

# ASSESSING THE IMPACT OF FUEL SUBSIDY REMOVAL IN NIGERIA ON THE POOR IN THE COVID-19 ERA.

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**ABSTRACT:** *The Nigerian oil wealth has not translated to an improved standard of living for It, people most of who are living in abject poverty. This is just because the resources are not being efficiently and effectively utilized to achieve its developmental goals. Consequently, a poor health system and an economy solely dependent on crude oil export for its government revenue has posed serious challenges to the economy amidst the coronavirus pandemic causing untold hardship to the citizens. In the midst of this, the Buhari led government announced the full deregulation of the downstream oil sector in the country and full removal of subsidy on petroleum products. This paper therefore is an examination of the effect of the fuel subsidy removal on the Nigerian poor and its overall benefit to the Nigeria economy using descriptive research design method. The paper noted that while the poor will suffer more in the form of higher transport fare and increased price of food items and other commodities, subsidy removal is in the overall interest of the whole economy as funds will be channeled to improving infrastructural amenities especially in the health care, education and transport sectors. The paper then recommends transparent honesty on the part of government in expending the funds saved from fuel subsidy removal to improve infrastructures and create social welfare programs that will ameliorate the effect of the fuel subsidy removal on the poor.*

**Key words:** *Deregulation, Subsidy, Coronavirus, Covid-19, Pandemic, Infrastructure, Development.*

## INTRODUCTION

That Nigeria is blessed with a huge abundance of natural resources is no news. It is as obvious as telling a blind man that the dead snake in his hand is like a rope. Unfortunately, the abundant wealth has not translated to the wealth of its citizens. It is ironical that Nigeria, the most populous black nation and Africa's biggest economy, is a rich nation with poor citizens. Nigeria has the second largest proven oil reserve in Africa at 37.2 billion barrels, second only to Libya and it is the continent's largest producer of oil (Siddig, Minor, Grethe, Aguiar & Walmsley, 2015; Adekoya, 2020; Olisah, 2020) producing about 1.78 million barrels per day in March, 2020 (Olisah, 2020).

Despite the abundant natural resource endowment in Nigeria and its vast arable land, the Nigerian economy is a monolithic economy (Umeji, 2019) depending on crude oil export for its major source of government revenue and budgetary expenditure. According to Olisah (2020) crude oil sales contribute about 90% of Nigeria's foreign exchange earnings, 60% of its revenue and 8% of gross domestic product (GDP). Besides, fuel is a very significant factor in production in every aspect of the Nigerian economy, its importance in the economy cannot be undermined. As stated by Ogubode, Ilesanmi and Olusankinse in Okwanga, Ogbu and Pristine (2015) the Nigerian economy to a large extent depends on

petroleum motor spirit (PMS) either for transportation of goods or for service provision. To Agu, Ekwutosi and Augustine (2018) petroleum motor spirit is an important source of energy in Nigeria, the economy depends on it to drive economic activities.

According to Okwanga, Ogbu and Pristine (2015) petroleum motor spirit may not be used in the actual production of goods but it is used for their distribution; adding to their final cost of production. Hence, Nigeria is a high consumer of energy fuel. Unfortunately, with four government owned refineries with an installed capacity of 445, 000 barrels per day, more than enough to cover its domestic requirements, Nigeria is still a net importer of refined petroleum products (Onyeizugbe & Onwuka, 2012) making it the only member of the Organization of Petroleum Exporting Countries (OPEC) still importing refined fuel (Adekoya, 2020).

Successive Nigerian governments, despite huge earnings from oil export, have failed in the provision of social amenities needed by its people and in poverty reduction, hence, the introduction of fuel subsidy in the mid-1980s (Agu, Ekwutosi & Augustine, 2018) to ameliorate the suffering of the people due to the high cost of pump price of fuel. Subsidy exists when government helps the consumers of a particular product to pay a price lower than the prevailing market price of that commodity (Kadiri, & Lawal, 2016; Agu, Ekwutosi

& Augustine, 2018). Some authors like Agu, Ekwutosi and Augustine (2018) see it as a kind of market manipulation whereby government fixes the price of the commodity below its actual market price and pay the difference to the retailers. In this case, the government fixes the pump price of fuel below the actual market price and the difference is paid to the importers and marketers by the government.

Scholars and international organizations, like the International Monetary Funds (IMF) have canvassed for the removal of subsidy from petroleum products due to its distortions to the actual market price resulting to its failure to reflect the actual market cost ( Okwanya, Ogbu, & Pristine, 2015). They also went further to argue that because of subsidy, the subsidized product is consumed recklessly (Sanders & Schneider, 2000 cited in Okwanya, Ogbu, & Pristine, 2015). This paper, therefore, assesses the impact of the fuel subsidy removal on the poor in Nigeria in a pandemic era.

### **STATEMENT OF PROBLEM**

Scholars and international organisations are clamoring for the removal of fuel subsidy due to the resulting distortions to the market. In 2012 the Goodluck Ebele Jonathan led administration started a partial deregulation of the Nigerian downstream oil sector or partial removal of the fuel subsidy in Nigeria. Recently, the Buhari government announced full deregulation of the downstream oil sector or full subsidy removal from fuel in the country.

The fuel subsidy removal cannot be unconnected with the dwindling revenue to the government due to the recent recession in the country as a result of the Covid-19 pandemic. At the moment, the Nigeria government is not only struggling with leveling the curve of the Covid-19 but also the fall of its revenue at this critical time that it requires funds to curb the spread of the coronavirus in the country. The dwindling government revenue is as a result of the collapse of crude oil prices in the international market a consequent of the measures taken by various countries to curtail the global spread of the coronavirus.

As it is, the Nigerian government can no longer sustain the payment of subsidy on fuel because the cost of subsidizing fuel in the country keeps increasing just as population is increasing causing an increase in the demand for fuel. In 2011, the government spent \$8 billion on subsidy (Moyo & Songwe, 2012); in 2019 it spent N462 billion while it is projected to spend N417 billion in 2020 (Onwuamaeze & Ekeghe, 2020). This means that according to Moyo and Songwe (2012) 30% of Nigerian government expenditure is on fuel subsidy crowding out other development spending.

In the words of Lipton (2013) energy subsidy is growing too large to bear. It is actually growing too

large to bear especially at this time that Nigeria is experiencing a rapid rise in unemployment, an aftermath of the Covid-19 pandemic induced recession as the Nigerian economy contracted by 6.1% year on year in the second quarter of 2020, its steepest in the last 10 years (Kazeem, 2020). Hence, this paper is to examine the implication of fuel subsidy removal on the Nigerian poor and its overall benefit to the Nigerian economy.

### **OBJECTIVES OF THE STUDY**

This paper is aimed at:

1. To assess how the fuel subsidy removal affects the poor household in Nigeria.
2. To examine the benefits of fuel subsidy removal to the Nigerian economy.

### **CONCEPTUALIZATIONS OF SUBSIDY AND DEREGULATION**

The World Bank and IEA in Okwanya, Ogbu and Prstine (2015) described subsidy as any policy by the government that is aimed at reducing the price of a commodity or service consumed by citizens relative to what the price would have been in the absence of such policy. According to Kadiri and Lawal (2016) they defined subsidy as a reduction in the market price of goods and services by the government such that individuals whose purchasing power are not able to acquire such goods and services are able to pay for them. Subsidy occurs when the government helps the consumers to pay a price which is below the market price for consumer goods (Kadiri & Lawal, 2016; Agu; Ekwutosi & Augustine, 2018).

According to Agu; Ekwutosi and Augustine (2018) it is a kind of market manipulation where by prices of consumer goods are fixed by the government and the difference between the actual market price and the fixed price is paid by the government to the retailer. To Onyeizugbe and Onwuka (2012) subsidies are government measures that keep prices below market prices for consumers or above market prices for producers; these could be in the form of grants, tax reductions and exemptions or price controls.

Thus, subsidies are government policies aimed at making consumer goods and services available and accessible to the poor in the society. It is also aimed at encouraging the participation of the poor in economic activities especially in developing countries (Okwanya, Ogbu & Pristine, 2015). Unfortunately, subsidy is never an efficient policy measure despite its good intentions as it could lead to an inefficient resource allocation especially if the price is fixed below the marginal cost of production (Agu; Ekwutosi and Augustine, 2018).

Deregulation on the other hand is putting an end to government monopoly. It is opening up of a particular sector of the economy for private sector participation.

According to Kadiri and Lawal (2016) the deregulation of the Nigerian downstream oil sector is about the removal of government control on the prices of the petroleum products and removal of restrictions on the establishment and operations of jetties and depots while allowing the private sector to import and distribute petroleum products at market determined prices.

Deregulation involves removal of controls by government in certain sectors of the economy to enable private sector participation in such sectors thereby stimulating competition and efficiency since prices are determined by the market forces. According to Fasua (2020), the irony of deregulation is that there must be regulation for deregulation to work. Deregulation is a sound economic policy as it enhances economic growth and development; foreign investment is attracted to the sector and employment; eventually everyone benefits. However, it has been argued that deregulation is beneficial to firms with a strong financial footing while disadvantaged to firms with weak financial position (Farlex Financial Dictionary, 2012).

#### **METHODOLOGY**

The researchers adopted descriptive research design approach to evaluate the effect of fuel subsidy removal on the poor in Nigeria and its overall effect on the Nigerian economy.

#### **THE EFFECT OF FUEL SUBSIDY REMOVAL ON THE POOR IN NIGERIA**

Fuel subsidy is targeted at the poor in the society, unfortunately, the poor does not have cars to fuel neither do they have generators to power, they only benefit from fuel subsidy indirectly while the benefits of fuel subsidy goes directly to the rich. Nonetheless, fuel subsidy removal at this time of Covid-19 pandemic will only add to the hardship being currently experienced by the majority of Nigerians who are living below the poverty line. It will have severe negative implications for the poor in Nigeria.

Removal of subsidy will lead to a further increase in transportation cost which was recently increased by transporters due to social distancing as a result of the coronavirus pandemic, prices of food and other related products will skyrocket while household income remains the same for some households while some other households there have been no meaningful source of income since the pandemic induced lockdown. This will result in a fall in the real income of the poor households, increasing the poverty level in the country thereby compounding the already unbearable economic hardship in the society and worsening the poor standard of living of the citizenry.

An increase in the pump price of fuel in the country will also cause an increase in the cost of production as the Nigerian production and manufacturing sector is driven

by fuel, either for production or for distribution. Industries overhead cost will increase leading to closure of businesses and their relocation to neighbouring countries like in the recent past (Eme, 2011 cited in Majekodunmi, 2013; Anyadike, 2013); the aftermath of this will be loss of jobs and worsening the already high unemployment level. This is coming at the time many household income earners are still on forced leave without pay due to the coronavirus pandemic, the effect will be catastrophic.

More so, apart from increased cost of production being transferred to the consumers in the form of high prices, the cost of every other thing ranging from school fees, house rent to food items will increase. This will worsen the hardship in the society as many household are yet to come to terms with the already existing hardship induced by the global public health crisis.

The subsidy removal at this time will lead to astronomical increase in the price of commodities, hence, a season of pains and hardship in the country especially for the poor.

#### **OVERALL BENEFITS OF FUEL SUBSIDY REMOVAL IN NIGERIA**

Azel de Granado, Coady and Gillington (2012) argue that subsidy is more beneficial to the rich than the poor as it is consumption based making the rich richer and the poor poorer, thereby increasing inequality in the society. Subsidy, no matter its good intentions, is hardly an efficient developmental policy tool especially if the government fixed price is below the marginal cost of production. Therefore, the whole society will be better off if such subsidy is removed.

Fuel subsidy removal will be beneficial to Nigerians as it will stimulate economic development. The huge fund which is hitherto used to pay for subsidy will become available to the government for the development of the much needed infrastructure in the country, especially in the health care, education and transport sectors. If this is done, every citizen of the country will benefit.

Deregulation of the downstream oil sector will attract private sector investments, more especially foreign direct investments, to the sector. Before now investors are not attracted to the sector as they fear they may not be able to recoup their investment at government controlled prices. Foreign direct investment in the sector will create employment opportunities for the large number of unemployed Nigerians and also generate revenue to the government in the form of taxation and levies.

Availability of foreign exchange with the Central Bank of Nigeria will be another result of fuel subsidy removal. A steady flow of foreign exchange to the Central bank will lead to a single foreign exchange rate regime in the country thereby stabilizing the foreign

exchange market and eliminating the black market. Foreign exchange will become easily accessible for importation of goods and machineries.

Removal of fuel subsidy will also help to remove the distortions in the market. It will bring an end to smuggling of petroleum products to neighbouring countries. Due to higher price of petroleum products in the neighbouring countries, fuel that are meant for domestic use in Nigeria are smuggled across border to be sold at higher prices causing scarcity in the country.

The erstwhile Governor of Central Bank of Nigeria and the former Emir of Kano. Sanusi Lamido Sanusi in listing the benefits of fuel subsidy removal (Onwuamaeze & Ekeghe, 2020) said that Nigeria is the only oil exporting country that does not ripe the benefits of crude oil price rise in the international market because it fixes the price of refined products that it does not produce. So whatever it gains in high price of crude oil it losses to high price of refined products that it imports. This is so because as price of crude oil goes up the price of refined products will go up also. Therefore, removal of fuel subsidy will eliminate such revenue losses to the Nigerian government.

### CONCLUSION AND RECOMMENDATIONS

In spite of the negative effects of fuel subsidy removal on the poor in Nigeria, the overall benefit to the economy of fuel subsidy removal outweighs its effect on the poor. Therefore, fuel subsidy should be removed in Nigeria to free funds for government developmental and pro-poor spending, especially in this era of Covid-19 pandemic that the government requires funds to curtail the spread of the coronavirus.

However, it will be a meaningless venture to remove fuel subsidy without improvement in the poorly developed transport system in Nigeria through which the poor indirectly benefits from the fuel subsidy.

The study therefore recommends that the government must ensure that the funds saved from the subsidy removal is expended with transparent honesty to effectively improve infrastructures and create social welfare programs that will help ameliorate the effect of the subsidy removal on the poor, improve the standard of living of the citizens and help the nation achieve its developmental goals. It should also put measures in place aimed at the reduction of the cost of public transport in the country.

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