore concluded that the decision to remove subsidy is quite important. However, much has not been done to mitigate the negative impact on the citizens. The paper recommended that government should implement a sincere, well managed, well-coordinated and corruption free palliative measures to cushion the effect of the subsidy removal. Also, there should be an increase in the minimum wage of workers, Furthermore, fixing local refineries should be a top priority and lastly, the challenge of electricity should be given ultimate attention.

Key words: Fuel Subsidy, Challenges, Issues, Poverty, Inflation

Introduction

Virtually all modern and independent states have, as their fundamental goals, the pursuit of the welfare and well-being of their citizens. To achieve this, states are required to harness the huge human and material resources available to them in order to ensure national development. To this extent, the Nigerian economy has been subsided in various ways for many years, and this includes fuel, education, electricity, forex, etc. Particularly, policies regarding the provision of fuel subsidies have been an important component of Nigeria's economic landscape for a very long time. Fuel subsidies have been utilised by the government of Nigeria, which is one of the world's greatest oil producers, to reduce the amount of money that consumers have to pay for energy, to encourage economic activity, and to cultivate local prosperity (Okongwu & Imoisi, 2022; Omotosho, 2019). The quest to subsidise petroleum products began in the 1970s and became institutionalised in 1977, following the promulgation of the Price Control Act, which made it illegal for some products (including petrol) to be sold above the regulated price. According to Umar & Umar (2013), the policy was introduced as a short-term cushion for the rising international oil price; it was intended as a temporary fiscal response to an oil price spike instigated by the actions of the Organisation of the Petroleum Exporting Countries (OPEC), but has been retained by subsequent governments as a mechanism for stabilising domestic fuel prices and providing a more visible economic benefit to the people.

While the concept of subsidy itself is noble, its administration in Nigeria has been plagued with serious allegations of corruption and mismanagement. As a result, the long-term viability of these subsidies has come under increasing scrutiny, and discussions have centred on the topic of whether or not they are economically viable and whether or not they are distributed fairly (Budgit, 2019). Fuel subsidies have traditionally served as an economic strategy to stabilise fuel prices and make them affordable for the Nigerian populace. These subsidies, however, have presented a significant fiscal burden on the government's budget, creating a drain on the national resources that could otherwise be used for vital sectors such as health, education, and infrastructure development. The high maintenance cost of fuel is occasioned by the fact that fuel prices are fixed at a nominal value. Inflation and the subsequent devaluations of the naira have progressively increased the value of the subsidy. That is why Ojeme, Okatahi & Aliyu (2021, p. 17) noted that

in recent years, fuel subsidies have taken up over a third of the recurrent budget, constituting a huge waste of resources that could have been spent more effectively on pro-poor interventions in the economy.

This debacle lingered for so long and continued to eat up the fabric of Nigeria's economic growth due to the fact that fears of the political consequences of large price increases, coupled with widespread pressure from those benefiting from the fuel subsidy regime, have made successive governments hesitant to reform the system (Adagunodo, 2022). To this extent, the World Bank has for decades argued that these subsidies are unsustainable and economically inefficient. With growing evidence of the devastating effects of climate change, calls from international organisations to remove fossil fuel subsidies have only intensified. Responding to this call, the federal government of Nigeria announced on May 29th, 2023, that the subsidy on premium motor spirit was gone. The Tinubu-led administration pronounced this total removal of subsidies based on the failure of the immediate past Buhari administration to make budgetary allocations for it beyond June 30th, 2023. This had, therefore, sparked numerous public reactions.

The purpose of this paper is to examine the issues, challenges, and prospects of fuel subsidy removal in the Nigerian context. It aimed to analyse the economic, social, and political challenges associated with the removal of fuel subsidies in Nigeria. This includes exploring the potential impacts on inflation, the cost of living, social equity, political stability, and sector-specific economic impacts. Also, it investigates the potential prospects that may arise from the removal of fuel subsidies. This includes potential benefits for economic restructuring, fiscal stability, the oil sector's efficiency, investment stimulation, and sustainable development. It interrogates the question, what are the issues, challenges and prospects of fuel subsidy removal? while drawing on the historical context and rationale for removing subsidies in Nigeria.

Fuel Subsidy: Resolving the Conceptual Issues

The definition of a subsidy in a nation is mostly shaped by its legal, political, and economic frameworks, together with cultural norms. The creation of a functional definition of subsidy, incorporating key aspects accepted in economic theory, has

been influenced by prominent international organisations such as the OECD, WTO, EU, IEA, World Bank, IMF, and IISD-GSI (Ekong & Akpan, 2014).

The World Trade Organisation, in 1994, reached an agreement known as the Subsidies and Countervailing Measures Agreement (SCMA) in order to define what constitutes subsidy among its members. To this extent, the WTO (1994), in defining subsidy noted that the term shall be deemed to exist if:

(a) (1) there is a financial contribution by a government or any public body within the territory of a member (referred to in this Agreement as "government"), i.e. where:

(i) a government practice involves a direct transfer of funds (e.g. grants, loans and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);

(ii) government revenue, that is otherwise due, is foregone or not collected (e.g. fiscal incentives, such as tax credits);

(iii) a government provides goods or services other than general infrastructure, or purchases of goods;

(iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments;

In its Inventory of Estimated Budgetary Support and Tax Expenditures for Fossil Fuels, the, OECD (2013) employs the term "support" as a substitute for "subsidy" to denote direct financial and tax outlays that confer a benefit or advantage to the production or consumption of fossil fuels. The notion is further exemplified by the Producer Support Estimate (PSE) and Consumer Support Estimate (CSE) indicators, which offer a structure for assessing the quantities of support. The PSE encompasses all categories of subsidies outlined in the Agreement on Subsidies and Countervailing Measures (ASCM), as well as various forms of market price support. The CSE consolidates all transactions that impact consumption. The Global Subsidies Initiative (GSI, 2016) contends that the term "subsidy" should encompass all types of preferential treatment, including financial and non-financial, that are given to consumers and producers. Producers can receive

preferential treatment through three methods: by favouring specific enterprises, by giving preference to one sector or product over others, or by providing advantages to sectors or products within a country when compared to their international counterparts. The GSI adopted the WTO definition. However, in contrast to the WTO definition, the GSI definition does not mandate that the advantages provided must be exclusive to a particular company or industry. Instead, it deems benefits to be a subsidy if they bestow a significant advantage upon participants in the market.

Theoretical Framework

Numerous theories abound in the explanation of the prospect of policy implications. Two of the most commonly mentioned theories are the social impact theory and the theory of sustainable development. However, this paper adopted the latter theory of sustainable development in order to understand the potential prospects of fuel subsidy removal while providing explanations on the issues necessitating such policy formulation. The first time that the issue of sustainable development was widely considered by the world was at the World Environment Commission, hosted by Norway in 1987 by Graham Harlem Brundtland (Henry, 2001). Since then, the term "sustainable development" has been the most repeated in various books and articles (Crowther, Seifi, & Moyeen, 2018). While the use at the time was basically conceptual, it was Enders & Remig (2015) who made an attempt to theorise the reality of sustainable development. While building on the foundation of sustainability theory, they noted that Sustainable development theory" refers to a set of principles and concepts that guide the efforts to achieve sustainable development.

Sustainable development is a holistic approach to growth and progress that seeks to balance economic, social, and environmental considerations to meet the needs of the present without compromising the ability of future generations to meet their own needs. According to the Brantland's report entitled: "Our common future," sustainable development is defined as a development which will satisfy the needs of the present time without using future generations' abilities for fulfilling their needs (Connelly & Smith, 1999). With this description, sustainable development is a process by which the people of a country satisfy their own needs and improve their lives' level without utilizing the resources that belong to the future

generations and wasting future wealth to provide their immediate demands. Sustainable development is based on the sustainability philosophy. According to Ikelegbe Sustainability refers to the ability of the system to function in the unlimited future. It is a situation in which the desirability does not diminish over time, and the resources that human systems, other biological species, and ecosystems require in performing their activities well do not weaken. Sustainable development is also a set of actions which are driven by the sustainability philosophy (Zahedi, 2011).

Overview of Fuel Subsidy in Nigeria

In the 1970s, the Nigerian government initiated a practise of subsidising petroleum goods due to the country's emergence as a significant oil producer. This measure was partially intended to mitigate the economic hardship faced by the population and to ensure equitable distribution of the oil wealth. Subsequently, the Nigerian government has exercised authority over domestic fuel prices by implementing price restrictions and providing subsidies to the oil sector. As to Steyn's research in 2006, this is connected to Nigeria's process of gaining independence from colonisation. This process led to the growing significance of oil extraction in the country's economy and the close connection between the oil industry and Britain. The political endorsement of government intervention in the oil business was driven by the objective of regaining economic control from Britain and equitably dispersing Nigeria's natural resource wealth among its population. The commencement of oil drilling in Nigeria can be traced back to 1937, when the colonial administration granted a sole exploration licence to a partnership between Royal Dutch Shell and British Petroleum (BP) (Chete et al, 2014). When Nigeria gained independence from Britain in 1960, Shell-BP maintained its operations. To mitigate the discontent of economic nationalists and prevent any political unrest, General Yakubu Gowon established the Nigerian National Oil Corporation in 1970 and subsequently became a member of OPEC in 1971 (Ebeke & Ngouana, 2015).

The Nigerian firms Promotion Decree, often known as the indigenization act, was enacted in 1972 with the objective of transferring ownership of firms to Nigerian citizens and promoting investment in secondary and tertiary industries. This was done to enhance domestic ownership and regulation of both the upstream and downstream oil industries, with the goal of maintaining affordable retail gasoline

prices to promote equitable public energy access and mitigate economic downturns resulting from exorbitant energy costs (Houeland, 2022; Houeland et al, 2021 and Bagirov & Mateus, 2019). As stated by Akinyemi et al. (2014), the initial government pricing system for petroleum products was implemented in 1973, which required a fixed price of ₦0.06 per litre for gasoline (equivalent to USD 0.40 per litre at present). Iwayemi (1993) argued that these price ceilings were associated with the decolonization process, as they were implemented to spread the advantages of the partial nationalisation of Nigeria's resource wealth to Nigerian consumers. In response to that, the government established the Petroleum Equalisation Fund (PEF) in 1975 with the aim of bolstering the manipulated price of petroleum and preventing shortages in supply. Nevertheless, the government showed little concern for the inefficiencies of the fixed price system during the 1970s, as the general pricing regime remained unchanged (Adenikinju & Falob, 2006). During the 1980s, an excessive supply of oil caused a significant decrease in its price, which resulted in a vulnerable financial situation for the Nigerian government. This prompted the Nigerian government to seek assistance from International Financial Institutions (IFIs) in order to address the fiscal crisis caused by the worsening balance of payments deficit. As a condition for receiving aid, Nigeria accepted the proposal for downstream sector deregulation or liberalisation.

Nevertheless, the introduction of democracy in 1999 had little impact on the fuel pricing system. In response to issues such as fuel scarcity, low refinery capacity utilisation, large scale smuggling, infrastructure vandalism, and unsafe transportation of petroleum products, a committee was formed in the year 2000. The committee's purpose was to offer recommendations for enhancing efficiency in the downstream oil sector. The committee's recommendations resulted in the establishment of the Petroleum Products Pricing Regulatory Agency (PPPRA) in 2003, with the initial objective of deregulating petroleum products (Houeland, 2020; Sayne, Gillies & Katsourists, 2015 and Ocheni, 2015). Following the societal upheaval triggered by the price hikes, the government promptly reversed its decision and reintroduced price caps on petrol and kerosene. The sale of diesel was the only aspect that achieved full liberalisation, and it was currently being sold at market pricing (Asekunowo, 2012). Following the unsuccessful deregulation attempt in 2003, the PPPRA maintained steady price ceilings.

However, when international market prices diverged from static domestic prices, increasing subsidy payments placed a growing financial strain on the government (Akinyemi et al.). In 2012, President Goodluck Jonathan attempted to implemented a 117% increase in the price of petrol, following the recommendation of finance minister Ngozi Okonjo-Iweala, who was previously the Managing Director of the World Bank (Okonjo-Iweala, 2012).

Following a widespread social disturbance across the country, the government was compelled once more to partially backtrack, reducing the price by 31% to ₦97 per litre. In 2015, the administration of Muhammadu Buhari introduced a programme called "price modulation" which involved maintaining price limits but making adjustments to align them more accurately with international market prices (Adeoti et al, 2016). In May 2016, the PPPRA increased the price of gasoline to ₦145 per litre which had remained unchanged as of May 2017 (Adagun, 2017). In August 2016, the maximum price for kerosene was increased to ₦150 per litre (Omotosho, 2019). The extent to which the "price modulation" policy deviates from previous practises is uncertain. The retail prices for petrol and kerosene are determined by central authorities and are not adjusted according to inflation or international rates. In the absence of automatic methods to modify the price ceiling, the extent to which petroleum products receive subsidies remains solely dependent on the current political leadership. The support for subsidies remains robust, as the current discourse reflects the initial reasons for implementing subsidies: providing inexpensive fuel to foster economic expansion, ensuring energy accessibility for the impoverished, and extending indigenization policies to instill a feeling of ownership among Nigerian citizens regarding the country's resource wealth. On May 29th, 2023, the Tinubu administration announced the complete elimination of fuel subsidy, stating that the previous government had only allocated funds for subsidy until July 31st, 2023.

Contending Issues in Nigeria's Fuel Subsidy Regime

Recently, there has been a growing demand for global fuel subsidy changes due to concerns expressed by policy-makers about the effectiveness of these programmes and their impact on fiscal sustainability (Adagunodo, 2022). Proponents of this ideology contended that poorly focused subsidy initiatives had exacerbated the issue of inequality, intensified corruption, and amplified

government spending in the face of diminishing resources, contrary to their intended purposes. Thirteen years after diesel was deregulated, kerosene subsidy was removed in 2016. However, the subsidy on Petroleum Motor Spirit (PMS) has proven to be the biggest challenge to the Nigerian economy. Ebeke and Ngouana (2015) argue that although the idea of subsidy is commendable, its implementation in Nigeria has been marred by significant accusations of corruption and incompetence. To this extent, there have been contending issues regarding fuel subsidy regime in Nigeria which led to its total elimination in 2023.

Firstly, the Unsustainable subsidy costs has constituted a stubborn block in the successful implementation of subsidy regime. The World Bank reported that Nigeria's aggregate revenue in 2000 amounted to USD10.8 billion. By 2010, the total reached USD 67.9 billion. However, within the last 18 years, Nigerian government has allocated more than USD 30 billion towards fuel subsidies (PWC, 2023). This has had a substantial influence on the finances allocated to crucial infrastructure and other vital areas such as education, health, and defence. To further The Debt Management Office, DMO (2023) reported that the country's public debt is rising due to the government's need to borrow N1 trillion in 2022 to fund gasoline subsidies.

Also, the continuous existence of fuel subsidy has created a huge distortion of the economy. Less than 3% of total fuel purchases are made by households in the poorest 40% of the income distribution, as stated in a report cited in PWC (2023). Additionally, it has been reported that private corporations, public transit services, government agencies, and other organisations utilise three-quarters of all fuel sold in Nigeria. The majority of vehicles utilised for transporting substantial quantities of individuals and commodities, such as molue, are currently operating on deregulated diesel fuel while households use gasoline. Furthermore, the subsidy for Household Kerosene, primarily utilised by impoverished individuals, has been eliminated. Consequently, the poor are now largely responsible for paying market rates for their fuel (Ozili & Obiora, 2023). Consequently, the government is mostly providing subsidies to individuals who have the financial resources to purchase petroleum (PMS) at market prices, rather than targeting the most economically disadvantaged individuals who are in need of financial assistance. This issue represents a significant challenge in the implementation of fuel subsidy in Nigeria.

In order to ensure that the intended recipients receive the full advantages of the subsidy, it is necessary to thoroughly evaluate and strategically redesign the current structure.

Furthermore, the Illicit transportation or illegal trade of petroleum products has hampered the success of the subsidy regime. The permeable borders between Nigeria and its adjacent nations have given rise to a lucrative business for smugglers who procure substantial quantities of petrol at a subsidised rate in Nigeria and then sell it at prevailing market pricing in the neighbouring countries. In June 2022, the Managing Director of NNPC Limited reported that the daily use of PMS had surged to more than 103 million litres per day, with a minimum of 58 million litres being illicitly transported (Ubah, 2022). Consequently, it may be inferred that fuel subsidy is more advantageous to smugglers and other West African nations rather than to Nigerians. According to a report released by Chapel Hill Denham (cited in Ubah, 2022), around 15.64 million gallons of petrol are illegally transported out of Nigeria every day. This is because the cost of Nigerian petroleum products is, on average, 3.7 times lower than that of neighbouring countries. This significant price difference has created favourable conditions for smugglers to exploit. The Nigeria Customs Service has confirmed that a significant amount of PMS is being illicitly transported out of the nation, despite being subsidised by the Federal Government. Furthermore, it has been discovered that this petroleum product is being redirected to distant locations, including Mali.

Fourthly, pervasive corruption is another major challenge in the subsidy programme. The subsidy for fuel is provided at the point of importation or supply, rather than at the pump, and is only available to qualifying consumers. The existing form of subsidy promotes arbitrage and other types of corruption.

Lastly, Investment issues is a major clog in the wheel of fuel subsidy success in Nigeria. Despite the recent implementation of the Petroleum Industry Act (PIA), Nigeria's oil and gas downstream sector has not yet achieved the intended levels of development, even after almost 70 years since the discovery of crude oil in commercial amount in the country (Mohammed, Ahmed & Adedeji, 2020). According to McCulloch, Moerenhout & Yang (2021, p. 156), the downstream sector of the oil and gas industry received the lowest amount of foreign direct

investment in comparison to the midstream and upstream sectors. The explanation for this is easily quite understandable and not far-fetch. The existing system of subsidies and the legal structure of the downstream industry typically deter investment. In order to attract further private investors, the downstream industry must undergo complete deregulation. One of the obstacles that must be eliminated with the full execution of the Petroleum Industry Act is the fuel subsidy.

Subsidy Removal Policy: The Challenges so Far

Fuel subsidies have historically been a major component of Nigeria's economic framework, with the goal of reducing the financial burden on the populace by maintaining artificially low fuel prices. So far, successive administrations in Nigeria have had the course to changed their minds because of the long-term effects of these subsidies on the nation's financial stability as well as the fluctuations in oil prices across the globe. The implications on the Nigerian economic stability became threatened owing to the outrageous amount that the country had to cough out annually in order to pay for fuel subsidy. Ozili & Obiora (2023, p. 3) observed, fuel subsidy reached ₦4 trillion in 2022 which amounted 23 per cent of the national budget of that year. Amidst dwindling mineral resources and coupled with the unstable global oil prices, the government of the day deemed itself unable to maintain this huge sum beyond the first half of 2023 and as such made budgetary provision for fuel subsidy until 30th June, 2023. While the nation awaits that date, on May 29th, 2023, the current administration announced the abrupt removal on his inauguration speech and with immediate effect. Since then, there have been avalanche of challenges that have greeted the country due to that decision. Some of these challenges are:

Purchasing power reduction due to a high inflation rate

One of the major challenges that have emerged as a result of the decision to remove fuel subsidy is unprecedented high rate of inflation. According to the National Bureau of Statistics (NBS, 2023), Nigeria’s inflation rate rose to 28.92% in December 2023 against 21.34% in December 2022 when subsidy payment was still in place. This marks a substantial increase of 7.58% on a year-on-year basis. This is not unconnected with the fact that petroleum products (particularly, fuel) occupy the nadir of economic livelihood of a vast majority of the Nigerian population. This is

true in the sense that a large majority of the Nigeria citizens depends on fuel as an alternative power source due to the epileptic power supply. Also, majority of the transportation system in Nigeria relies on Premium Motor Spirits (PMS) or diesel for mobility which made fuel indispensable in the lives of the ordinary people. With the removal of fuel subsidy and the complete deregulation of the downstream sector, the prices of goods and services, including the cost of transportation have skyrocketed. This has automatically impacted food security which has also brought about food inflation.

As the National bureau of statistics noted, by December 2023, the year-on-year food inflation rate surged to 33.93% which represents a notable increase of 10.18% compared to December of the previous year which was 22.75%. As Udi (2023), this geometric rise in food inflation is primarily driven by increased prices of oil and fat, Meat, Bread, Potatoes, Yam and other tubers, Fish, Eggs, Tomatoes, etc. and other food staple foods. This assertion makes it easily deducible that the increment is not unconnected with fuel subsidy removal because virtually all those food items are produced locally and as such are not directly related to the exchange rates. Thus, the cost of transporting them from rural to urban areas for market purposes have increased. Therefore, the decision to remove subsidy has impacted on the inflationary trend albeit on the negative angle.

Dwindling economic activities

Beyond the national insecurity that have crippled economic activities in some part of the country, the removal of fuel subsidy by the Nigerian government has reduced economic activities to its lowest ebb. The over bearing inflationary impact that is associated with the fuel subsidy removal has rendered small and medium scale businesses incapacitated. That is why Ozili and Obiora (2023, p.13) opined that fuel subsidy removal would lead to increase in price of essential goods and services. As a result, there would be fewer disposable income in the hands of individuals and small businesses due to rising prices, stagnant wages, and a fixed national minimum wage. The implication of this is that consumption spending will decline, which will reduce aggregate demand. A decline in consumption would result in a lacklustre demand from customers for the products and services that businesses provide. As a result, the rate of economic growth is slowed while economic output and GDP decline (Ovaga & Okechukwu, 2022; Couharde &

Mouhoud, 2020). A chunk of Nigeria's business population relies majorly on generator powered energy as alternative power supply. Removing subsidy therefore increased the daily fuel consumption for their businesses without a commensurate increase in income. As a result, they fold up. As noted by Houeland (2020), one negative macroeconomic implication of the removal of fuel subsidy is that the rate of economic growth decreases.

Having conducted a study on the impact of fuel subsidy removal on small and medium scale business financing, Ojeme, Okatahi & Aliyu (2021, p. 21) argued that the removal of oil subsidy could have been a good opportunity to diversify the Nigerian economy. However, lack of finance remains a challenge, this is not because there is no money in Nigeria, but because the high-level corruption and lack of political will to fight corruption has put us in this precarious situation that we find our self today. The emphasis here is that the money accrued from the removal of fuel subsidy is not utilized for other productive ventures as a result of corruption in the Nigeria system. The reality is that unscrupulous politicians syphon this public fund to perpetrate their selfish desires.

Accelerated rise in poverty and susceptibility

Scholars have argued that the removal of fuel subsidy has the tendency to increase the number of people within the poverty line albeit in the short term. According to Raji (2018), one of the negative microeconomic implications of removing fuel subsidy is that it will poverty in the short term. This is true in the sense that the fund that will accrue from the savings from subsidy removal will be directed to a more productive and veritable venture. In a situation whereby the reverse is the case, tendency exists that the poverty that will be created will persist on the long term. Since the Nigerian government announced subsidy removal in May, 2023, the nation has been plunged into deepen poverty that induced untold hardship, pains and hunger on many families and households. According to the World Bank (2023), poverty rate in Nigeria increased from 40.1% in 2018 to 46% in 2023. This percentage increase put the number of poor Nigerians at 104 million in 2023 from 79 million people in 2018. This marks an astronomical increase of 25 million poor people added within the period. One of the notable aspects of the World Bank's report is the fact that 8.9 million people were added to the list of poor people in 2023 alone from 95.1 million in the previous year.

Out of this number, 4 million people were added within the first six months of the year with others making up the figure between July and December. The key reason for this geometric rise in poverty is the removal of subsidy coupled with the exchange rate unification but majorly the former (Ozili and Obiora, 2023). Another interesting observation from the World Bank's report is the fact that between 2021 and 2022, only 5.1 million people were pushed to the poverty line which pegged the poverty rate for the year 2022 at 42.6%. After the removal of subsidy, the palliative measures announced by the government had little impact in the purchasing power of the people. Therefore, the removal of fuel subsidy without adequately controlled cushioning measure led to fewer disposable income for the people, little access to food and finance, inability to purchase drugs for sick people. This debacle was compounded by inability of quite a number of people to access quality education.

Prevalence of social unrests in the country

Another basic issue that has resulted from the removal of fuel subsidy is the persistent social unrest that has come with it. These unrests manifest in the form of protests. The persistent rise in the prices of food items has pushed several households, Trade Unions and Civil Societies to the wall and this has caused numerous distortions to the economic environment. In January, 2012 after the proposed action of the government to remove subsidy from petrol, several groups including activists occupied major cities in the country to express disapproval of the policy (Campbell, 2012). In the wake of the 2023 subsidy removal announcement and implementation, the Nigerian Labour Congress have embarked on incessant strike actions to protest against it. These strike actions have pushed the government to embark on series of negotiations resulting in agreement and disagreements over palliative measures and wage adjustment. During these strikes and protests, economic activities are halted in various locations while the national coffers suffer the loss of revenue.

Astronomic rise in the prices of petroleum products

The abrupt removal of fuel subsidy was greeted with astronomic rise in the prices of petroleum products which further rendered the product inaccessible to poor households. As at April 2023, the average retail price of fuel was N254.06. When compared with the average price value to the previous month (March 2023), the

average retail price had a decline of 3.87% from N264.29 (NBS, April 2023). However, by June 2023, after the fuel subsidy remover policy was announced, the average price of petrol rose to N545.83, indicating an increase of 210.31% relative to the value recorded in June 2022 (N175.89). Similarly, when comparing the average price value to the previous month (May 2023), the average retail price had a significant increase of 129.23%, rising from N238.11 (NBS, June 2023). By December of 2023, the average retail price of fuel had increased to N671.86 from N648.93 in the previous month, November, representing a remarkable 3.53% increase (NBS, December 2023). In the examination of State profiles, the NBS reports that Ogun State exhibited the highest mean retail price for Petrol, amounting to N776.54. Taraba and Adamawa States followed closely, with prices of N760.00 and N745.71, respectively.

Conversely, Kano, Lagos, and Borno States exhibited the most economical average retail prices for the product, with values of N602.78, N612.72, and N622.71 correspondingly. The outrageous rise in the price of the product consequently created a narrow profit margin for small and medium scale businesses owners. As it was argued, one of the manifest intents of the removal of fuel subsidy, as expressed in PwC (2023), is that it will help breed a competitive market among the product dealers which would consequently drive the prices downward. So far, it has been observed that this assertion is only theoretical because the price has continued to soar seven months since the decision was taken with no propensity for downward slope. This is true in the sense that the prices of petroleum products are determined by the global crude oil market. As Ozili & Arun, (2023) observed, the implication is that the current soaring prices of petroleum products will remain this way for a long time.

Conclusion

One of the goals of a welfare state is to ensure that the livelihood of its citizens is of immense priority. To ensure this, the state takes measures to reduce the burden of essential commodities by helping to minimize its cost on the populace. This has been the case with fuel subsidy in Nigeria regime in Nigeria since its inception in the 1970s. Over the years, however, the challenges incurred by the implementation of the policy has been detrimental to the financial wellbeing of the country owing to several cases of mismanagement and corrupt practices. It was noted in the study

that within the last 18 years, Nigerian government has allocated more than USD 30 billion towards fuel subsidies. In 2022, the DMO reported that the country's debt burden was increasing due to the government's need to borrow ₦1 trillion for the payment of subsidy. To make matters worse, infrastructural development became went into extinction in the midst of dwindling government revenue to was not even enough to service debt. The only leeway was to remove fuel subsidy on fuel in order to make funds available for the development of key developmental projects.

Since the policy framework was announced and fully implemented on 29th May, 2023, it has been greeted with overwhelming reactions from different stake holders. The reactions were occasioned by the avalanche of challenges that were generated by the removal. Weeks after its announcement especially with no corresponding measure to cushion its impacts, different challenges have been encountered: purchasing power reduction due to a high inflation rate, dwindling economic activities, accelerated rise in poverty and susceptibility, prevalence of social unrests in the country and astronomic rise in the prices of petroleum product. These challenges have impacted negatively on the lives and livelihood of the population and has completely violated the intended outcome of the policy. The study therefore concludes that the decision to remove subsidy is quite noble and important. However, much has not been done to mitigate the negative impact on the citizens. The government will do better if there is an adherent to the recommendations by this paper.

Recommendations: Understanding the Way Forward

In order to curb the crisis created by the removal of fuel since May, 2023, the paper therefore recommends the following measures to tackle it:

1. On the short term, the government should implement a sincere, well managed, well-coordinated and corruption free palliative measures to cushion the effect of the subsidy removal. In order to lessen the burden of removing subsidy, the government announced some measures such as, payment of ₦25,000 (Twenty-Five Thousand Naira) thousand Naira 15,000,000 (Fifteen Million) vulnerable poor, payment of ₦35,000 (Thirty-Five Thousand Naira) wage award to civil servants for six months, the purchase of CNG gas enabled vehicles across some local governments of

the state, etc. Till date, only two months of the second measures were implemented while the humanitarian ministry that was meant to disburse the first one was enmeshed in wanton corruption. If this can be sincerely coordinated, it will go a long way to reducing the burden of the removing subsidy.

2. There should be an increase in the minimum wage of workers. Over the past few years, inflation in Nigeria has eaten up the take home pay of workers in Nigeria. This was worsened by the decision to remove subsidy on petroleum products. Currently, the extant minimum wage in Nigeria is ₦30,000 (Thirty Thousand Naira). While this is a short fall from the current reality of things in the country, the government is therefore encouraged to cut the over bloated cost of governance in order to make finance available to pay a new and improved minimum wage. This will help to reduce the undue tension and social unrests that has dominated the nation as a result of subsidy removal.
3. The government should ensure full deregulation of the downstream sector by making forex available for licensed importers of the product instead of the sole importation by the NNPCl. This will ensure that the price of petrol is determined by the forces of demand and supply. This will serve a temporary basis while attention is focused on the development of local refineries.
4. Fixing local refineries. This is a long-term measure that will boost local production with the aim of bringing to an end, the importation of refined fuel. Currently, Nigeria has four moribund refineries which, when brought to optimal level, can serve the nation's demand for petroleum products. Part of the funds that will be saved from the subsidy removal should be diverted to fixing these local refineries thereby ensuring product availability and affordability.
5. Fixing the challenge of electricity. The issue of the lack of stable power supply has been a bane to development in the country. The absence of stable power supply or the lack of it has led to a humongous increase in the number of people who rely on fuel for daily living. Therefore, ensuring stable power supply will reduce the over reliant on fuel by poor households and small-scale business owners who constantly make use of

alternative power generation measures. This in turn will help reduce the surge in poverty rate and bring about sustainable growth.

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