THE NIGERIAN STATE AND THE ISSUE OF OIL SUBSIDY

ABDULKADIR ABDULLAHI; & SHUAIB ABDULLAHI
Department of Social Sciences, the Federal Polytechnic Bida, Niger State

Abstract
The paper discusses petrol oil subsidy in Nigeria. Using the documentary approach, information was harvested from the review of newspaper reports, monographs, journals and books focusing on the years 2015 to 2022. The aim of the paper is to unveil and reveal the phenomenon on Nigeria. The study shows so much resource is spent on oil subsidy which could be better utilised to facilitate economic development of Nigeria. The Liberal Economic Theory and The Rosenstein-Rodan theory were identified as explanatory framework. It is concluded that oil subsidy as it is in Nigeria presently constitutes waste considering scarcity of funds needed for governance. It is recommended that resource spent on oil subsidy be rechannelled to fund infrastructural development, subsidy of agriculture and manufacturing through accountable, well monitored and evaluated programmes that facilitate economic and human development.

Key Words- Subsidy, The State, Crude Oil, Oil pricing, Dollar, Naira

Introduction
The Nigerian state over the years has become an entity whose functioning depends largely on crude oil. Its budget and governance are determined by the demand and supply of crude oil in the international market, its ability to sell enough crude oil, and the pricing of crude oil at an amount that avails it with enough resources to sustain and maintain its entity. Oil was discovered in the late 1950s and by the early 1970s it has succeeded in giving Nigeria a rentier status which till now it maintains (Sunday, Clement & Eteng, 2013). Despite its large crude oil deposit,

its capacity to refine oil even for sufficient domestic use is abysmal (Uyiosa, 2018). While Nigeria exports oil in its raw, it largely imports refined oil (Gbadebo, 2008). To avail its citizens with cheap oil, the Nigerian government established an oil subsidy programme. Of recent oil subsidy as a welfare measure by the Nigerian state has attracted intense political debate as to its justification or otherwise. Oil subsidy was introduced in Nigeria in the 1970s and till now it's been.

At the core of the activities of the state is public welfare and what makes it possible are resources which are scarce. But what constitutes public welfare is always faced with competing demands for scarce resource. The major resource used by the Nigerian state as stated earlier is crude oil. With the exception of Marxist and anarchist position, the State is generally seen as an institutionalized entity for the general welfare of all backed by monopoly over the use of violence in a defined area. In every economy whether planned or market driven, Nigeria included, the State through government determines and drives the course of production and consumption directly or indirectly. Governments all over the world engage in one subsidy or another either to support consumption, production, export or employment, all for the politics of public good. The fact of subsidy as an intervention measure in economic activities in whatever segment means the medium of exchange which in this case is price is controlled and the interaction between demand and supply is equally not market determined. Subsidy as a government intervention is meant to promote certain economic activities- for welfare, protectionist or the promotion of growth in certain sectors and areas of the economy.

In certainty, the availability and affordability of petrol in Nigeria has a lot to do with the welfare of the people. Petrol is used, to power most generator sets used by households and small businesses. The fuelling of cars as means of transportation of goods and people depends on petrol. There exists a close connection between the pump price of petrol and the price of goods and services in Nigeria. Everything has cost implication. What is the cost of subsidizing petrol? The subsidy of petrol avail Nigerians with cheap fuel which make life a lot easier and the absence of subsidy will increase difficulties. But what is the opportunity cost? Can it or does it harm the economic fortunes of Nigerian and how if it does? Attempt is made to address some of the questions raised.

Concept of Subsidy

The concept of subsidy attracts divergent of meaning and plethora of understanding. Existing literature makes it vague and difficult to define comprehensively (World Trade Organization, 2006). Notwithstanding, definitions of subsidy abound. The Online version of Oxford Learners Dictionaries (2022) defines subsidy as money that is paid by a government or an organization to reduce the costs of services or of producing goods so that their prices can be kept low. Sum of money granted from public funds to help an industry or business keep the price of a commodity or service low. Similarly, the online version of Encyclopeadia Britannica (2017) define subsidy is a direct or indirect payment, economic concession, or privilege granted by a government to private firms, households, or other governmental units in order to promote a public objective. A financial advantage or support given to institutions or individuals, generally by the government. This privilege is ordinarily either in the form of cash or a tax cut. It aims to promote the economic and social policies of the government as it raises the general interest of the public. Nigar Hashimzade, Gareth Myles and John Black (2017) defined subsidy as 'a payment by the government to consumers or producers which makes the factor cost received by producers greater than the market price charged to consumers. Subsidies may be given grounds of income distribution, to improve the incomes of producers, or the welfare of consumers. According to the World Trade Organization (WTO) direct transfers of funds, including potential transfers, such as loan guarantees; foregone revenues that are otherwise due; and goods and services provided by the government other than general infrastructure all combined constitutes subsidy. In essence subsidy is an incentive by the government to certain entities in support of defined economic activity. Chris and Michael (2017) defined subsidy as a grant that is paid by government to the supplier of goods or service that benefits the public.

In practice subsidy takes the form of direct payments in cash or kind; governmental provision of goods or services at prices below the normal market price; governmental purchase of goods or services at prices in excess of the market price; and tax concessions and similar inducements. Subsidy can be classified as direct or indirect; production or consumption; or export, import, tax, oil, housing, transport, environment and employment as the case may be. Direct subsidy is the form of subsidy that involve an actual payment of money towards a specific group or individual. Cash grants and interest-free loans are some examples. Indirect Subsidy is the form do not involve actual cash outlays. They usually include activities that lead to price reduction for goods and services. Hence, the savings arising out of the decrease in prices works as monetary help. Some of the notable examples are tax breaks, insurance, rent rebates, low-interest loans, etc. Production subsidy is a way to ensure that producers are better off. The government gives production subsidies either by providing market price support, direct support or paying for the factors of production. In this way, the authorities secure producers from any unknown decline in their returns. Consumption Subsidy ordinarily reduce the prices of goods and services in the market. Hence, they give an advantage to the consumers. Export subsidy takes the form of incentive to producers of certain products whether primary or secondary to facilitate export to other economies thereby earning Forex, improve international trade visibility and balance of trade and possibly increase the demand for local products and currencies in the international market. Import subsidy are meant to reduce the burden to importers of certain goods considering local economic advantages by offering tax brakes or cheap Forex to importers like manufacturer enjoy in Nigeria on importation of heavy equipment or importers of drugs into the country. Tax subsidy is form of subsidy mostly meant for businesses to reduce their cost of production, support expansion and improve operation capacity by tax reduction or suspension. Housing subsidy is an incentive to encourage development of housing sector thereby improving accessibility and affordability to housing. Employment subsidy aims at promoting the employment opportunity of unemployed jobseekers, which can be granted out of employment appropriations to an employer for pay costs or to a jobseeker client for securing his/her income. Transport subsidy is meant to reduce the burden of transportation through direct cash payment to the people or the transport companies to reduce transport fare. Oil subsidy could be production or consumption centred, as it relates to measure by the government to reduce the cost of fuel production, increase the amount received by oil producers, or lowers the price paid by fuel consumers. Oil subsidy in Nigeria is a consumption subsidy, a welfare measure meant to reduce the cost of consuming oil for the common Nigerian whereby government pays money to ensure Nigerians have access to fuel at price lesser than the actual market price. The subject of this paper is centred on oil subsidy in Nigeria, which is the money paid by the government to private importers or resources beard by the Nigerian National Petroleum Corporation (NNPC) as the agent of government to make fuel available in Nigeria at price mostly below the profit sellable or even brake-even price.

Petrol Subsidy Regime in Nigeria from 2015 to 2022

Subsidizing petrol for a country with a population of over two hundred million people and with one of the fastest population growth rates in the world can be herculean. The Nigerian economy is the largest in African and Nigeria is one of the major producers of crude oil in the world. Yet at present it imports the whole fuel consumed by its population and industries. Though moribund, the four government-owned refineries under the supervision of the NNPC have the combined total full refining capacity of 470,000 barrels per day (Gbadebo, 2008). Combined with the fact that the actual daily domestic consumption is not certain. Despite petrol remains the only fuel subsidized by the government at present, the amount of resources sunk to sustain the subsidy of petrol is not only staggering but appalling.

According to Iniobong (2022) Nigeria's average daily consumption grew from 20.52million litres in 2015, to 40.74million litres in 2020, and 50.49million litres in 2021. In the first 3 months of 2022, the country recorded a daily average consumption of 64.14million litres. Despite the fact that it will cost Nigeria roughly N11bn daily to fund subsidy in 2022, very little has been done to establish an intelligence-driven accountability mechanism to track the "apparent distribution" of petrol across the federation to stem the smuggling of the product across Nigeria's borders. Nigeria's reported daily consumption of PMS has grown astronomically in the last 7 years with very little empirical evidence to back it up. According Nwabughiogu (2022) documents from the office of Accountant General of the Federation (oAGF), shows the subsidy payments/deductions from the Federation Account computed by the oAGF through the Federation Account Department indicated that the sums of N126.539 billion was paid from January to December 2017; N691.586 billion was paid from January to December 2018; N537.209 billion paid from January to December 2019; N133.625 billion paid from January to December 2020; N1,159 billion paid from January to December 2021; and N1.545 trillion was paid between January and June 2022.

Rewane as cited in Deji and Addeh (2022) posit that between 2015 to 2020, $5.5 billion was spent on subsidy and in 2021 alone it went up to $3.8 billion, while $6.2 billion in just the first quarter of 2022. The amount daily spent on maintaining the petrol subsidy is N18.4 billion. According to Anyaogu (2022) N7.3trillion has been sunk into subsidizing petrol from 2015 to 2022. This is at a time the country is struggling with adequate revenue generation. From the consumption of 55million litres per day, the daily consumption ballooned to 93 million litres in seven years. Certainly, Nigerian population and industrial growth rate has not increased that much. In the assertions of Okechukwu (2022) base on the NNPC Limited and the Nigeria Extractive Industries Transparency Initiative (NEITI) records from May 2015 to May 2023 government could spend not less than N10.976tn as subsidy on petrol. Figures from the report submitted to the House of Representative in September, 2022 shows that fuel subsidy gulped N316.7bn in 2015; N99bn in 2016; N141.63bn in 2017; N722.3bn in 2018; N578.07bn in 2019; and N134bn in 2020. NNPC figure shows N1.43tn was spent in 2021 and N2.565tn between January and August 2022. In details N210.38bn in January, N219.78bn in Febuary, N245.77bn in March, N271.59bn in April, N327.07bn in May, N319.18bn in June, N448.78bn in July and N525.71bn in August 2022 (Okechukwu, 2022).

In addition going by the global cost of crude oil and the volume of petrol consumed in Nigeria since January 2022, which are the major factors that drive subsidy, the cost of subsidy may be about N200bn monthly (Nwabughiogu, 2022). The amount spent on subsidy in eight-month period from January to August of in 2022 is N210.38bn (Okechukwu, 2022). This implies that should crude oil prices continue to fluctuate between $90 and $100/barrel, monthly subsidy spending would not go below N200bn and not less than N800bn from September to December 2022 (Okechukwu, 2022). In the Medium-Term Expenditure Framework, the Government proposed to spend N3.3tn on fuel subsidy between January and June 2023 or N6.72tn on subsidy in 2023 if it will cover the whole 2023 (Okechukwu, 2022). In 2021, government spent N1.77 trillion on petrol subsidy, a 477 percent increase from N307 billion in 2015. Though the NNPC Ltd in its August financial and operations report claims it would spend about N3.1 trillion, analysts at PwC Nigeria project that N4 trillion to be spent of petrol subsidy in 2022. This constitutes 24 percent of the total projected expenditure of N16.6 trillion of the year's budget on fuel subsidy leaving 29.84 percent (N4.95 trillion) for capital projects. The government spends N238 per litre of petrol which totals N18.397 billion on petrol subsidies daily (Anyaogu, 2022).

Revealing the implication of subsidy of petrol Iniobong (2022) argued it will cost Nigeria, an estimated N4 trillion to subsidise the price of petrol in 2022. Base on the fact that the cumulative budget size of the 36 states of the federation for 2022 is N9.65 trillion and the total revenue realised in 2020 by the NNPC Group, including all its subsidiaries, is N4.6 trillion. Similarly, the federal government generated N3.9 trillion as revenue in 2020. Nigeria's 2022 petroleum subsidy budget is more than half what it cost the country to subsidise the product for 10 years. If the balooning trend of subsidy is not arrested or the policy starved all together, resources much needed for governance and development activities will not be available.To unveil the direness of the situation Iniobong (2022) reveals that in the first quarter of 2022, the NNPC made zero remittance to federation accounts on the account of subsidy payments, leading to a notable reduction in revenue available to be shared by different tiers of government. Certainly, Nigeria's subsidy of petrol in recent times has crowded out spending on physical infrastructure and needed investments in critical social sectors like health, education, water, sanitation and social protection. In addition, fuel subsidy has discouraged many investors from building refineries in the country which will not only employ a lot of Nigerians, but will reduce the money spent by the government in subsidizing oil (Uzonwanne, Chinecherem, Iregbenu and Ezenekwe, 2015).

While most informed people will advocate for subsidy removal, the troubling and critical questions as phrased by Iniobong (2022) are "why should the average Nigerian pay more for a litre of petrol if the resultant extra revenue that accrues to the government will not be used for causes that improve his/her life? Will subsidy removal create fiscal space for improved spending in critical social sectors like health, education, sanitation and social protection? Or Will it create fiscal space for more plundering of Nigeria's commonwealth? This is because the expenditure patterns by the federal and subnational governments show that the country has historically not efficiently and effectively used the windfall of oil revenues to bridge Nigeria's huge infrastructure deficit, improving universal health coverage, and access to quality education and electricity and improving other human capital development indicators- the case of misplacement of prioritise. in addition massive loopholes for corruption and expenditure inefficiency with the situating of projects in the budgets of MDAs that have neither the mandate nor the capacity to implement such projects and the inclusion of projects that should be the clear mandate of the subnational governments stand ready to eat-up the freed resources that accrues from subsidy reduction or removal.

In explaining the crisis of petrol subsidy in Nigeria, Iniobong (2022) identified the highly volatile price of crude oil (with the attendant exchange rate differentials-driven challenges); the absence of local refining of crude oil; wide spread smuggling of petrol across Nigerian border to neighbouring countries which is incentivized by the fact that subsidized petrol of Nigeria are cheaper due to the major price disparity of petrol between Nigeria and its neighbours. While petrol currently sells for 185 to 200 per litre in Nigeria, it sells for between N577/litre and N660/litre in the countries bordering Nigeria. It is estimated that at least 15.6 million litres of petrol per day are smuggled across Nigeria's borders to its neighbouring countries which has partly led to Nigeria's reported daily consumption of petrol to blow to the sky. The subsidy crisis is better understood in relation to crude oil and its pricing, for it is the main source of government revenue and the NNPC handles both the sale of Nigerian crude oil and oil subsidy.

Nigeria and Crude oil Pricing from 2015 to 2022

All things being equal, the price of crude oil is generally determined by demand, supply, quality of oil and speculation. Demand for oil is highly influenced economic growth activities. But fact is, Crude oil pricing is not local, it is an international market affair. The cartel Organisation of Petroleum Exporting Countries (OPEC) largely determines the price and quantity of oil in the international market through production quota to its members. Nigeria first attended an OPEC conference as an observer in 1964, and joined the organization in 1971.

In periods when major economic powers are experiencing growth, the demand for oil increases with a multiplier effect on price likewise its opposite. This was clearly seen during the COVID-19 pandemic and the recent economic recession which made major economies of the world to slowdown or forced some to completely halt. It caused a reduction in the demand for crude oil. Supply also affect price. In times when the international market is saturated with supply, price of crude oil usually decreases. This can be clearly seen when the price of crude oil is high the United States (US) usually approaches her ally Kingdom of Saudi Arabia (KSA) to increase supply in other to bring down price and whenever KSA obliges price goes down. The Russia-Ukraine war is a good example. The quality of the oil equally affects its price. Higher quality crude oil that is easy to refine and meet environmental requirements are usually higher in price. Nigerian crude oil is of the high quality. Though experts disagree on how much speculation affects the price of oil, it is agreed that speculation affects prices we all face.

According to NEITI Nigeria made 24.79 billion dollars from crude oil sales in 2015. In 2016 the total amount made was 17 billion dollars. By the year 2017, revenue from crude oil sales increased to 20.98 billion dollars. The year 2018 saw an increase of crude oil revenue to 32.62 billion dollars. In 2019 crude oil revenue jumped to 34.21 billion dollar and nose-dived to 20.43 billion dollars in 2020 (Aduloju, 2022). In 2015 the average price of crude oil was 48.66 dollars, 43.29 dollars in 2016, 50.80 dollars in 2017, 65.23 dollars in 2018 and 56.99 dollars in 2019. By 2020 the average price of crude oil took a nose-dive and fell to 39.68 dollar but rose in 2021 to an average of 68.17 dollar and 95.17 dollar in 2022. Thus it can be seen from the figures above that the revenue Nigeria gets from crude oil is fluctuating. The pricing of crude oil is also not stable. Hence the need for the government to re-channel the huge resources expended on oil subsidy to areas in critical need for funds and re-engineer public expenditure for wellbeing of Nigerians.

Theoretical Framework

Two theories are used as the explanatory framework for this paper. The Liberal Economic Theory and The Rosenstein-Rodan theory also known as Theory of the "Big Push". Major proponents of the Neoliberal Economic Theory are scholars like Milton Friedman, Friedrich Hayek and James Buchanan who assume that efficiency lies in the market driven economy; competition leads to availability, innovation and affordability; the concentration of government on regulation, provision of security among other basic governance issues improves people's welfare in the long run.

The second theory is the "Big Push" theory which is associated with Paul Rosenstein-Rodan. The argument championed by this theory is likened to the taking off of an airplane from the ground. The airplane must assume a critical level of ground speed before it can become airborne. Without this critical ground speed, the airplane cannot take off. Likening it to a country's economy, a high minimum amount of investment must be initiated in order to launch the economy successfully on a development path. The theory assumes that development in a developing economy requires huge and chunk investment enough to accelerate sustainable growth. For Rosenstein-Rodan, there are three kinds of indivisibilities and external economies, namely; indivisibilities in the production function, indivisibility of demand and indivisibility in the supply of savings. In the first kind of indivisibilities and external economies, what appears important here is the social overhead capital. To start with, the economy needs a sizeable initial lump of investment. Citing Jhingan (2012) "The services of social overhead capital comprising basic industries like power, transport, and communications are indirectly productive and have a long gestation period. They cannot be imported". These indivisibilities of supply of social overhead capital are one of the primary barriers of development in underdeveloped economies as such, "a high initial investment in social overhead capital is necessary to pave the way for quick-yielding directly productive investment".

In addition is the indivisibility or complementarity of demand. This requires setting up of industries that are interdependent. The idea here is that by setting up these industries it creates a situation whereby "producers would be each other' customers and thus create market for their goods" (Jhingan, 2012). The demand for goods here becomes complementary and this helps reduce the risk of creating market and encourages the incentive to invest. In other words, the indivisibility of demand is only possible when there is a high minimum quantum of investment in interdependent industries.

Then is the indivisibility in the supply of savings. It is for sure that investment can be done when there is a high volume of savings. However, this is not easy to achieve due to the rate of low income one finds in underdeveloped countries. This can be circumvented by ensuring that income accrued in any form of investment is saved in such a way that the marginal rate of saving is much higher than the average rate of saving. Given these three indivisibilities and the external economies to which they give rise, a big push in form of a minimum quantum of investment is required to set these underdeveloped economies on the path of sustaining growth. The big push in the Nigerian context then is, removal of the fuel subsidy which has engulfed more funds that would have been used in making investment in various sectors of the Nigerian economy. For instance, with the big push initiated and quantum investment made, more sectors of the economy will be created in a way that they are dependent on each other for market. Hence, this theory lends support to the contention of this study in that, as the study champions, a removal of fuel subsidy can create huge financial resources that will engender a minimum quantum of investment required to positively turn around the Nigerian economy.

Conclusion and Recommendation

As shown by the figures identified above, like most subsidies of consumption, if not well managed, its benefit of offsetting market failures to achieve economic efficiency and effectiveness in the long run is dwarfed considering the resources fuelling the subsidy either directly or indirectly, benefit to unintended beneficiaries and the opportunity cost of channelling the resource to other areas of the economy more in need of support, despite Oil subsidy has been part of a significant history of modern Nigerian economy.

From the above discussion it is clear the oil subsidy is seriously and heavily eating up Nigerian scarce resource which could be used better and its removal is essential. To gain public approval and reduce resistance to subsidy removal, government needs to comprehensively investigate the oil subsidy programme and punish appropriately corrupt practices found. The need to investigate thoroughly why the repair of refineries have failed and money spent over the years cannot be overemphasized. Accountability and transparency must be ensured in the process. Evidence has shown that the performance of public enterprises in Nigeria had been very bad. Thus, the need to privatize the refineries through a transparent process. There is also the need to declare tax waver for reasonable period for oil refining operation in Nigeria to attract more players into oil refining business.

The establishment and operation of pro-poor programmes and projects in agriculture and manufacturing sector with wide participation of the masses at all levels constantly monitored, evaluated and improved is necessary. Measures must also be put in place to ensure government resources available to the political and bureaucratic class as ostentatious privileges must be curtailed and corruption must be fought to its lowest minimum.

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