



REPORT

POLICY ROUNDTABLE ON FUEL SUBSIDY IN NIGERIA

DECEMBER 17, 2015



Oxford Policy Management



Shehu Musa Yar'Adua Foundation

ONE MEMORIAL DRIVE, CENTRAL BUSINESS DISTRICT, ABUJA NIGERIA

INTRODUCTION

Nigeria's fuel subsidy scheme has presented a reform challenge for every administration since its introduction in 1973. At least 16 attempts to remove or reform fuel subsidy in the past 42 years have failed.

The Roundtable on Fuel Subsidy in Nigeria was convened by the Yar'Adua Foundation's Oil Revenue Tracking Initiative (ORTI) to provide a forum for government, sector experts and civil society groups to discuss policy options and recommendations.

WHY POLICY DISCUSSION ON FUEL SUBSIDY NOW?

- Fuel scarcity
- The absence of fuel subsidy provision in the 2016 budget
- Ideal time to implement successful reforms:
 - Emergence of new administration with a strong anti-corruption stance
 - Prolonged period of low oil prices

PRESENTATIONS FROM GOVERNMENT AND INDUSTRY EXPERTS

- Ideal time to implement successful reforms:
- Fiscal impact of subsidy scheme
- Political and economic analysis of fuel subsidy reform
- Options open to government for reform - ***including researched opinions and proven recommendations to help government manage whichever reform option it chooses***

ORTI presented "The Problem with Subsidy" a short video advocating support for the reform of the fuel subsidy scheme: <http://1drv.ms/1QPdh9s>

OIL SUBSIDY AND NEITI INTERVENTIONS

DR. OGBONNANYA O. ORJI, *ACTING EXECUTIVE SECRETARY - NEITI*

- Total sum of oil subsidy payments between 2006 -2012 was N4 trillion.
- NNPC claimed a total sum of N1.7 trillion between 2006 – 2012
- **Subsidy payments were N690 billion in 2012 compared to N1.9 trillion paid in 2011** (a 29% reduction). This reduction may be due to the January 2012 national protest against oil subsidy.
- FG established the Subsidy Reinvestment and Empowerment Programme (SURE-P) to apply subsidy savings on a combination of socio-economic and development programmes. SURE-P was largely mismanaged.

Recommendations:

- Conduct an in-depth investigation into the management of subsidy payments.
- Ensure NNPC follows due process like other marketers that claim subsidy from the PSF.
- Deregulate the downstream sector.

POLITICAL ECONOMIC ANALYSIS OF SUBSIDY

PATRICK OKIGBO III, *NEXTIER CONSULTING LIMITED*

“Every Nigerian President since 1976 has realised that the fuel subsidy regime is unsustainable. However, the challenge has been how to handle the public reaction to fuel price increases.”

- Fuel subsidy drains substantial resources from the budget
 - Fuel subsidy claims in 2014 were equivalent to 21% of the Federal Budget
 - In 2011, fuel subsidy claims were equivalent to 53% of the Federal Budget!
 - Fuel subsidy claims between 2006 – 2014 represented double the budget for Education and 4 times the budget for Health
- Majority of expenditure on fuel subsidy does not benefit the poor
 - Richest 20% in Nigeria consume 67% of the petrol
 - Poorest 20% only consume 2.1% of the petrol
- So, if the subsidy scheme is this problematic, why is it still being operated? Perhaps it meets some political, economic and extraction objectives:
 - Political – Nigerians expect fuel to be cheap – one of the few visible benefits of oil wealth. Government is afraid to upset the urban working class.
 - Economic – Can smooth the economic impact of volatility in global oil prices, reducing domestic economic shocks
 - Extraction (benefit capture) – provides an opportunity for ruling elite to continue to extract rent
- **A survey conducted by Nextier Limited in 2015 suggests that most stakeholders have shifted ground on subsidy removal since the 2012 fuel subsidy protests:**
 - Major marketers, Civil Society, FG MDAs, State-level reps and the Senate are all strongly pro-reform
 - Independent marketers and the House of Reps are neutral
 - Only the Unions remain strongly anti-reform
 - PDP (now in opposition) could become anti-reform to score political points
- **Reform options open to government with respect to fuel subsidy:** Do nothing, fix the leakages, increase prices (using different mechanisms) or full deregulation.
- **Conclusion:** This period presents the best economic and political conditions to implement successful fuel subsidy reforms –
 - Reduced risk of economic shock due to low oil prices
 - Momentum of public opinion swinging in favor of reform and
 - Increased public confidence in government’s anti-corruption credentials due to antecedents of President Muhammadu Buhari

FIXING THE CURRENT SUBSIDY SYSTEM

RONKE ONADEKO, *PRINCIPAL CONSULTANT – DRNL CONSULT LIMITED*

Removal of Subsidy is the ideal means by which losses, fraud, theft, inefficiencies and corruption can be eliminated. However, if subsidy is not removed, the following strategic interventions can be applied to fix the current scheme.

- Optimizing petroleum subsidy costs in order to reduce leakages, enhance efficiency and remove fraud.
 - Stopping theft can save an estimated N75 billion/ year.
 - Reducing demurrage can save an estimated N11 billion/ year.

- Adjusting PPPRA template (to reduce yield margins and storage costs) can save N47.5 billion per year.
- Interest accrued on late payments and government interest payments amount to more than 20% of the subsidy. Timely payment of subsidy claims could eliminate this.
- Refined Petroleum Products Importation Process involves steps that make it vulnerable to fraud, theft and inefficiency.

Recommendations:

- Institute a consumption audit
- Optimize the PPPRA template
- Revisit guidelines for participating in the PPPRA scheme
- Ensure availability of foreign exchange, Pay within 45 days
- Improve wetness of depots and supply continuity
- Reduce SWAPS and OPA
- Develop contingency plan for PPMC if pipeline integrity is threatened
- Improve management of PPMC pipelines, supply and distribution
- Strengthen and empower development of the regulatory body.

BIG BANG VS. GRADUALISM – TWO DIFFERENT APPROACHES TO ELIMINATING SUBSIDY

NEIL MCCULLOCH, *OXFORD POLICY MANAGEMENT LIMITED*

Nigeria should focus on reducing the fiscal impact of subsidy, minimising social unrest, minimizing economic impacts – particularly on the poor and enhancing long-term prospects for the downstream sector and the economy.

- Criteria for evaluating suitable approach;
 - Sustainability
 - Political feasibility
 - Ease of implementation.
- Two major options for reform:
 - **Gradualism** – Government maintains price controls, but reduces or phases out the subsidy using a tapering or ratcheting formula
 - **Big Bang De-regulation** - government allows free importation of fuel, removes price controls and abolishes subsidy.

Summary of pros and cons for the two approaches

Objective	Gradualism		Big Bang Deregulation	
Reducing fiscal impact	MEDIUM		GOOD	
Minimising social unrest	MEDIUM		BAD	
Minimising the economic impact	MEDIUM		BAD	
Enhancing the long-term prospects	MEDIUM		GOOD	
Overall rating	Short-term	Long-term	Short-term	Long-term
	MEDIUM	GOOD	BAD	GOOD

Recommendations:

- Choose Gradualism OR Big Bang (Prepare a detailed roadmap for implementation (e.g. templates, legislation, institutional changes etc.)
- **Communication (Experience suggests that it requires a period of some months of public dialogue and debate for people to understand and accept the idea of subsidy reform).**
 - Indonesian Example – President spent 9 months talking about subsidy reform to the extent that citizens were exhausted by the campaign and couldn't wait for reforms to come so the campaign could end.
- Compensation for those hardest hit (Identify groups that will be hard hit and prepare policies to compensate them (e.g. cash transfer, mass transit, health, education, fertiliser vouchers etc.)

INTERNATIONAL EXPERIENCE WITH SUBSIDY REMOVAL: INPUT TO REFORMS IN NIGERIA'S FUEL PRICING SYSTEM

PETER WOODERS, *CONSULTANT – INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT*

- Dual pricing system – Case Studies - India
 - The first case study: Household kerosene for cooking and lighting resulted in product diversion and arbitrage.
 - The second case study: Resulted in success because significant exclusion and high political symbolism were achieved using an E-card scheme to deliver benefits directly to a key political demographic.
- Other case studies featured Ghana, Indonesia, Jordan, Malaysia, Mexico, Philippines, South Africa and Thailand

Recommendations:

- Given Nigeria's history and context, experience indicates that **a more transparent, rational, formulae-based approach, with eventual higher taxation, may be best for the near future.**
- **Communication promotes transparency.** Communication strategy should identify different stakeholders and target them with specific messaging. It is ok to identify immovable opponents to whom minimal persuasion is offered.

- **Complaints mechanism will be needed:** listen, investigate and respond, Demonstrates duty of care: Government should demonstrate highly visible investments in managing oil price volatility to help citizens cope.

COMPENSATING THE VULNERABLE FOR FUEL SUBSIDY REMOVAL: MEASURES AND PROGRAMME

PROF. JOHN O. ADEOTI, *NIGERIAN INSTITUTE OF SOCIAL AND ECONOMIC RESEARCH (NISER)*

Based on economic research led by NISER, recommended programmes for compensating the vulnerable in Nigeria are:

- Transport vouchers
- Mass transit schemes
- E-Wallet for small-holder farmers
- Free school meals for school children
- Free health care for the vulnerable
- Cash transfer scheme for unemployed graduates
- Vocational skills development programme.

Some of these recommendations either exist as schemes or are proposed in the 2016 Federal Budget. Government should create a directorate under the Ministry of Budget and Planning to coordinate these schemes with the aim of promoting equitable redistribution of wealth and lifting Nigerians from poverty.

DISCUSSION

HON. JOSEPH AKINLAJA

CHAIR, HOUSE COMMITTEE ON PETROLEUM RESOURCES, DOWNSTREAM

Given his background as a former leader of NUPENG, he was in the forefront of opposing the removal of subsidy. Exposure to new information as was presented at the roundtable meeting has influenced the change in his opinion.

His challenge is how to convince others who have been stirred up to violently oppose subsidy to compromise their stance in order to reduce the risk of social unrest associated with subsidy removal.

He pledged that his committee will support subsidy reform.

DAYO OLAIDE

MACARTHUR FOUNDATION

Fuel subsidy reform strategy must include specific steps for ensuring that deregulation benefits domestic downstream sector. Policy makers should not assume that these benefits will emerge automatically without active steps from government.

MOHAMMED AUWAL

REPRESENTATIVE HONOURABLE MINISTER OF STATE FOR BUDGET AND PLANNING

Fuel subsidy has not been included in the 2016 budget which is a strong indication that the government is inclined to remove fuel subsidies. However, policy makers (including Ministers of Budget and Planning) should be briefed on the presentations from the roundtable to inform their management of the intended reforms.

WAZIRI ADIO
THISDAY NEWSPAPERS

It will be most useful if the outcomes of this Roundtable are taken to key decision makers in Nigeria.

OLUSEGUN ADENIYI
CHAIRMAN, EDITORIAL BOARD - THISDAY NEWSPAPERS

ORTI should explore opportunities to present the deliberation from the Roundtable to the Federal Executive Council.

HENRY ADIGUN
FACILITY FOR OIL SECTOR TRANSPARENCY IN NIGERIA (FOSTER)

Policy makers in Nigeria need to be careful how the reforms are managed, ensuring that institutions charged with managing outcomes of these reforms do not end up as ineffective and inefficient as previous ones.

NEXT STEPS

The Oil Revenue Tracking Initiative and NEITI agreed to work together to explore opportunities to make presentation from the Roundtable to the Ministers of Budget and Planning and the Federal Executive Council.

ABOUT ORTI

The Oil Revenue Tracking Initiative (ORTI) is an advocacy project established by the Shehu Musa Yar'Adua Foundation in 2013 to promote good governance of Nigeria's oil resources through informed citizen and stakeholder engagement.