KOGI JOURNAL OF MANAGEMENT
VOL. 5, No 2, September, 2019
http://ksumanjourn.com.ng

EFFECT OF FUEL SUBSIDY IMPLEMENTATION ON POVERTY REDUCTION IN NIGERIA

[1]Yunusa Amodu & [2]Joseph Odoba Achegbulu
[1,2]Department of Public Administration
Faculty of Management Sciences
Kogi State University, Anyigba.

Abstract

In a bid to reinvest and redirect savings for poverty reduction as a development effort, successive administrations in Nigeria have engaged in fuel subsidy removal. The paper aims to empirically analyze effect of fuel subsidy implementation on poverty reduction in Nigeria with the specific objective to examine how fuel subsidy removal affects the rate of poverty in Nigeria. The study adopted qualitative method of data collection. Data were collected from available and reliable secondary sources using content analysis. The Marxian theory of the state was adopted as the theoretical framework for analysis. Findings indicate that due to inelastic nature of fuel, removal of fuel subsidy has detrimental impact on household income, corresponding incidence in the cost of living and hike in prices of goods and services and increased overall incidence of poverty and hardship in the country. The study therefore, recommended among others that government should expedite action in the rehabilitation of existing refineries, railways and ensure good governance through unquestionable accountability and transparency

Keywords: *Fuel Subsidy, Policy Implementation, and Poverty Reduction*

INTRODUCTION

There are several sources of energy. These include hydroelectric, solar, wind power and oil (hydrocarbon). As a result of meager amount of energy produced by environmentally friendly sources such as hydroelectric, solar and wind power globally crude oil because of its multidimensional purposes amounts the front burner of the world energy need. Revenue on crude oil particularly the liquid petroleum remains the core and main source of income of many oil producing countries such as Saudi Arabia, Iran, India, Indonesia, Egypt, Ukraine and Nigeria. Balogun (2011) attention was diverted from agriculture to oil production and exportation when crude oil was discovered in large quantity at Oloigbiri in Delta State in 1956 which later gave Nigeria economic power and diplomatic leverage. Nigeria is known among the world largest oil producers with four refineries in strategic towns of Port Harcourt (Old and New Port Harcourt), Kaduna and Warri with installed processing capacity of 485,000 barrels per day, but lack of adequate maintenance of these local refineries rendered them unable to meet industrial and individual demand the shortage that cause detrimental disruptions in household income and social lives of Nigerians.

The government of Nigeria initially perceived the provision of fuel subsidy as a social obligation to the poor and vulnerable segment of her citizens but the incessant abrupt increase in price of fuel and deregulation dominated the saga of subsidy such that deregulation almost become synonymous with fuel subsidy removal.

The oil boom which brought the good fortune was at the same time setting up the economy for turbulence. The oil windfall created an illusion of unbounded affluence which in turn eliminated the impetus for fiscal discipline and proper management of resources (Balogun, 2011). The paradox is such that Nigeria is the 6th largest oil producers in the world but ranked 156 out of 187 countries (Global Human Development Index Report; 2011).

Fuel prices have been reviewed and adjusted many times to phase out subsidies on petroleum products before the final removal by the current administration of Muhammadu Buhari in 2017 as intervention measures to put in place social needs and development. Each time of increment amounts to struggles, reactions and protests at different degrees between government and Nigerian citizens. Fuel subsidy policies of Petroleum Trust Fund (PTF) in 1995, Subsidy Reinvestment and Empowerment Programme (SURE-P) in 2012 and the most recent policy of Economic Recovery and Growth Plan (ERGP) in 2017 were all geared towards poverty reduction among other objectives. All these policies have no sincerity of continuity and consistency which has made the development goals of fuel subsidy removal in the country a mirage and an illusion. The management of petrol reserves and storage, transportation, distribution and marketing to the beneficiaries of policies and programmes is highly politicized. Laswell (1936) politics is business of who gets what, when and how. In the business of who gets what in Nigeria our refineries has been politicized.

Ajakaiye and Olomola (2003) despite the enormous human and material resources deployed by the government to reduce poverty through the institutions, the programmes which were put in place failed to have positive impact on the poor. Doki (2014) if the decision to redirect the funds saved from fuel subsidy is seen as government's effort to restore balance in the sector, the manner in which it goes about it must have bearing on the variables influencing macroeconomic stability in the economy i.e investment expenditures, export expenditure and government purchases. Therefore, this paper seeks to empirically analyse effect of fuel subsidy implementation on poverty reduction in Nigeria.

The general objective of the study is to assess the effect of fuel subsidy implementation on poverty reduction in Nigeria while the specific objective evaluates how fuel subsidy removal affects the rate of poverty in Nigeria.

The null research proposition is that fuel subsidy removal did not affect the rate of poverty in Nigeria while the alternate proposition hypothesized that fuel subsidy removal affect the rate of poverty in Nigeria.

CONCEPTUAL EXPLANATION

Poverty: Poverty is multi-dimensional, a dynamic process of deprivation easy to recognize than define. The United Nations Development Programme (1965) used its Human Poverty Index from 1999 to 2009 measuring income falling below poverty line such as $1.25 and replaced it in 2010 with Multi-dimensional Poverty Index measuring indicators for each of the selected dimensions. Todaro and Smith (2011) the index creators report that they selected the three dimensions (health, education and standard of living) and each of their corresponding indicators because they reflect problems often mentioned by the poor. Therefore, a generally acceptable definition of the concept 'poverty' remains elusive. Nevertheless, it has been severally defined by different authorities. According to World Bank (2011) poverty is the economic condition in which people lack sufficient income to obtain certain minimal levels of health services, food, housing, clothing and education which are necessities for standard of living. The major indicators of poverty according to World Bank (2003) are: lack of freedom of action and choice; lack of adequate food, shelter, education and health; vulnerabilities to ill health; economic distribution; maltreatment by public agencies and exclusion from key decision-making process and resources in society.

Poverty as phenomenon, exist at the global, national community, household and individual levels. At the national level, poverty represents a state of general socio-economic underdevelopment arising from poor natural resources endowment, poor human resources endowment, low productivity, low and stagnating national income or Gross Domestic Product (GDP), inadequate availability of social and infrastructural facilities and services and a general inability to provide a decent level of living for the ordinary citizens. At the level of household or individual level, poverty is the inability to gain access to basic necessities of life (such as food, clothing, decent shelter etc), inability for gainful basic economic and social obligations and a general lack of self-esteem. Inadequate income to meet basic needs, lack of skill or opportunity for gainful employment, lack of access to productive assets and social constraints to self-improvement are some of the underlying factors in poverty (Olamajeye, 1994). Obiajulu and Obi (2004) view poverty as a condition or state of being without necessary wherewithal or resource enough to sustain an acceptable standard of life. It is the state of existing with possessions too little to live a good quality and healthy life. Some observers believed that poverty exists because certain ruling class believed it has to exist in order to continue their class system and their hegemony over other.

In upholding the World Bank statistical standard – income of $1 per day per person, Jeffrey Sachs onetime Special Adviser to United Nations Secretary General Kofi Annan distinguished between three degrees of poverty: extreme (or absolute) poverty, moderate poverty, and relative poverty. Extreme poverty means that households cannot meet basic needs for survival. They are chronically hungry, unable to access healthcare, lack the amenities of safe drinking water and sanitation, cannot afford education for some or all of the children, and perhaps lack rudimentary shelter – a roof to keep the rain out of the hut, a chimney to remove the smoke from the cook stove – and basic articles of clothing, such as shoes. Extreme poverty occurs only in developing countries. Moderate poverty generally refers to conditions of life in which basic needs are met, but just barely. Relative poverty is generally construed as a household income level below a given proportion of average national income. The relatively poor, in high-income countries, lack access to cultural goods, entertainment, recreation, and to quality health care, education, and other perquisites for upward social mobility (Jeffrey, 2005).

The various definitions measure income poverty and lack of basic need poverty which occurs when a government lacks funds to meet up with the effective provision of education, infrastructure, and health as a development effort and when household and individual does not have enough money to meet up with the basic needs such as food, shelter, clothing and other minimum needs for survival and participation in society.

Policy Implementation: When a policy is formulated and adopted the adopted policy is merely a statement of intention, explanations and targets for attaining a particular goal. It is carefully drafted, well-articulated and chosen set of directions and hopes. This selected goals and objectives as conceived mentally, must be translated into tangible reality, and the process of this translation into reality from a mere mental conception is what is meant by implementation (Kamal, 2005). Policy implementation refers to the process of converting inputs – financial, information, materials, technical, human, demands supports into output – goods and services including symbolic values like titles and national awards which support changes in beneficiary groups. The judiciary, legislature and the bureaucracy, all participate in implementation (Ilufoye and Jimoh, 2012).

Policy implementation is formally the province of a complex array of administrative agencies, now often referred to as bureaucracies, a term that carries both descriptive and pejorative connotation. Administrative agencies collect taxes; operate the postal system prisons and schools; regulate banks, utility companies and agricultural production; construct and maintain streets and highways; inspect food, meat, water and drugs to ensure their safety; provide medical benefits and services; and perform many other tasks of modern governments (Anderson, 1984). The propensity for policy failure is pronounced at the stage of the policy process. The possibility of carrying through with policy programmes and implementing policy choices is circumscribed by administrative, economic and political constraints. Administrative constraint include among others, the lack of trained experts to administer the complex programmes and projects which comprehensive goals and plans demand and the negative consequences of the conflict of roles between elected political office holders and appointed in the civil service bureaucracy (Anifowose and Enemuo, 1999).

From the above review, the problem of Nigeria is not policy formulation but that of implementation because the challenges that arise in policy implementation process make it less likely that policy objectives be achieved. Many literatures which were consulted for the purpose of this research laid much emphasis on the universality or government entities to enact laws, make policies and allocate resources to all sectors of the economy to enhance sustainable development as well as solving social and political problems facing the entire society.

Fuel Subsidy: According to Dictionary of Contemporary English, subsidy is defined as "as sum of money that is paid by a government or organization to make prices lower, reduce the cost of producing goods". Fuel subsidy is a pricing design that keeps the price consumers pay for products below market levels to specifically make targeted goods and services affordable to consumers who ordinarily may not be able to afford them (Ismail, Hezekiah and Yar'Adua, 2014).

Fuel subsidy is a pricing issue which government is involved in regulating fuel prices by allowing consumers to pay below international price. Therefore, fuel subsidy is an economic benefit or financial aid provided on each liter of fuel a consumer buys across the country and the actual cost of producing it.

Fuel Subsidy Interventions in Nigeria

Nigeria adopted intervention measures like Petroleum Trust Fund (PTF), Subsidy Reinvestment and Empowerment Programmes (SURE-P) and the recent Economic Recovery and Growth Plan to improve the quality of lives, standard of living of ordinary Nigerians and make lives safer.

Firstly, the government of Abacha hiked the price of fuel and established the Petroleum Trust Fund (PTF) to handle the gains of higher fuel cost. The administration used the PTF to complement budget and planning and as far as billions of naira had been generated by the fund and used for the provision of healthcare facilities, mass transits, repair of roads etc in the country (Ekwealor, 2007). For PTF, there was a clear legal back-up in the Petroleum (Special) Trust Fund Act that authorized the creation and use of the fund called the Special Petroleum Trust Fund into which shall be paid all monies accruing from the sale price of petroleum products; to provide for the identification, funding and execution of projects in various sectors and for matters connected therewith (Uzochuku, 2013). The federal government of Nigeria established PTF in 1995 to intervene road and road transportation, security services, education, food supply, water supply, health and other sectors as may be approved from time to time.

Secondly, in January, 2012, the decision to remove the subsidy on Petroleum was introduced by the government. Government decided to particularly discontinue payment of oil subsidy on petroleum products. Following the protests and the fact that one of the pillars of the Transformation Agenda of the federal government is the progressive deregulation of the petroleum industry, the Subsidy Reinvestment and Empowerment Programme (SURE-P) was established.

Most momentously, in February, 2017, the government of Muhammadu Buhari announced the Economic Recovery and Growth Plan (ERGP) with the objective to reverse the fuel subsidy regime, stating that "oil revenue will be used to develop and diversify the economy not just to sustain consumption as was done in the past". Of particular focus for the ERGP is improvement in electricity.

In spite the reviews and discontinuation of fuel subsidy process in 2017 with the promise to reinvest its save funds through diversification of economy, the more Nigerians continue to witness increase in unemployment rate, poor governmental service delivery and public infrastructural decay.

Poverty Reduction Strategies in the Democratic Era in Nigeria

The government of Nigeria at various period of time made meaningful efforts in establishing programmes of different structures and outlooks to reduce poverty and make life better for ordinary Nigerians. Ogwumike (2001), Hassan (2004), Ujo (2008), Anyanwu, Oyefusi, Oaikheman and Dimowo (1997) and Onoh (2012) in their writings review poverty reduction strategies in three eras – pre SAP era consist Operation Feed the Nation, Agricultural Development Project, Agricultural Credit Guarantee Scheme, River Basin Development Authorities and Green Revolution; SAP era with Directorate of Food, Roads and Rural Infrastructures, National Directorate of Employment, Better Life Programme, People's Bank of Nigeria, Community Banks of Nigeria, Family Support Programme and Family Economic Advancement Programme and the democratic era. These poverty reduction strategies from the inception of democratic era in Nigeria till date include Poverty Alleviation Programme (PAP), National Economic Empowerment and Development Strategy (NEEDS), Subsidy Reinvestment and Empowerment Programme (SURE-P) and N-Power.

Poverty Alleviation Programme (PAP): The first poverty reduction programme witnessed in the era of democracy was the introduction of Poverty Alleviation Programme in April, 2000 under Olusegun Obasanjo. A programme that was put in place primarily to tackle youth unemployment among other objectives and was later restructured into the National Poverty Eradication Programme (NAPEP) in 2001.

Yakubu and Aderonmu (2010) listed four areas of intervention of NAPEP which are;

1. *Youth Empowerment Scheme (YES):* This scheme deals with capacity acquisition, mandatory attachment, productivity improvement, credit delivery, technology development and enterprise promotion. This scheme targets the active labour force of Nigeria by training and developing the youths thereby providing with opportunity to be gainfully employed.
2. *Rural Infrastructure Development Scheme (RIDS):* The main programme identifiable under this scheme ere rural electrification, rural water, development and supply, rural

transportation development and rural communication development. It deals with the provision of potable and irrigation water, transport (rural and urban), rural energy and power support.

3. *Social Welfare Service Scheme (SOWESS):* The scheme deals with special education, primary healthcare services, establishment and maintenance of recreational centers, public awareness facilities, youth and student hostel development, environmental protection facilities, food security provisions, micro and macro credits delivery, rural telecommunication facilities, provision of mass transit and maintenance culture; and
4. *National Resource Development and Conservation Scheme (NRDCS):* This scheme deals with the harnessing of the agricultural, water, solid mineral resources, conservation of land and space particularly for the convenient and effective utilization by small-scale operators and the immediate community.

National Economic Empowerment and Development Strategy (NEEDS): This is one of the four development plans formulated by the federal government of Nigeria that went a long way integrating economic development efforts at the federal, state and local government levels. It was established in 2004 with its main focuses on wealth creation, employment generation, poverty reduction and re-orientating values. Areas of its intervention include; housing, employment generation, empowering women, empowering youth, ensuring welfare of children, liberalizing sports administration, strengthening safety nets and strengthening peace and internal security.

Subsidy Reinvestment and Empowerment Programme (SURE-P): In January, 2012, Goodluck Jonathan's administration in attempt to remove the subsidy on Premium Motor Spirit (PMS) established Subsidy Reinvestment and Empowerment Programme (SURE-P) as a pillar of the Transformation Agenda of the federal government progressive deregulation on petroleum industry. Its areas of interventions include; graduate internship scheme, mass transportation, maternal and child care, community services women and youth employment, technological and vocational education and training, public works roads and bridges, tourism and culture, and railways.

N-Power: N-Power is a job creation and youth empowerment programme particularly between the age of 18 to 35 of the current administration of Muhammadu Buhari administration programme which focuses on four goals – to intervene and directly improve the livelihood of a critical mass of young unemployed Nigerians, to develop a qualitative system for the transfer of employability entrepreneurial and technical skills, to create an ecosystem of solutions for ailing public services and government diversification policies and to develop and enhance Nigeria's knowledge economy.

According to N-Power Informational Guide (2017), the area of intervention of N-Power is broadly categorized into two: Graduate (N-Power Volunteer Corps) and Non-graduate (N-Power Knowledge and N-Power Build) categories. The N-Power Volunteer

Corps is the post tertiary engagement initiative for Nigerians between 18 and 35. It is a paid volunteering programme of 2 years duration. The graduates (Volunteer Corps) undertake their primary task in identified public services within their proximate communities to provide teaching, instructional and advisory solutions in four key ways: N-Power Teach, N-Power Health, N-Power Agro and N-Power VAIDS. The Non-graduate (N-Power Knowledge) is directed at investing in the skills of non-graduate young Nigerians to stimulate Nigeria's knowledge economy. The knowledge programme is segmented into three subprogrammes: N-Power Creative, N-Power Tech (Software or Developers) and N-Power Tech (Hardware or Devices) and N-Power Build is designed to train 75,000 young unemployed Nigerians (non-graduate) in order to build a new crop of skilled and highly competent workforce of technicians, artisans and service professionals. The focus industries include building services, construction, build environment services, utilities and engineering, hospitality and catering, automotive and aluminum and gas.

THEORETICAL FRAMEWORK

The Class Theory of State

The research work adopted Marxian or Class Theory of the State. Marxism is based on a materialist understanding of societal development, taking as its starting point the necessary economic activities required by human society to provide for its needs. The form of economic organization, or mode of production, is understood to be the basis from which the majority of their social phenomena – including social relations, political and legal systems, morality and ideology – arise (Ilufoye and Jimoh, 2015).

The Marxian theory was first propounded by Karl Marx followed by Engels, Lenin and number of other followers. Karl Marx first argues that every society is divided into classes on the basis of the ownership or non ownership of the means of production. The Marxist scholars advanced the argument that, state is neither a product of human consciousness nor an artificial institution based on the consent of the people. So, they define the state as an organ of class rule or an instrument of exploitation and oppression by one class (the ruling) over another (the ruled or proletariat).

In the operation of the class theories, the state as analysed in the body of this work, explains how the ruling class in charge of the Nigerian state attempts to redistribute state wealth in the name of programmes and policies to their relations and loyalists against the target beneficiaries. Therefore, the theory mirrors vividly the dynamics and manifestation of poverty reduction programmes on the social and power relation inter play. The relationship between fuel subsidy removal and poverty reduction in Nigeria is better explained using the theory.

FINDINGS OF THE STUDY

From every indication, fuel subsidy removal attempt by various administrations of the federal government has been counter protester and in any way prove to be more inappropriate method of addressing these socio-economic menance in Nigeria economy. The method agrees with that of Kwaja (2012) who states that in the face of rising poverty and government's focus on subsidy removal or deregulation, the former Governor of the Central Bank of Nigeria, Sanusi Lamido Sanusi said against the background of the prevailing economic tensions as a result of the removal of fuel subsidy, pressure on consumers is likely to compound the pain associated with high raw materials cost and adverse strain on exchange.

Similarly, the Punch Editorial (2012) acknowledged that, Nigeria already has one of the highest poverty rates globally; that rate is set to shoot up again. Owing to the critical role of petroleum products in the daily life Nigerians, the multiplier effects of the new policy will not only push more people below the poverty line, they will also wipe of jobs, worsen crime rates and stifle effort by the country to meet the United Nations Millennium Development Goals. It is already being feared that the so-called subsidy removal on petrol may have the same impact as deregulation of diesel under President Olusegun Obasanjo that raised the operating cost of manufacturers, hastened that exist of numerous companies from Nigeria and ruined many others.

The study also reveals that due to inelastic nature of fuel, removal of fuel subsidy has detrimental impact on household income, corresponding incidence in the cost of living and hike in prices of goods and services and increased overall incidence of poverty and hardship in the country.

Recommendations

The recommendations of the study are as follows.

1. Government should expedite action on the rehabilitation of existing refineries and augment programmes and policies to compensate the poor majority of economically disadvantaged citizens by utilizing the savings in the implementation of poverty alleviation programmes.
2. Government should vigorously pursue people oriented economic reform programmes based on accountability and transparency.
3. Government should rigorously pursue the revitalization of the railways. This is capable or reducing the cost of transport of goods and passengers thereby raising the household living standard.

REFERENCES

Ajakaiye D. O and Olomola A. S (2003) *Poverty in Nigeria:* A Multi-Dimensional Perspective, Ibadan: New World Press.

Anderson, J. E (1984) *Public Policymaking (3rd ed.),* New York: Holt, Rinehart and Winston

Anyanwu, J.C, Oyefusi, A, Oaikhenan, H and Dimowo F.A (1997) *The Structure of the Nigerian Economy;* Onitsha: Joanee Educational Publisher Ltd

Balogun M. J (2011) *The Route to Power in Nigeria,* Lagos: Malthouse Press Ltd

Doki, N. O (2014) "Redirecting Removed Subsidy Funds in Nigeria: Reflections on the intervention's strategies to sustainable development". Accessed at Jetms Scholarlink research. Org. Date: 14/3/2018

Ekwealor, K (2007) "But Will it Work?: Implementation Analysis to Improve Government Performance, Issues in Governance Studies". No:32

Hassan, A. S (2004) Nigeria under Democratic Rule; Ibadan: University Press PLC Volume One – pg - 238

Ilufoye, S. and Jimoh, A (2012) *The Basics of Social Sciences;* Lagos: Mathouse Press Limited

Ismaila O. S, Hezekiah T and Ya'Adua M.B (2014) " The Impact of Gasoline Subsidy Removal on Transportation Sector in Nigeria", American Journal of Energy Research, Vol. 2, No 3,60 – 66. Available online at htt/pub sciepub.com/ajer/2/3/3

Jeffrey, S (2005) The End of Poverty: How We Can Make it Happen in Our Lifetime; America: Penguin Press

Kamal, B. (2005) *Essentials of Public Administration;* Abuja: digisoft printer

Kwaja, C (2012) Subsidy and Poverty Reduction. www.google.com

Laswell, H (1936) *Politics; who gets what, when and how?* New York: McCraw Hill

N-Power Informational Guide (2017) Federal Government of Nigeria: National Social Investments Programme

Obiajulu, S. O and Obiemeka, A (2004) *Public Administration in Nigeria; A Development Approach,* Nigeria: Bookprint Ltd

Ogwumike, F. O (2001) Appraisal of Poverty and Poverty Reduction Strategies in Nigeria; CBN Economic and Financial Review Vol. 39, No. 4:45 - 71

Olamajeye, J. A (1994) "The Factors that Limit Access to Urban Basic Services for the Urban Poor", Ibadan, UNICEF workshop on urban poor.

Onah, V. C (2012) Politics of Youth Empowerment and Poverty Reduction in Nigeria: A placement experience. A case study, education and training, 37, 13 – 17

Punch Editorial Board (2012) Worrying Effects of Subsidy Removal. www.google.com

Todaro M. P and Smith S. C (2011) *Economic Development,* New York, Pearson Education Limited

Ujo, A. A (2008) *Theory and Practice of Development Administration;* Kaduna-Nigeria; Joyce Graphic Printer & Publisher

Uzochukwu, A (2013) "Subsidy Reinvestment and Empowerment Programme (SURE-P) Intervention in Nigeria". An Insight and Analysis, Enugu, AfriHeritage.

World Bank (2003) Voice of the Poor, World Development Report, Washington D.C

World Bank (2011) World Development Report, New York: Oxford University Press

Yakubu O. D and Aderonmu, J. A (2010) Rural Poverty Alleviation and Democracy in Nigeria's fourth Republic (1999 – 2009.) In Journal of Social Sciences 2 (3).