Removing Nigeria's PMS Fuel Subsidies: We Can't Have Our Cake & Still Eat It

June 2023

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Outline

List of Charts & Tables

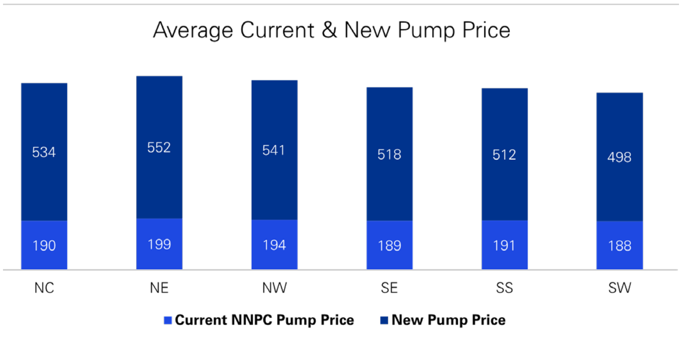
List of Abbreviations

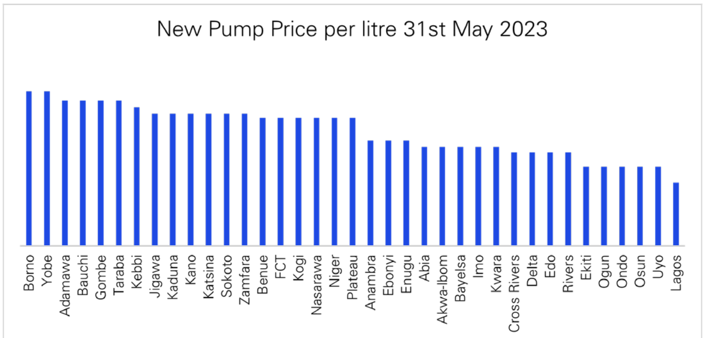
Abbreviation	Phrase in Full
BOF	Budget Office of the Federation
CBN	Central Bank of Nigeria
CME	Coordinating Minister for the Economy
COVID-19	Novel Corona Virus 2019
DG	Director-General
DPR	Department of Petroleum Resources
EO	Executive Order
FCY	Foreign Currency
FGN	Federal Government of Nigeria
FX	Foreign Exchange
GPS	Global Positioning System
HMFBNP	Hon. Minister of Finance, Budget & National Planning
HMWH	Hon. Minister of Works & Housing
IBRD	International Bank for Reconstruction & Development
IDA	International Development Association
LAMATA	Lagos State Mass Transit Agency
LNG	Liquified Natural Gas
LPG	Liquefied Petroleum Gas
MDAs	Ministries, Departments & Agencies
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
MPR	Monetary Policy Rate
NDE	National Directorate of Employment
NEC	National Economic Council
NMDPRA	Nigeria Midstream and Downstream Petroleum Regulatory Authority
NNPC	Nigeria National Petroleum Corporation
OPG	Open Government Partnership
PIA	Petroleum Industry Act
PIDF	Presidential Infrastructure Development Fund
PMS	Premium Motor Spirit
PPPRA	Petroleum Products Pricing Regulatory Agency
RITCSC	Road Infrastructure Tax Credit Scheme
SFTAS	States Fiscal Transparency, Accountability and Sustainability programme
VIN	Vehicle Identification Number

1.0 Introduction

1.1 Overview

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!" signalling the end of the fuel subsidy on Premium Motor Spirit ('PMS').[1] 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/litre in Lagos State to NGN 555/litre in Maiduguri, Borno State.[2]





State Capital	States	Region	Current NNPC Pump Price	New Pump Price per 31st May 2023
Abuja	FCT	NC	194	537
Lafia	Nasarawa	NC	189	537
Jos	Plateau	NC	189	537
Ilorin	Kwara	NC	189	515
Lokoja	Kogi	NC	189	537
Makurdi	Benue	NC	189	537
Manna	Niger	NC	189	537
Yola	Adamawa	NE	199	550
Jalinqo	Taraba	NE	199	550
Bauchi	Bauchi	NE	199	550
Gombe	Gombe	NE	199	550
Maiduguri	Borno	NE	199	557
Damaturu	Yobe	NE	199	557
Kano	Kano	NW	194	540
Kaduna	Kaduna	NW	194	540
Katsi na	Katsina	NW	194	540
Sokoto	Sokoto	NW	194	540
Dutse	Jigawa	NW	194	540
Birnin Kebbi	Kebbi	NW	194	545
Gusau	Zamfara	NW	194	540

[1] Premium Times Newspaper Article "Fuel Subsidy is gone —Tinubu declares" 29th May 2023, accessed from: https://www.premiumtimesng.com/news/top-news/601239-fuel-subsidy-is-gone-tinubu-declares.html.

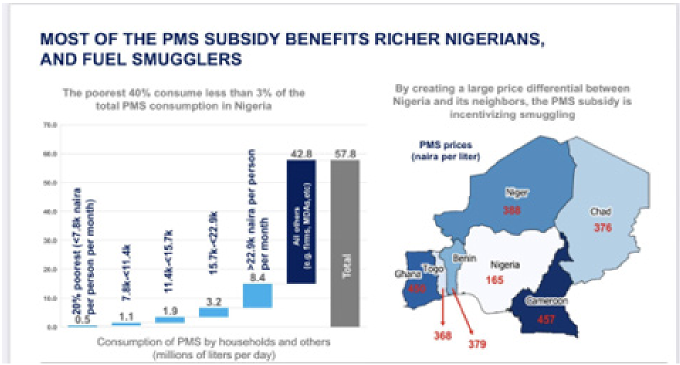
[2] Independent Newspaper Article NNPC Increases Fuel Price to N555 Per Litre, of 31st May 2023, accessed from https://independent.ng/just-in-nnpc-increases-fuel-price-to-n555-per-litre/ on 31st May 2023.

Umahia	Abia	SE	189	515
Uwerri	Imo	SE	189	515
Awka	Anambra	SE	189	520
Enuqu	Enugu	SE	189	520
Abakali ki	Ebonyi	SE	189	520
Port Harcourt	Rivers	SS	189	511
Uyo	Akwa-Ibom	SS	194	515
Yenagoa	Bayelsa	SS	189	515
Calabar	Cross Rivers	SS	194	511
Benin	Edo	SS	189	511
Asaba	Delta	SS	189	511
Laqos	Lagos	SW	184	488
Abeokuta	Ogun	SW	189	500
Ibadan	Uyo	SW	189	500
Osogbo	Osun	SW	189	500
Akure	Ondo	SW	189	500
Ado-Ekiti	Ekiti	SW	189	500

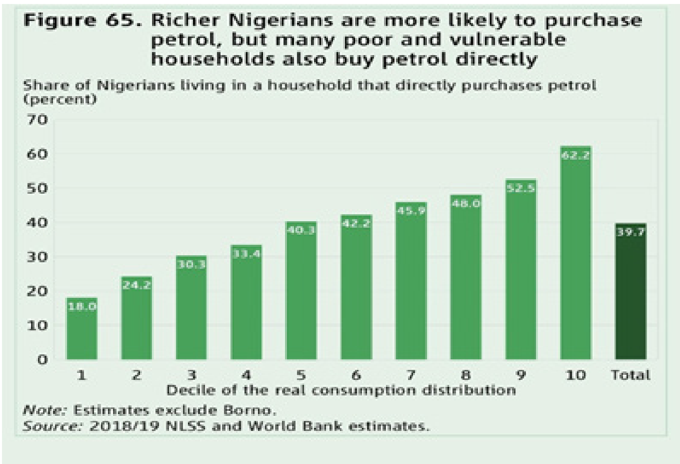
The new price list revealed that the North Central has the highest increase in the average pump price of 181% from N190 to N534 per litre, North West had a 179% increase from N194 to N541 per litre, North East had an increase 178% from N199 to N552 per litre, South East had an increase of 174% from N189 to N518 per litre, South South had an increase of 169% from N191 to N512 per litre while South West had the lowest increase with 165% from N188 to N498 per litre. The new price also revealed Borno and Yobe states as having the highest new pump price of N577 per litre while Lagos state had the least pump price of N488.

Over the years, the subsidy policy has been a controversial issue in Nigeria – an oil producing country that paradoxically relies on imported PMS. Indeed, Nigeria has a long history of fuel subsidies dating back to the 1970s' oil boom, when the Federal Government introduced subsidies on key commodities such as petrol, kerosene, and diesel to cushion the impact of price fluctuations on its citizens and residents. While many stakeholders in this debate argue that the PMS subsidies are the last hope for the common man to benefit from the "national cake," the reality is that the subsidies have been a tremendous drain on the country's resources and a source of corruption and government inefficiency. The stark truth is that the PMS fuel subsidies have really benefited neighbouring counties, rent-seekers and the rich, as opposed to the poor. Furthermore, if Nigerians – rich, middle-class, or poor alike – wish to see accelerated levels of socio-economic development, the expensive and unaffordable PMS subsidy must go. Already, within days of the subsidy removal announcement and the adjustment of PMS prices in Nigeria, data from Global Petrol Prices, which tracks the retail prices of refined petroleum products reveals sharp increases in the petrol prices of neighbouring countries.

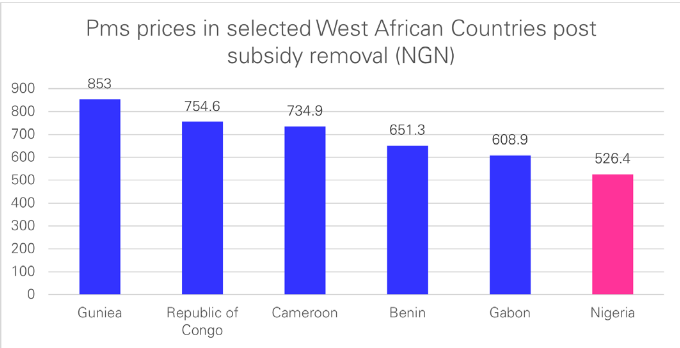
The simple truth is Nigerians simply cannot have our cake and eat it! We can't push for development while at the same time insisting on substantial expenditure on inefficient consumption such as subsidy that exceeds the combined expenditure on health, education, and infrastructure and that is largely not benefitting its intended beneficiaries and that we have to acquire debt, as is the case today to keep in place.



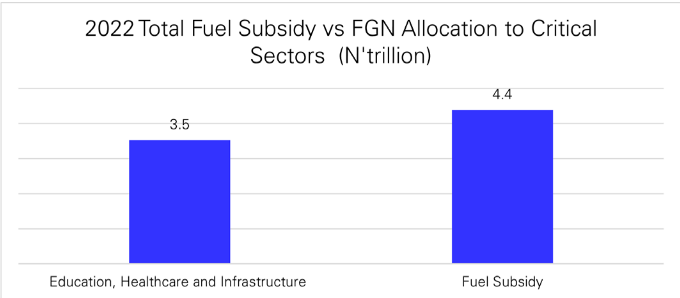
Source: World Bank



Source: World Bank



Source: Global Petrol Prices



FGN 2022 Budget

1.2. Government's Current Fiscal Stance

In 2012, the Federal Government attempted to remove the subsidy on PMS, causing widespread protests across the country. The then Coordinating Minister of the Economy ('CME'), Dr. Ngozi Okonjo-Iweala, GCON articulated clear plans to transition from the PMS fuel subsidy, which, at that time, was consuming over NGN 1 trillion per annum (p.a.). She indicated that the savings would be channelled into keeping the economy afloat and rebuild infrastructure, targeting accelerated socio-economic development.[3]

However, the reduction and removal of PMS fuel subsidies in January 2012 by the Administration of former President Goodluck Ebele Jonathan, GCFR precipitated weeks of strikes, mass rallies, industrial and labour shutdowns, robust debates, riots, street protests and several deaths and numerous injuries as striking mobs confronted law enforcement agencies in Lagos and other major cities. The Government of the day eventually capitulated and backed down from its declared intention to completely remove the PMS fuel subsidy. Instead, the Government compromised by partially restoring the subsidy,[4] which has since multiplied in quantum over the last decade.

In 2015, faced with plummeting oil prices, dwindling revenues and a dearth of FX reserves, the President Muhammadu Buhari Government announced that it would gradually remove fuel subsidies over the course of 2016.[5] In the first half of 2016, the Federal Government embarked on an extensive consultation process involving multiple stakeholders from the Federating States, political leaders, key agencies such as the NNPC, Department for Petroleum Resources ('DPR') and Central Bank of Nigeria ('CBN'), as well as oil sector investors, host communities, civil society, labour unions, religious and traditional rulers, amongst others.
However, prior to the conclusion of these extensive consultations, the former Vice President Prof. Yemi Osinbajo, GCON and the then Minister of State for Petroleum Resources / Managing Director of NNPC, Dr. Ibe Kachikwu, announced a new regime permitting independent importers and marketers of PMS fuel to access foreign currency ('FCY') from non-CBN, secondary sources (e.g. International Oil Companies and other significant corporations earning foreign currency, 'FCY') based on Petroleum Products Pricing Regulatory Agency ('PPPRA') template, provided that the ultimate price per litre at the pump did not exceed NGN145.[6]

In 2020, the Administration of former President Muhammadu Buhari, GCFR tried removing PMS fuel and electricity subsidies, which led to the increase in petrol and electricity prices nationwide. While retail price of petrol increased by about 10% to about N160 per litre, the average unit cost of electricity increased by almost 100% to about N62 per kilowatt hour.[7]

However, the policy measures precipitated widespread public outcry despite robust consultations and the FGN eventually sustained the PMS fuel subsidies into the 2022[8] and 2023 fiscal years.[9] Accordingly, only NGN 3.6 trillion was budgeted for the subsidy between January and June 2023, signalling that the PMS subsidy regime would end by June 2023. However, on 27th April 2023, the then National Economic Council ('NEC') suspended the planned removal of subsidy on petroleum products by the end of the tenure of the outgoing President Muhammadu Buhari Administration.[10]

[3] Premium Times Newspaper Article "Removal of fuel subsidy is inevitable – Okonjo Iweala;" of 7th December 2011 from https://dailypost.ng/2011/12/07/removal-of-fuel-subsidy-is-inevitable-okonjo-iweala/ accessed on 17th May 2023.

[4] Reuters Article "Nigeria Unions Suspend Strike After Fuel Price Cut" of 16th January 2012 from https://www.reuters.com/article/ozatp-nigeria-strike-20120116-idAFJOE80F00A20120116 accessed on 17th May 2023.

[5] Daily Post Newspaper Article "FG to Remove Fuel Subsidy in 2016 – Kachikwu;" of 15th December 2015 from https://dailypost.ng/2015/12/15/fg-to-remove-fuel-subsidy-in-2016-kachikwu/ accessed on 17th May 2023.

[6] Daily Post Newspaper Article "FG Finally Removes Fuel Subsidy, Petrol to Sell for N145/litre;" of 11th May 2016 from https://dailypost.ng/2016/05/11/breaking-fg-finally-removes-fuel-subsidy-petrol-to-sell-for-n145litre/ accessed on 17th May 2023.

[7] Premium Times Newspaper Article "Why Buhari Removed Subsidy on Petrol, Electricity;" of 6th September 2020 from https://www.premiumtimesng.com/news/headlines/412771-why-buhari-removed-subsidy-on-petrol-electricity-presidency.html on 17th May 2023.

[8] Premium Times Newspaper Article "Buhari Govt Suspends Fuel Subsidy Removal;" of 24th January 2022 from https://www.premiumtimesng.com/business/business-news/507590-buhari-govt-seeking-budget-amendment-to-retain-fuel-subsidy-minister.html accessed on 17th May 2023.

[9] Vanguard Newspaper Article "2023 Budget: Buhari Earmarks N3.6tr for Fuel Subsidy Buhari Govt Suspends Fuel Subsidy Removal;" of 7 October 2022 from https://www.vanguardngr.com/2022/10/2023-budget-buhari-earmarks-n3-6trn-for-fuel-subsidy/ accessed on 17th May 2023.

[10] This Day Newspaper Article "NEC Pushes FG to Suspend Planned Fuel Subsidy Removal;" of 27th April 2023 from https://www.vanguardngr.com/2023/04/breaking-nec-suspends-subsidy-removal/#:~:text=The%20National%20Economic%20Council%2C%20NEC,Budget%20and%20National%20Planning%2C%20Mrs accessed on 17th May 2023.

According to the former Hon. Minister of Finance, Budget and National Planning ('HMFBNP'), Mrs. (Dr.) Zainab Shamsuna Ahmed, CON the NEC concluded that it was not a favourable time for the subsidy removal. She stated that the NEC had deliberated on the matter and resolved that the PMS subsidy could not be removed for now, but the NEC was agreed on the need to continue the discussion on the matter and undertake the necessary preparatory work in conjunction with Federating States and representatives of the incoming Administration of President Asiwaju Bola Ahmed Tinubu, GCFR.

She further clarified that:

1. The FGN had not suspended the removal of petroleum subsidy, but has instead expanded the subsidy removal committee to include teams from the incoming Administration and the State Governors;

2. The expanded committee would enhance consultations regarding the process for the removal of the subsidy, including determining the exact timing, as well as the palliative measures that need to be taken to provide support to the poor and the vulnerable;

3. 2023 Fiscal Framework and Appropriation Act as well as the Petroleum Industry Act, 2021 ('PIA') had made the provision that Government should exit fuel subsidy by June 2023. As such, the consultations were to enable the realisation of the targeted mid-year exit;[11] and

4. The FGN had already secured a USD 800 million concessional loan facility from the World Bank to provide palliative support to 10 million households who would receive NGN 5,000 each for six months through Conditional Cash Transfers via the Social Register.[12]

However, the USD 800m concessional loan would increase the ± NGN 77 trillion Sovereign Debt Stock that the nation was struggling to service. In this regard, some concerns have been raised given nation's rising Debt Service to Revenue ratio, underscoring concerns in this regard recently highlighted by the Director-General ('DG') of the Budget Office of the Federation ('BOF'), Mr. Ben Akabueze.[13] Such critics contend that further borrowing from the World Bank may worsen Nigeria's elevated indebtedness. However, other commentators highlight the merits of resorting to readily accessible concessional funding that the World Bank as well as other Multilateral Development Banks ('MDBs') and financial institutions may provide to help ease rising inflation, increasing poverty and other negative externalities incipient in the "sudden death" PMS subsidy removal adopted by the Administration of President Bola Tinubu, GCFR.

What remains now to be seen is how the President Bola Ahmed Tinubu Administration will make good of its promise to finally end the PMS fuel subsidy permanently, manage the challenges in the transition and redeploy the resources to more impactful and impactful investments in critical infrastructure, health, education, and security.

[11] This Day Newspaper Article "Fuel Subsidy Removal Not Suspended, FG Clarifies" of 28th April 2023 from https://www.thisdaylive.com/index.php/2023/05/14/nigeria-not-seeking-another-800m-world-bank-loan-fg-clarifies/ accessed on 17th May 2023.

[12] This Day Newspaper Article "Nigeria is Not Seeking Another $800 million World Bank Loan, FG Clarifies;" of 14th May 2023 from https://www.thisdaylive.com/index.php/2023/05/14/nigeria-not-seeking-another-800m-world-bank-loan-fg-clarifies/ accessed on 17th May 2023.

[13] APA News Article "Press Spotlights Warning by Nigeria's Budget Office over rising debt, others;" of 11th May 2023 from https://apanews.net/2023/05/11/press-spotlights-warning-by-nigerias-budget-office-over-rising-debt-others/ accessed on 17th May 2023.

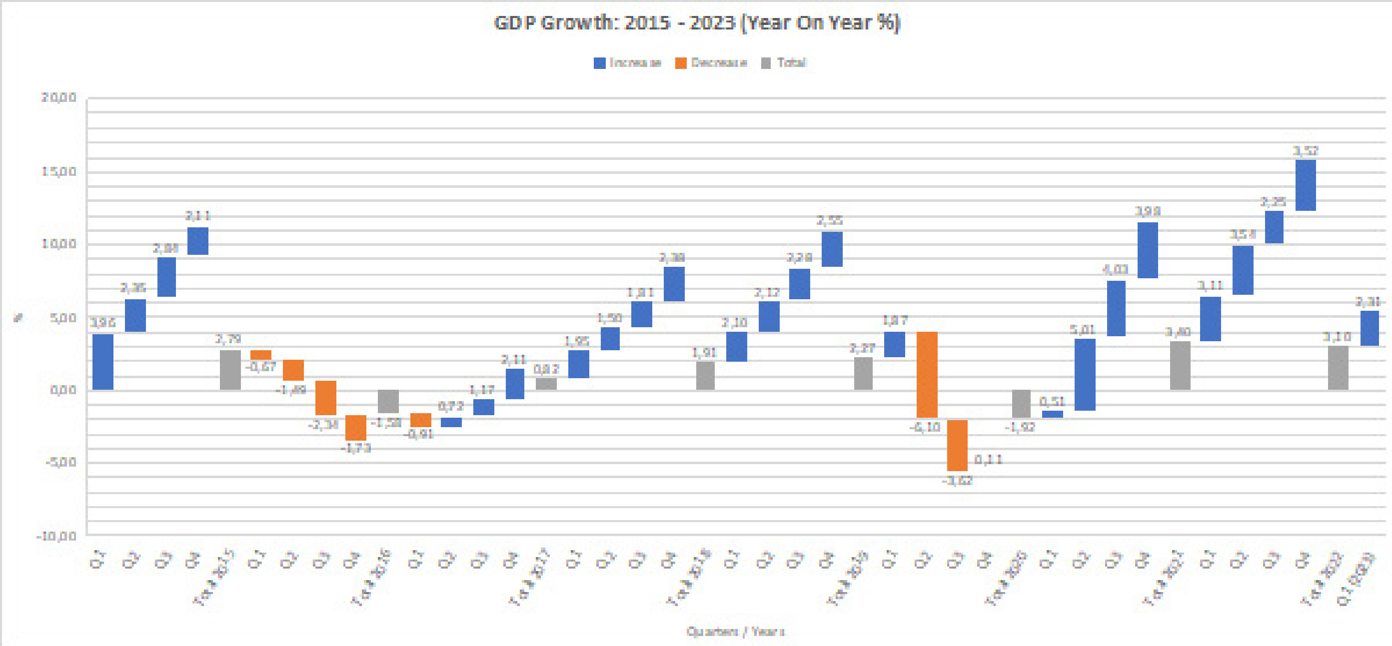
2.0 Whither the Subsidies & Whither Nigeria?

2.1. Nigeria's Challenging Macroeconomic Realities

Ahead of the advent on the Administration of President Bola Ahmed Tinubu, GCFR significant promises were made in terms of accelerating economic growth that has been tepid in terms of the recovery from novel Corona Virus 2019 ('COVID-19') Pandemic. Nigeria's GDP adjusted for inflation reached its pre-COVID-19 level and the third quarter of 2022 marked the eighth consecutive quarter of growth at 2.25%. GDP growth increased in Q4:2022 to 3.52%, resulting in a full year outturn of 3.10%.[14]

[14] IMF Executive Board Concludes 2022 Article IV Consultation with Nigeria; Press Release dated 8th February 2023, accessed from https://www.imf.org/en/Publications/CR/Issues/2023/02/16/Nigeria-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-529842 on 31st May 2023.

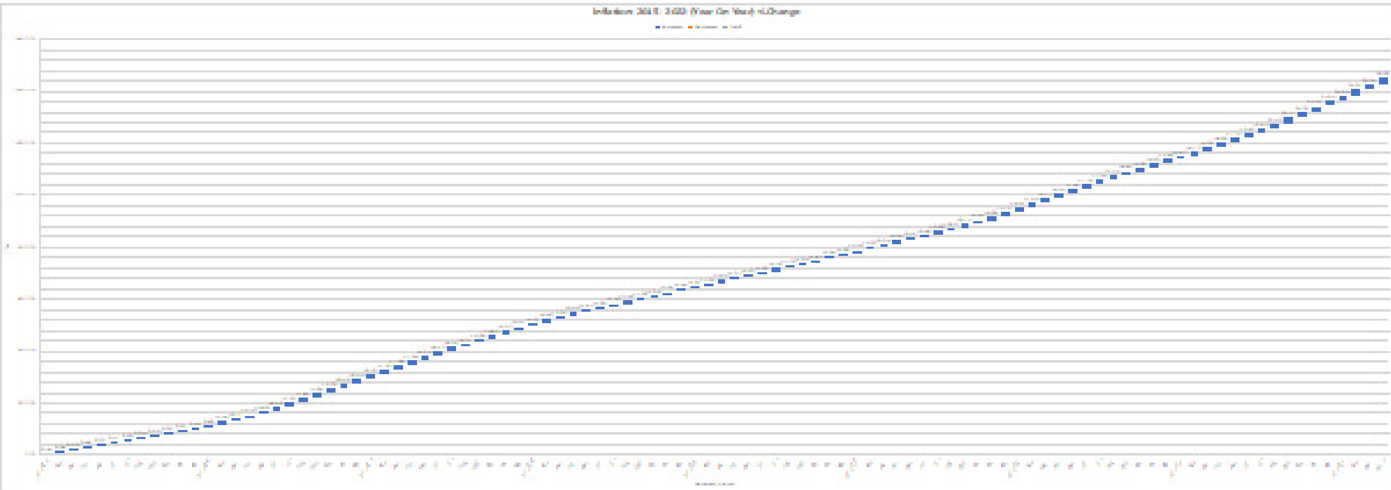
Chart 1: GDP Growth Trends, Nigeria (2015 – 2022)



However, the economic challenges precipitated by the Naira redenomination cash crunch in early 2023 had a significant and negative impact on growth. Indeed, in Q1: 2023, growth in Gross Domestic Product was at 2.31%, year-on-year, slowing down from 3.52% in the 4th Quarter of 2022. Notably, Agriculture contracted for the first time since 1987, declining by -0.90%. Industry's growth was similarly subdued at 0.31% but reversed a 7-month declining trend. Oil and gas continued to contract at 4.21%, following past contractions of -13.38% in Q4:2022 and -26.04% in Q1:2023. The Services Sector remained the major driver of growth at 4.35%, as the Non-Oil Sectors grew by 2.77% in Q1 2023, compared to 4.84% in Q4 2022 and 6.08% in Q1 2022. GDP growth in 2022 is estimated to range between 2.85% and 3% in 2023.

Inflation remained stubbornly high at elevated double-digits since February 2016, driven various factors, including – higher international food prices, due to various factors including the knock-on effect of the Russia – Ukraine War; a somewhat accommodative monetary policy; the multiple exchange rate challenges; and significant premiums between the official exchange rates and the retail parallel market for foreign currency.

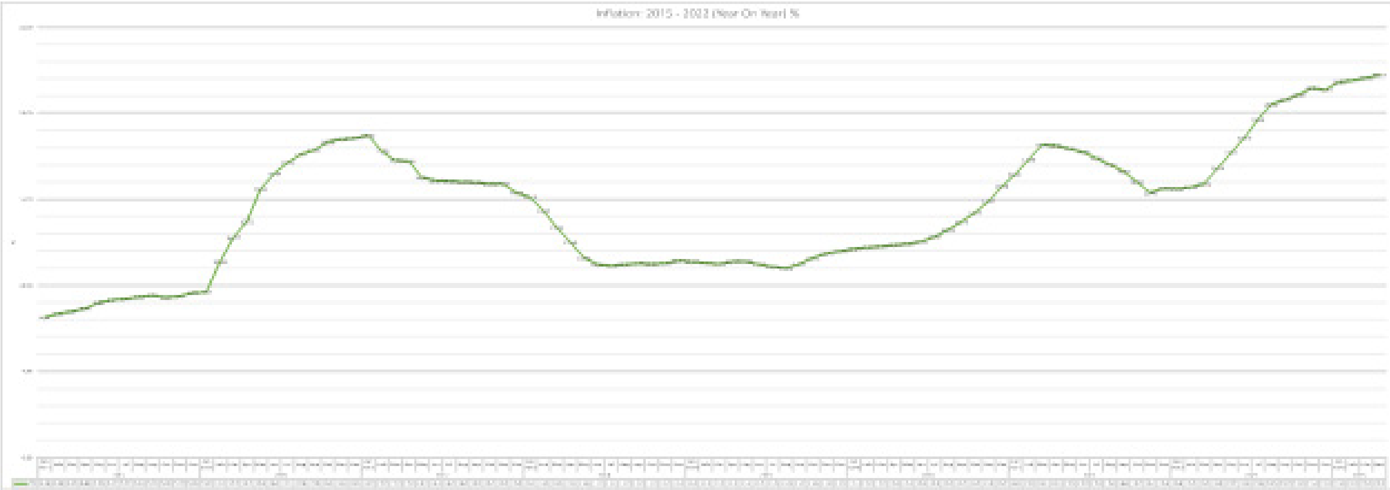
Chart 2: Inflation Percentage Change for Nigeria (2015 – 2023)



Nigeria's current account was estimated to have improved to 0.1% of GDP in 2022 from -3.7% of GDP in 2020 – a rare positive occurrence, but foreign currency reserves paradoxically declined due to capital outflow pressures. This has been further exacerbated by rising inflation at 22.2% in March 2023, year-on-year, with food inflation rising to as high as 24.61%, with certain States featuring elevated rates of 29.50% in Kogi State, 29.48% in Kwara State and 29.38% in Bayelsa State.[15]

[15] Vanguard Newspaper Article "Nigeria's inflation rate hits 22.22% in April 2023l;" of 16th May 2023 from https://www.vanguardngr.com/2023/05/nigerias-inflation-rate-hits-22-22-in-april-2023-nbs/#:~:text=The%20National%20Bureau%20of%20Statistics,year%20basis%20in%20April%202023 accessed on 17th May 2023.

Chart 3: Inflation, Nigeria (2015 – 2023)



Although Nigeria is on the path to economic recovery, the Federal Government's fiscal deficit was estimated to have widened in 2022 to 6.2% of GDP, from 6.1% in 2021 and 5.6% in 2020. This deficit has forced the Federal Government to rely heavily on domestic borrowing, primarily from the Central Bank of Nigeria's overdraft facility ('Ways and Means'), amounting to just under NGN 24 trillion. Indeed, the International Monetary Fund ('IMF') projects that if the PMS fuel subsidies and rising debt servicing costs continued on their past trajectory, fiscal deficits would remain above 6% of GDP in the medium term, with public debt increasing to about 43% of GDP by 2027.[16]

2.2. Economic Considerations for PMS Subsidy Removal

In previous cycles of relatively elevated international oil prices, Nigeria usually received the benefit of high revenues, even where there were OPEC quotas to moderate supply and maximise prices.[17] However, since 2015, the PMS subsidy crisis has been particularly challenging as Nigerian petroleum production has struggled to meet OPEC quotas due to oil bunkering and theft, pipeline and facilities sabotage and insecurity in the Niger Delta. Consequently, Nigeria is less able to afford the expensive PMS fuel subsidy as it was in the past when oil revenues were relatively higher.

This perennial challenge of underperformance in Domestic Revenue Generation has been a major constraint, impeding the Government's ability to meet the Strategic Revenue Generation Initiative ('SRGI'), launched by the HMFBNP in 2019. While these and other efforts have in recent years led to unprecedented levels of Non-Oil Revenues, the underperformance of Oil Revenues poses significant risk to the Federation's fiscal health over the short- and medium-term horizons. Despite recording higher-than-budgeted oil prices at various periods since 2015, negative variances in aggregate Oil Revenues have resulted from increasing levels of the PMS subsidy deductions for the NNPC's previous cost under-recovery on supply PMS; higher than budgeted expenditures on pipeline security and maintenance; and more recently, oil theft.

2.3. Perennial Revenue Challenges[18]

A key intervention in the SRGI toolkit has been monitoring in-year revenue performance. Indeed, since July 2018, the Presidential Revenue Monitoring and Reconciliation Committee ('PRM&RC'), comprising all major revenue collecting and monitoring agencies, has been directed by former President Muhammadu Buhari to meet monthly, under the leadership of the Director-General of the Budget Office. The PRM&RC is mandated to produce accurate, reliable and timely data on oil related revenues and maintains pressure on revenue generating agencies to enhance accountability.

Data from the PRM&RC's work indicates that since the return to democratic rule in 1999, the non-oil generation efforts under the Administration of former President Muhammadu Buhari, GCFR have been unprecedented. Specifically, as seen in Table 1 below, between 1999 and 2022, the Federation earned about NGN 183.805 trillion – earning slightly more from Oil Revenues (about NGN 93.687 trillion or 51%) than it had from Non-Oil (about NGN 90.118 trillion or 49%).

Between 2011 and 2014, Nigeria earned a previously unprecedented NGN 36.394 trillion. Over this period, Oil Revenues contributed NGN 25.42 trillion (or 70%) compared to the NGN 10.973 trillion (or 30%) that was contributed by Non-Oil Revenues during this period. Conversely, between 2015 to 2018, government earned NGN 29.221 trillion (or NGN 7.304 trillion p.a.). Remarkably, Non-Oil revenues have contributed almost half of these revenues (about NGN 14.584 trillion or 49.9%) compared to Oil Revenues (about NGN 14.628 trillion or 50.1%).

[16] IMF Executive Board Concludes 2022 Article IV Consultation with Nigeria; Press Release dated 8th February 2023, accessed from https://www.imf.org/en/Publications/CR/Issues/2023/02/16/Nigeria-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-529842 on 31st May 2023.

[17] New York Times article, "Split by Infighting, OPEC Keeps a Cap on Oil" of 8th June 2011, accessed from https://www.nytimes.com/2011/06/09/business/global/09opec.html.

[18] Road Infrastructure Tax Credit Scheme Management ('RITCS') and PRM&RC Interim Management Reports, May 2023.

Table 1: Oil & Non-Oil Revenue Flows (1999 – 2022)

The Reconstituted Presidential Revenue Monitoring & Reconciliation Committee (PRM&RC) Report on Oil & Non Oil Inflows					
Summary of Revenue (Oil & Non Oil Receipts) from 1999 - 2022					
S/N	Year	Oil & Gas Revenue	Non Oil & Other Revenue	Total Oil & Non Oil	% share of Total
A	1999 - 2002	3 134	1 229	4 363	2%
B	2003 - 2006	13 781	30 914	44 695	24%
	Total (A+B)	16 914	32 143	49 057	27%
		34,5%	65,5%	100%	
C	2007 - 2010	16 917	6 464	23 381	13%
D	2011 - 2014	25 421	10 973	36 394	20%
	Total (C+D)	42 338	17 437	59 775	33%
		70,8%	29,2%	100%	
E	2015 - 2018	14 628	14 584	29 212	16%
F	2019 - 2022	19 807	25 954	45 761	25%
	Total (E+F)	34 435	40 538	74 973	41%
		45,9%	54,1%	100%	
	Total 1999 - 2022	93 687	90 118	183 805	100%
		51,0%	49,0%	100%	

Between 2019 – 2022, Oil Revenues underperformed due to mainly production-side challenges, insecurity, theft / oil bunkering, and vandalization of energy sector infrastructure. Conversely, the Government's efforts to generate taxes, customs duties and other Non-Oil Revenues contributed to the shift in composition of revenue sources. Over this period, Oil Revenues contributed only 43% to aggregate revenues, while the share of Non-Oil Revenues increased significantly to 57%.

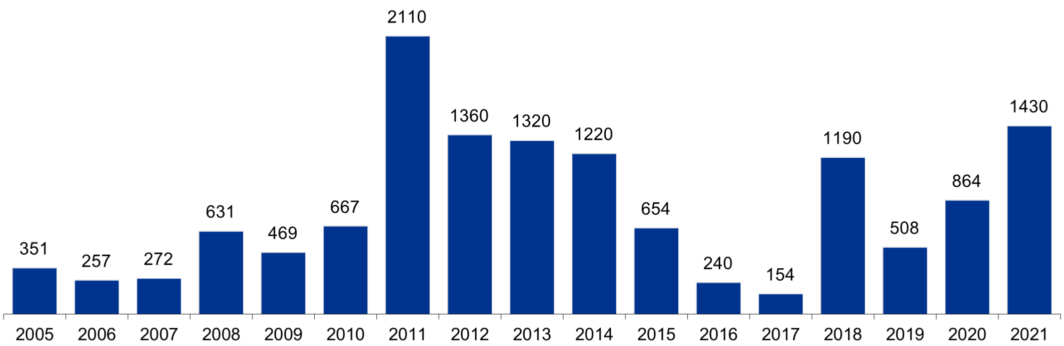
This shift to parity between Oil Revenues and Non-Oil Revenues, underscores the notable success of former President Buhari Administration in raising Non-Oil Revenues and diversifying away from oil, given the challenges of low oil prices and production experienced during these years.

Nigeria's tax revenues-to-Gross Domestic Product ratio also improved under the former President Muhammadu Buhari Administration. Prior to 2021, the tax to GDP ratio was between of 6 – 7%, declining significantly from the estimated 11% level in 2011. It improved to 10.68% in 2021, as recently confirmed by the Federal Inland Revenue Service ('FIRS') and the National Bureau of Statistics ('NBS').[19]

However, despite being a significant oil producer, with even more abundant natural gas endowments, Nigeria earns significantly less oil revenues than it used to due to lower crude oil production and lower non-oil revenues. Nigeria suffers a huge contradiction; it is an oil producer that continues to earn less oil revenues in times of higher oil prices. This due primarily to supply-side challenges of significant theft of crude oil through oil bunkering by organised criminal elements, the knock-on effect of declining investments in oil and gas exploration and development by both local and international oil companies, as well as sustained insecurity and other risks in terms of operating in oil-rich geographies principally in the South-South region of the country.

[19] FIRS Press Release of 31st May 2023: 'Nigeria's Tax to GDP Ratio, 10.86% as at 2021'; Premium Times Newspaper Article, accessed from https://www.premiumtimesng.com/promoted/601889-firs-nigerias-tax-to-gdp-ratio-rises-to-10-86-as-at-2021.html#:~:text=Tax%2Dto%2DGDP%20ratio%20is,Gross%20Domestic%20Product%20(GDP).&text=Nigeria%27s%20Tax%2Dto%2DGDP%20ratio%20which%2C%20in%20the%20last,by%20the%20end%20of%202021 on 1st June 2023.

Annual Subsidy Expenditure (Nbillions)



2.4. Rising Subsidy Costs & Further Arguments for Fuel Subsidy Removal

The IMF have estimated that Nigeria's PMS subsidies amounted to NGN 1.894 trillion in 2021, or about 38% of Oil Revenues of NGN 4.98 trillion. The costs rise to NGN 4.611 trillion (or 61.4% of NGN 7.512 trillion of Oil Revenues) in 2022, and NGN 3.135 trillion (or 33% of NGN 9.411 trillion of Oil Revenues) in 2023.[20] As Nigeria produces less oil, it pays more for subsidies it can least afford at the expense of everything required to make Nigeria more habitable.
Nigeria simply cannot afford the expensive PMS subsidies because they continue to drive Nigeria to spend very little on everything else that it important. The subsidies are draining the government's finances and preventing investments in critical areas such as education, health, and infrastructure. Nigeria's public expenditure overall is already low compared to global averages, and the subsidies only exacerbate this problem.

Consider the following statistics recently highlighted by the World Bank and IMF:[21]

a. Average global public expenditure to GDP is about 30% of GDP. At 13.1% of GDP in 2021, Nigeria's government expenditure ranks quite low globally;

b. Nigeria spent an average of USD 23 on every Nigerian on Education, compared to USD 32 dollars in Mali, USD 88 dollars in Ghana and USD 350 in South Africa. Nigeria's average per capita Education spend is about half the per capita Sub-Saharan African average. Nigeria simply cannot keep the subsidies and at the same time reduce its 14 million children of school attending ages that are out of school, particularly when 1 out of every 5 of the world's out-of-school children are in Nigeria;

c. Nigeria spends even less on health (USD 15) than it does on Health. This gross underspend has profound implications on not only productivity, and human capital development but also on life expectancy; and

d. As a result of the crowding out effect of subsidies, public investment spending on infrastructure in Nigeria is a low 1.7% of GDP, compared to 2.3%, 3.2% and 6% of GDP in Ghana, Egypt and Kenya. Little wonder that access to electricity in Nigeria is 55.4%, lower than 85.9% in Ghana, and 100% in Egypt.

With the PMS fuel subsidies, Nigeria simply will not have motorable roads, and the Federal and State Governments will ill afford investments in the electricity grid that continues to face mounting generation and distribution challenges.
The tragic reality is that Nigeria continues to spend more on PMS fuel subsidies at the expense of social protection, and infrastructure delivery. While other countries that started out with Nigeria are moving ahead, Nigeria is lagging, primarily because of subsidies.

Nigeria must also eliminate its subsidies to enhance its debt management. Due to the increasing debt burden, Nigeria's revenue receipts are being crowded out by its debt service obligations. In 2016, Nigeria's debt service as a percentage of revenue was 96.8%. While this number decreased to 70.4% in 2019, it increased to a projected 102% in 2022. At this rate, Nigeria's debt service obligations will increase to as high as 160% of revenue by 2027.

These and other considerations seem to have influenced the Government to adopt the "sudden death" approach to removing PMS subsidy without delay to address the country's insufficient revenues, growing fiscal deficits, and crowding out effect on public investment spending.
The argument is often made that the subsidies should remain because they are the only guaranteed economic benefit from the Government that benefits ordinary Nigerians. This is untrue.

The rising PMS fuel subsidies, ironically, do not benefit the poor, as much as they do the more economically empowered groups in the population. According to the World Bank,[22] the poorest 40% of Nigerians purchase just 3% of all subsidized petrol. This means the subsidies benefit richer economic classes, and to some extent, the urban poor who rely heavily on PMS-fuelled transportation, much more than the rural poor populace. This undermines the arguments of lobbyists for the PMS subsidy continuance, particularly as the rent seekers who exploit arbitrage opportunities to sell imported Nigerian PMS across the border to neighbouring countries.

[20] IMF Executive Board Concludes 2022 Article IV Consultation with Nigeria; Press Release & Staff Report for the 2022 Article IV Consultation, dated 8th February 2023, accessed from https://www.imf.org/en/Publications/CR/Issues/2023/02/16/Nigeria-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-529842 on 31st May 2023.
[21] World Bank / IMF estimates, from 'Nigeria in Transition… at a Critical Juncture and with a Choice to Make', Paper (April 2023).
[22] World Bank / IMF estimates, from 'Nigeria in Transition… at a Critical Juncture and with a Choice to Make', Paper (April 2023).

It is well known fact that due to the subsidy, the price of petrol in Nigeria is lower than in neighbouring countries, which creates an arbitrage opportunity for traders to buy petrol in Nigeria and sell it in those countries at a higher price. This results in the diversion of subsidized petrol to neighbouring countries, where it is sold at market prices, while Nigerians face fuel scarcity and long queues at petrol stations. Compared to the estimated PMS pump price of NGN 189 per litre in Nigeria, PMS prices are NGN 333, NGN 365, NGN 381 and NGN 399 in Chad, Niger, Benin and Cameroon respectively.[23] Indeed, in response to the PMS subsidy removal by President Bola Tinubu, GCFR, pump prices in the Republic of Benin almost doubled from 450 CFA to 800 CFA, underscoring the widespread belief that significant quantities of subsidised PMS were smuggled out of Nigeria into neighbouring countries.[24]

Truth be told, the PMS subsidies primarily benefit richer Nigerians, rent seekers, and those able to take advantage of arbitrage opportunities and engage in corrupt practices such as round-tripping by importing more refined PMS than they deliver to Nigerian consumers, then smuggling the residual supplies to neighbouring markets to sell at more market-determined prices.

2.5. Arguments for & against the "Sudden Death" PMS Subsidy Removal

Many options have been proposed by critics in place of the "sudden death" removal of the PMS fuel subsidy implemented by the Administration of President Bola Tinubu, GCFR. Some commentators suggest other approaches such as the partial deregulation with market response pricing, with a gradual adjustment in pricing that can be phased over a period of time.

As the opposition to the PMS subsidy removal grows, the President Bola Tinubu Administration is discovering how politically unpalatable the immediate removal is in the short run, as it is risking immense unpopularity in its honey-moon period. Labour, unions, and other civil society groups arguing for the Partial / Gradual Deregulation Option contend that Nigerians would more readily adjust to higher PMS fuel prices, if the removal was more gradual, allowing the populace to slowly adjust to post-PMS subsidy realities. With inflation rising to 22.22% in April 2023, there are concerns regarding the sudden impact that full and immediate deregulation as well the removal of the PMS fuel subsidy would have on already elevated prices of food, transport services and fuel sources, nationwide.

However appealing, the gradual adjustment in pricing appears, it remains unclear that political economy realities will enable the Federal Government to adopt a gradual subsidy removal model and still stay the course over an extended period of amount of time. Past experiences demonstrate that once international oil prices spike, there is increased public pressure for the return to the PMS subsidy regime. Given the increasing geopolitical tensions precipitated by the Russia – Ukraine war, the prospects for high and volatile international oil prices remain likely. Full deregulation of PMS market is the preferred option over the partial deregulation option because full deregulation reduces the chances of the subsidy returning and avoids continuous politicization of the PMS pricing.

Furthermore, any attempt to gradually adjust the price of PMS upwards would almost certainly spark widespread hoarding and trigger speculative additional demand for PMS at current regulated prices, as experienced in the immediate aftermath of the PMS fuel subsidy removal on 29th May 2023. Indeed, significant segments of the motoring public resident outside urban areas of Lagos, Abuja and Port Harcourt were already used to paying for PMS at much higher than the previous regulated pump price of NGN 189 per litre. It must be stated that full deregulation is mandated in the Petroleum Industry Act, 2021. Full and immediate deregulation will be optimal for Nigeria as the 650,000 barrel per day Dangote Refinery that was recently commissioned will be coming fully onstream over the next year – thereby enabling Nigeria benefit from the import substitution effects of the refinery. Accordingly, both the enabling law and economic incentives to encourage investment domestic refining capacity should be aligned.

[23] World Bank / IMF estimates, from 'Nigeria in Transition… at a Critical Juncture and with a Choice to Make', Paper (April 2023).

[24] BBC news article "Di African kontri wey Nigeria fuel subsidy removal dey affect", of 2nd June 2023, accessed from https://www.bbc.com/pidgin/articles/c51qx0d0gpzo on 2nd June 2023.

3.0 Appropriating the Savings & Benefits from PMS Subsidy Removal

3.1. Overview

Poverty in Nigeria is multidimensional in nature, encompassing economic, social and environmental dimensions. Results of the 2022 Multidimensional Index Survey of the National Bureau of Statistics indicate that 63% of persons living within Nigeria. Indeed, 133 million people are considered to multidimensionally poor with high prevalence rates in the Northern Regions (65%) compared to the Southern Regions (35%). Given the multifaceted nature of poverty, a singular solution cannot adequately address its complexities. Targeted social safety net programs will help to ease the burden on low-income households but a multiplicity of interventions at each tier of government will need to be introduced to limit the adverse effect of the subsidy removal on the different segments of the working population.

3.2. Strategic & Tactical Considerations of Redeploying PMS Subsidy Savings

Were the subsidy to be removed, a collective decision will need to be made on what to do with the recovered revenues from the subsidy removal. Options include:

a. **Financing the Fiscal Deficit:** Utilising the recovered revenues to finance the fiscal deficit of the Federal Government. While this option can help the Government meet its expenditure obligations it stands the risk of channelling PMS subsidy 'savings' to recurrent expenditure that may not necessarily directly benefit the poor and vulnerable. Accordingly, the Government should ensure that the resulting fiscal space should be utilised to prioritise pro-poor capital and recurrent expenditures that would have an immediate impact on improving the welfare of the most vulnerable segments of citizens and communities nationwide;

b. **Concessional Financing for the Rural & Urban Poor:** Utilising the recovered revenues to a set of time-bound programs that have a direct impact on the people. In this regard, the World Bank has recently offered an USD 800 million concessional loan that, if approved by the National Assembly, may provide palliative support directly to both the rural and urban poor. The World Bank option, loosely termed the "Compact with the People", is designed to feature several aspects, including the proposed large-scale cash transfer program, which will target cash transfers to 10 million poor or low-income households to be financed by the World Bank's IDA concessional Window. The 10 million targeted Nigerians in the existing Social Register amount to about 25% of poor Nigerians in urban, peri-urban and rural areas. These individuals may be identified and verified from the Federal Government's existing social register. The cash-transfer program could be expanded to cover a larger portion of the population.[25] Furthermore, State Governments could also choose to use some of the fiscal savings for pre-identified programs, building on the FGN's existing history of executing social safety nets via cash transfer program;[26]

c. **Mass Transit Schemes:** Introduction of Mass Transit Schemes for the urban working population at the State and Federal Level, could provide additional succour to the commuting poor in key States such as including Lagos State, Kano State, Rivers State, Ogun State, the Federal Capital Territory Abuja. Indeed, Edo, Enugu and Rivers State have already established mass transit system infrastructure and with more cities such as Kaduna, making similar efforts to develop robust systems in line with their long-term development plans, massively expanding the scope and funding of these Mass Transit Schemes presents an opportunity to expand and explore new avenues;

d. **Leveraging New & Greener Transportation Technologies:** The proposed World Bank lending could be channelled to the deployment new technologies to improve the poor and vulnerable Nigerians. Some of these technologies can include utilising greener and more environmentally friendly energy sources in fuelling public transportation,

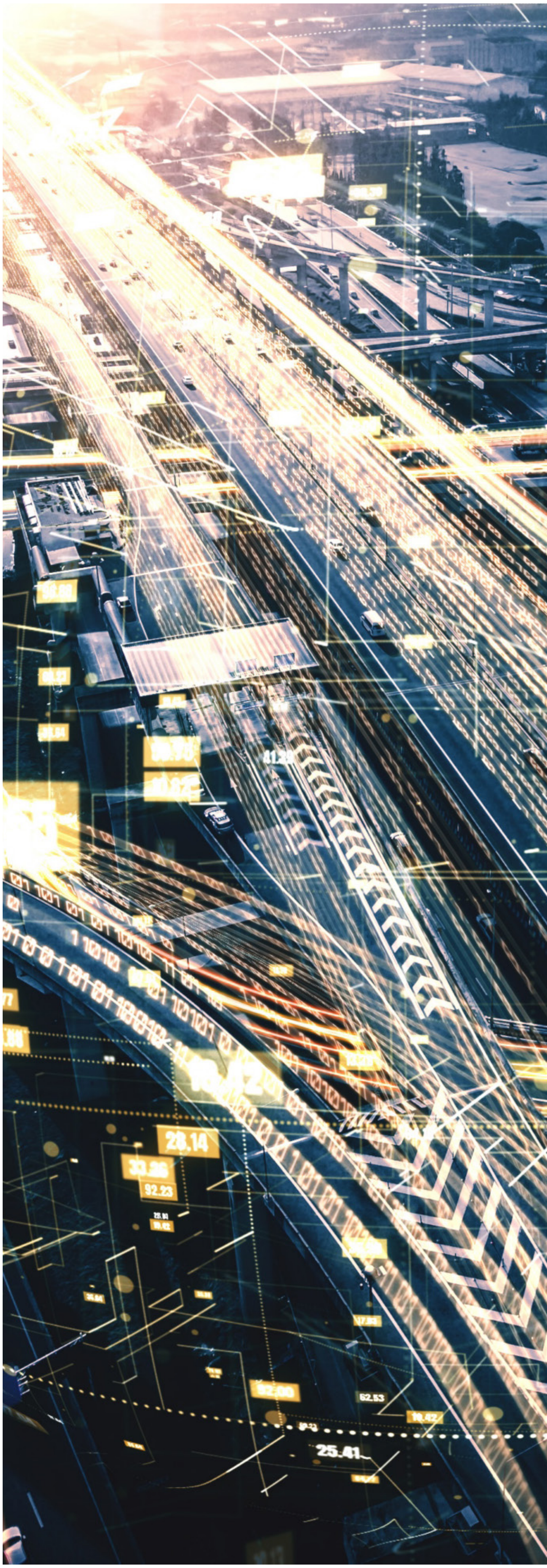
[25] This Day Newspaper Article "Nigeria is Not Seeking Another $800 million World Bank Loan, FG Clarifies;" of 14th May 2023 from https://www.thisdaylive.com/index.php/2023/05/14/nigeria-not-seeking-another-800m-world-bank-loan-fg-clarifies/ accessed on 17th May 2023.

[26] World Bank / IMF estimates, from 'Nigeria in Transition… at a Critical Juncture and with a Choice to Make', Paper (April 2023).

particularly by the provision of Bus Rapid Transit ('BRT') buses powered by gas across urban areas, like Lagos. This may reduce environmental pollution and afford residents of large cities more economical transportation solutions, particularly given the significant increase in pump prices from NGN 189/litre to over NGN 500/litre in some cities. Similarly, expanding the rollout of Liquefied Petroleum Gas ('LPG') powered taxis in Nigeria may be considered by the Government. In this connection, the Benin City experience may be expanded to other cities if taxi drivers are provided with incentives to switch from PMS to LPG. The use of alternative, greener and renewable energy sources may help to mitigate dependence on petrol and diesel consumption. Electric buses, due to their low emissions, are a more environmentally friendly and sustainable alternative to diesel powered buses. Electric buses will eliminate the need for the purchase of diesel fuel, which has seen a significant price increase since the deregulation of the commodity. Preliminary efforts are already being made in Lagos State, as the recent partnership of Lagos State Mass Transit Agency ('LAMATA') and Oando Clean Energy for the delivery of electric buses, charging stations and other infrastructure is a formidable step in the right direction. However, for end users to benefit in the form of lower costs of bus ticket prices, operational costs, labour costs, available and affordable electricity amongst other factors will need to come into play. In addition, with abundant gas reserves, Nigeria has the potential to become a major player in the auto-gas market. The Federal Government of Nigeria ('FGN') can scale conversion to use of Compressed Natural Gas ('CNG') or auto-gas to power vehicles;

e. **Leveraging Private Sector Financing for Increased Utilisation of Gas as a Greener, Transitional Fuel:** the importance of Gas as a Transitional Fuel source has been highlighted by the Government in terms of its Transition to Net Zero in line with the Paris Agreement. Crowding in private sector and multilateral resources to increase gas utilisation should also be considered, given the Government's limited fiscal resources. In this regard, partnership with the private sector to bring in investments, expertise, and innovation provides numerous benefits beyond sharing the financial burden. This collaboration will allow the government to tap into private sector resources and efficiency to implement development projects. In this regard, partnerships can help to accelerate the development and expansion of auto manufacturing assembly plants as well as the auto-gas sector. An example of such partnerships could be engaging with Nigeria LNG Limited, which is Nigeria's largest supplier of LPG to the domestic market. NLNG had earlier committed to piloting a scheme to convert vehicles assembled or produced in Nigeria to start using auto-gas instead of petrol or diesel. As Executive Order 003 grants preference to local manufacturers on the production of Made-in Nigeria goods, including motor vehicles, on procurement of items in all MDAs of the FGN, local auto-manufacturers can be incentivized by securing assured contracts for the sale of public vehicles;

f. **Utilising Electronic Voucher Subsidy Systems:** For existing diesel-powered buses, particularly those in the northern region of the country, where bad road networks and the lengthier distance to depots contribute to an increase in the price of fuel to levels higher than that of cities in the southern region, direct support through Electronic Voucher Subsidy Systems may serve as a tool to ease the initial pain of the working population and would be particularly useful to the



most vulnerable segment. This is particularly so given the complaints that labour unions, organised private sector, civil society groups have made in terms of the tactless manner in which the "sudden death" PMS subsidy removal occurred and the immediate impact this has in increasing transportation costs for the poor in mainly urban areas. Existing blockchain technology, e-commerce and fintech platforms can also be used to create electronic wallets for mass transit operators and e-subsidies for the vulnerable segment of the population. With the use of mobile phones for end users and Vehicle Identification Numbers (VIN) of buses registered by public transport operators, distribution can be targeted at beneficiaries, who may redeem the vouchers at specific depot and fuel stations across the country (i.e. NNPC Ltd. Stations). Similarly, the Federal and State Governments may subsidise ticket fares to increase patronage of electric bus systems in regions where electric charging infrastructure exists;

g. **Real-Time Tracking of PMS across borders using of Nanotechnology:** a key challenge through-out the implementation of the PMS subsidy regime was tracking precisely how much subsidised fuel was consumer by Nigerian consumers and how much leaked into the markets of neighbouring countries that did not have such subsidies. Indeed, in response to the PMS subsidy removal by President Bola Tinubu, GCFR, pump prices in the Republic of Benin almost doubled from 450 CFA to 800 CFA, underscoring the widespread belief that significant quantities of subsidised PMS were smuggled out of Nigeria into neighbouring countries.[27] Given the relatively higher prices that persist in Benin Republic compared to Nigeria, there may still be arbitrage opportunities for smugglers and rent seekers to continue to smuggle PMS out of Nigeria across the border to its neighbours. In this regard, the use of Nanotechnology to track the movement of Nigerian PMS across borders may provide Government policymakers with enhanced information for evidence-based decision-making. Significant progress has been made in vehicle tracking systems which can provide real-time data on vehicle location, fuel usage and fuel source. Relevant interventions include linkages to the Vehicle Identification Numbers ('VIN') and Global Positioning System ('GPS') tracking can be used to prevent misuse of fuel products for personal use. Furthermore, the use of nano-infused fuel additives and other materials may be used to track and trace fuel from port to fuel station forecourts, and indeed, to smuggled supplies across borders to neighbouring countries. Furthermore, cutting-edge technology to manufacture hydrogen powered vehicles is leading to cheaper, more durable and more sustainable vehicles. Nano-sensors can also be used to track fuel levels in each vehicle's fuel tank to prevent disruption of traffic flows and limit delays for passengers;

h. **Accelerating Investments in Infrastructure Projects & Public Works:** Nigeria has experienced rapid urbanisation over the past few decades, with more people migrating from rural areas to cities in search for better economic opportunities and better access to services and infrastructure. Various interventions were undertaken by the Administration of former President Muhammadu Buhari, GCFR, to interconnectivity within the country. These include the Sukuk Fund, Presidential Infrastructure Development Fund ('PIDF'), the Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme ('RIDRITCS') established under EO 007 of 2019 and the Highway Development and Management Initiative ('HDMI'). These interventions should be accelerated. With an increasing urban population comes a need for larger and better social amenities and Nigeria currently faces challenges in providing sufficient public amenities to its growing population. In 2019, under the National Directorate of Employment ('NDE'), the Federal Government of Nigeria flagged off the NDE Special Public Works Programme aimed at employing 774,000 unskilled workers (1,000 people from each of the 774 local government areas) across the country to ease the burden during COVID-19. Indeed, enhancing critical feeder roads infrastructure in the States and Local Governments may have a direct impact of reducing transportation costs for basic food and other items for the rural poor populace. Therefore, by providing temporary employment opportunities, similar programs have the potential to serve as a valuable tool for providing employment opportunities while upgrading infrastructure; and

i. **Clearing Nigeria National Petroleum Corporation ('NNPC') Ltd. Arrears:** It is not surprising that NNPC Ltd has argued for the utilisation of some of the savings in revenues to clear the arrears on PMS fuel subsidies, owed by the Government, which are estimated at NGN 2.8 trillion.[28] This may be a value-added option, whether such clearance is on a partial or absolute basis. However, while this option of using the recovered revenues to clear NNPC Ltd.'s arrears on PMS fuel subsidies is vitally important for the sustainability of the petroleum industry in Nigeria, it may not directly benefit the ordinary Nigerian, and indeed, may even lead to further debt accumulation. As such, there may be a limited value-for-money proposition here, which may be articulated and communicated to poor urban and rural poor communities, which would invariably feel the full impact of the PMS fuel subsidy removal.

Ultimately, the decision on what to do with the savings will require a balance across fiscal sustainability, social welfare, and political feasibility. It will be important to ensure that any program implemented has a human face and supports the poor, both urban and rural, who are the most vulnerable to the impacts of subsidy removal.

[27] BBC news article "Di African kontri wey Nigeria fuel subsidy removal dey affect", of 2nd June 2023, accessed from https://www.bbc.com/pidgin/articles/c51qx0d0gpzo on 2nd June 2023.
[28] Reuters new article, 'NNPC says Nigeria can no longer afford fuel subsidy' of 30th May 2023, accessed from: https://www.reuters.com/world/africa/nigerians-panic-buy-fuel-after-tinubu-says-subsidy-go-2023-05-30/.

4.0 4. The Economics and Optics of PMS Subsidy Removal

4.1. Inflation & PMS Subsidy Removal

Whether one-off or gradual, the removal of PMS fuel subsidies will result in a temporary increase in inflation (currently at 22.22% as at April 2023). The World Bank projects that a one-off adjustment will lead to higher inflation in 2023 and 2024 and lower thereafter. Our internal macro model also supports the World Bank's findings with a forecast of an increase of about 6% over June 2023 inflation rate bring it to about 30%. In mid-2024, however, all other things remaining constant, and as year-on-year base effects kick in, the pace of inflation will drop significantly though overall prices of goods and services will remain elevated. However, as inflation is already high and will increase further, more Nigerians will be pushed into poverty unless compensating measures to cushion them at least partially from the price shock are put in place. How long the spike in inflation is and how long it lasts will depend in part on the following factors, namely:

a. The extent to which some of the inflationary impacts of increases in PMS fuel prices have already been incorporated because the effective market price is already above the official regulated price in many parts of the country;

b. The pass-through from increases in PMS fuel prices to transport and food prices, which, experience from previous instances when PMS prices were increased significantly suggests is likely to be limited;

c. The CBN's capacity to manage inflationary pressures through effective monetary policy. In this regard, on 21st March 2023, the CBN raised the monetary policy rate ('MPR'), which measures interest rate, from 17.5% to 18%. However, the CBN, like monetary authorities world-over is struggling to contain runaway inflation and there are legitimate questions regarding the efficacy of interest rate hikes to contain inflation given the significant supply-side and geopolitical drivers, ranging from China's erratic recovery from COVID-19 to the multifaceted impact of the Russia-Ukraine War.

4.2. Monetary Policy & PMS Subsidy Removal

However, gradual or immediate deregulation to be effective, several conditions will have to be met, vis-à-vis establishing a robust and sustainable market for eligible importers to access, on a non-discriminatory basis, sufficient supply foreign exchange ('FX') liquidity at the same rate for all eligible fuel suppliers. This will require significant and far-reaching reforms to the Central Bank of Nigeria ('CBN') current approach to foreign exchange management to enhance supply of FX and bring down the parallel market rate. While President Bola Tinubu called for comprehensive reforms to the CBN in his Inaugural Speech, highlighting the need for thorough 'housecleaning' and the unification of the parallel and multiple exchange rates,[29] the CBN recently came out to debunk reports that it had devalued the Naira and done away with the multiple exchange rates.[30]

Beyond the fundamental monetary policy reforms that are necessary prerequisite to the PMS fuel subsidy removal through a full and immediate deregulation, are the regulatory issues arising pursuant to the Petroleum Industry Act ('PIA'), 2021. Specifically, the PIA's provisions require the Nigeria Midstream and Downstream Petroleum Regulatory Authority ('NMDPRA') would need to issue new regulations to deregulate PMS pricing, provide for price competition, effect a smooth phaseout of the Fuel Equalization Fund and end transportation levies, and proactively enforce regulations about third party access and prohibitions on commercial malpractice.

[29] Premium Times Newspaper Article "Fuel Subsidy is gone — Tinubu declares" 29th May 2023, accessed from: https://www.premiumtimesng.com/news/top-news/601239-fuel-subsidy-is-gone-tinubu-declares.html.

[30] Inside Business Newspaper Article "CBN Says, It Has Not Devalued Naira" 1st June 2023, accessed from: https://insidebusiness.ng/197961/cbn-says-it-has-not-devalued-naira/.

4.3. Communications & Stakeholders' Engagement for PMS Subsidy Removal

Communicating the removal of PMS fuel subsidies to the Nigerian public will be an important aspect of the process. It is important to provide clear and transparent information to Nigerians about the rationale for the removal of subsidies, the expected benefits, and the compensatory measures that will be put in place to cushion the impact on the poor and vulnerable.

Adequate communication with stakeholders is crucial to ensure that the rationale for subsidy removal is well understood and to manage public expectations. In the past, inadequate communication has led to widespread public protests and unrest. To effectively communicate the subsidy removal, the government can use a range of communication channels, including social media, print and electronic media, town hall meetings, and community outreach programs. The following are some key considerations:

a. **Transparency:** The Federal Government, working with the States, should provide clear and transparent information on the nature, content, timing, benefits and demerits of PMS fuel subsidy removal and how it will affect the prices of petroleum products. It is important to explain why the subsidy removal is necessary and how it will help the economy in the long run;

b. **Clarity:** The communication regarding the PMS fuel subsidy removal should be clear, concise, and in plain language that is easy for people to understand. This is particularly important for people in rural areas who may not have a strong understanding of economic concepts. Furthermore, the information being conveyed must be accessible in all major languages (including Pidgin English), and communicated across various traditional and social media channels to enhance its reach and impact;

c. **Engagement:** The government should engage with stakeholders, including civil society groups, labour unions, and the private sector, to get their input on the subsidy removal and to address any concerns they may have. This will help to build trust and ensure that the process is inclusive;

d. **Compensatory Measures:** The Federal Government should clearly communicate the compensatory measures (whatever form this might take such as wage increases, tax cuts etc) that will be put in place to cushion the impact of the subsidy removal on the most poor and vulnerable and demonstrate in clear terms how this will be done. This will help to allay fears and concerns that the subsidy removal will result in an increase in poverty and hardship, increasing economic and cost of living crises for the urban, rural and working poor. If Nigerians expect to see accelerated investment in critical physical infrastructure, health, education, security and enhanced socio-economic development, the Government has no option but to redeploy resources from the unsustainable PMS fuel subsidies. Again, Nigerians cannot have their cake and eat it. However, compensatory measures, reducing the cost of governance, increasing public trust and strengthening the Social Contract between Citizens and State will go a long way to engage Nigerians to support the PMS subsidy removal reforms of the President Bola Tinubu Government.

A critical lesson to learn from Nigeria's past experiences with PMS fuel subsidy removal relates to the presence (or indeed, absence) of political will. In the past, implementation has been hindered by corruption, inefficiencies, disinformation, opposition from interests and lobbyist groups, but seemingly above all – a lack of political will. By learning from past experiences, policymakers can better navigate the challenges associated with fuel subsidy removal and develop effective policies that benefit the economy and the Nigerian people.

Conclusion

In conclusion, the removal of subsidies on PMS in Nigeria is a complex issue that requires careful consideration of its potential economic, social, and political impacts. While subsidies have provided some benefits, they have also been a significant drain on the country's resources and have contributed to inefficiencies and corruption.

While success at the PMS fuel subsidy removal will require political will and commitment by the Federal Government, this must be complemented by a robust coordination with the States. Coordination by the fiscal authorities and CBN in managing the monetary aspects of deregulation and subsidy removal are key. Without foreign exchange reforms, and an elimination of the gap between the official and parallel exchange rate, the reforms will not work.

To minimize the negative impacts of subsidy removal, there is a need for a set of coordinated actions that considers the inflationary impact, potential social unrest, and the need for compensating measures to cushion the poor. The USD 800 million World Bank proposed "Compact with the People" is therefore a step in the right direction. Communication is also key in ensuring that stakeholders are properly informed and engaged in the decision-making process. Other suggestions have been to increase the minimum wage to cushion the impact of the removal on the purchasing power of consumers. However, these measures could further worsen inflation that it is intended to resolve by stimulating money supply further, so must be handled carefully. Accordingly, we will advocate using alternatives to money supply boosting actions such as transport vouchers for the rural and urban poor and tax cuts (PAYE, VAT, CIT) for the middle class. The benefit of this is that it has limiting effects on money supply while at the same time cushioning the negative impact on purchasing power.

In addition to demonstrating very clear and unambiguous transparency in the process, the government will also have to demonstrate that as much as it is rightly asking the public to tighten its belt and expect temporal inconveniences, it also must be seen to be cutting wasteful expenditure and reduce the rising costs of running government including the courage and political will needed to fully implement the Orosanye report which is estimated to save the government N1.3 trillion.

Nigeria can learn from the experiences of other countries that have undergone subsidy reforms, particularly in the areas of stakeholder engagement, and effective communication. With careful planning and implementation, the removal of PMS fuel subsidies in Nigeria has the potential to promote greater economic efficiency, reduce corruption, and create opportunities for more sustainable and inclusive economic growth. However, in sum, the current PMS fuel subsidy is clearly unaffordable and unsustainable: Nigeria cannot continue trying to simultaneously have its cake and eat it.

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