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Fuel Subsidy Expenditures and the Challenges of Economic Development in Nigeria, 2011-2024

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Abstract

Recently, the fuel subsidy removal mantra has generated heated arguments among the scholars and the stakeholders in Nigerian political milieu. The centripetal and centrifugal positions of the scholars over the issue revolve around the impact of the gesture on Nigerian economy. Therefore, the study observed that the impact of fuel subsidy expenditures on economic development in Nigeria has not attracted enough scholarship; hence, this serves as the objective of the study. We adopted Ex-post Facto research design as the methodology of the study and collected our data from secondary source through documentary method of data collection. The data so collected were analyzed through content analysis with the aids of tables. Theoretically, we utilized neoliberal theory as a fulcrum around which the study oscillated. The theory maintained among others that unfettered markets and minimal state intervention will maximize efficiency, economic development and individual freedoms in the global economy. The core relevance of the neoliberal theory is that it advocates for the deregulation of Nigeria's downstream oil sector, specifically urging the government to relinquish the control of fuel prices and allow the invisible hands of demand and supply to determine them. However, the study found that Nigeria's fuel subsidy policy yields mixed outcomes, delivering affordability to consumers while concurrently straining national resources and exacerbating corrupt practices. The paper therefore recommends that the government should adopt market-driven petroleum pricing and encourage private investment in refineries to promote economic growth and development and also diversify the economy by advancing other sources of income, which will reduce the level of reliance on oil economy.

KeyWords: *Economic Development, Diversification, Fuel Subsidy Removal, Subsidy Expenditures and Neo-liberalism*

Introduction

Mercantilism as an economic ideology has waxed, waned and re-emerged in the global economic arena. The ideological rigmarole stems from the fact that economic activities are social in nature, which can be better explained under the principles of social relations of production. The social relations of production maintained among other propositions that production of anything of material value involves two or more persons, who are interested in satisfaction of their individual needs, that no rational being that does anything against his interest (Ogban, 2005). On the above conviction, the Western world initiated mercantilism, where the state adopted the necessary arsenal to protect the economy. With this development, they were able to grow their economy to the extent of saturating the market with finished goods, which made the need for markets inevitable. In order to counteract the observed contradictions, liberal ideology was developed through physiocratic injunctions and the writings of Adam Smith and David Ricardo (Okonkwo, 2024). The core values of liberalism is open market that is devoid of any trace of protectionism, which has been maintained with international trade rounds within the auspices of GATT and WTO.

Essentially, the deficiencies of capitalism, which is the brain child of liberalism attracted John Maynard Keynes and his contemporaries to advance interventionist liberal that is geared towards tackling the 'paradox of thrift'. According to them, governmental assistance is needed in a situation where the rational capitalist are bent on evading an economic speculation of impending difficulties (Balaam & Dillman, 2011). This was the idea behind initiation of subsidization of fuel in Nigerian economy. Indeed, the West in their atavistic pursuit of balance of trade and payment surpluses pressurized

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the underdeveloped countries, through the trade rounds to remove any trace of neo-mercantilist principles. In response, the issue of subsidy removal emerged in the political diction of Nigerian economy.

However, the provision of fuel subsidies has been a ubiquitous feature of many developing economies, including Nigeria. While intended to alleviate poverty and protect vulnerable populations from the impact of high fuel prices, fuel subsidies have become a contentious issue, with far-reaching implications for economic development. The sheer magnitude of fuel subsidy expenditures, which have totaled billions of dollars in Nigeria alone, raises critical questions about the opportunity costs of these expenditures and their impact on the country's economic growth and development prospects. This study seeks to interrogate the fuel subsidy expenditures and economic development in Nigeria within the period under investigation. For the purpose of brevity and precision, it is unraveled under the following paradigms: demystification of fuel subsidy, conceptualization of economic development, methodological underpinning, theoretical framework, subsidy expenditures and economic development, conclusion and recommendation.

Fuel Subsidy Expenditure Demystified

Fuel subsidy as one of the major variables in this study is defined according to Moghalu (2020) as the financial outlays incurred by a government to reduce the price of fuel, such as gasoline, diesel, or kerosene, for consumers. This is achieved by setting a subsidized price for fuel, which is lower than the market price. The government then pays the difference between the market price and the subsidized price to the fuel suppliers. The key components of fuel subsidy expenditures include the market price, subsidized price, and subsidy payment. The market price is determined by global market forces, such as supply and demand. The subsidized price, on the other hand, is set by the government and is lower than the market price. The subsidy payment is the amount paid by the government to fuel suppliers to bridge the gap between the market price and the subsidized price.

Fuel subsidy expenditures on the other hand imply the burdens of the subsidization on the government. It can take various forms, including direct and indirect subsidies. A direct subsidy involves a direct payment made by the government to fuel suppliers. An indirect subsidy, on the other hand, involves providing subsidies through tax exemptions, reduced tariffs, or other forms of support. The impact of fuel subsidy expenditures is multifaceted. On the one hand, fuel subsidies help reduce the cost of fuel for consumers, increase access to fuel for low-income households and businesses, and stimulate economic growth by reducing transportation costs. More so, it imposes a significant fiscal burden on governments, lead to overconsumption of fuel, and result in inefficient allocation of resources (Moghalu, 2020).

Conceptualization of Economic Development

Economic development as a concept in Political Science diction has defiled a consensus over it definition hence this segment of the study is fashioned to accord a working definition to the phrase. To begin with, Todaro and Smith (2009) conceived development as a multidimensional process involving major changes in social structures, popular attitudes and national institutions, as well as the acceleration of economic growth, the reduction of inequality and the eradication of poverty. Development must have positive effects on the human population. It should entail general improvements in the quality of life. Stressing further, they contended that the questions to ask about a country's development are as follows: what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? According to them, If all three of these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or two of these central problems have been growing worse, especially if all three have, it would be strange to call the result 'development' even if per capita income doubled.

Economic development is a measure of the welfare of humans in a society. It goes beyond economic growth to include the prevalence of certain desirable changes capable of transforming the living condition of the people as it is a necessary panacea for maximum productivity. Some of the indicators of economic development are: growth, development, and human development index. This incorporates the income indicators such as gross domestic product, gross national product, and gross national income and non-income indicators such as the human development index to (http: www.bized.co.uk, 2011).

Methodological Underpinning

In academic discourse and research endeavor, descriptions of processes to be undertaken for actualization of result are paramount. Essentially, the vital points needed to be expatiated are the research design, method of data collection, method of data analysis and the theoretical framework. However, the study adopts Ex-Post-Facto research design. An Ex-Post Facto investigation seeks to reveal possible relationships by observing an existing condition or state of affairs and searching back in time for plausible contributing factors. It seeks to establish causal relationships between events and circumstances (Kerlinger, 1986). Documentary method of data collection is used to gather information from secondary sources such as books, book chapter, journal articles, and newspapers, periodical and internet sources to support or guide my views on the issue under investigation. Also, the generated data were analyzed using content analysis. It is used to verbally summarize the information gathered in research. More so, it is used in analyzing data generated from the secondary sources in order to make systematic logical deductions from them (Asika, 2009).

Theoretical Framework

This study is anchored on neoliberal theory, which provides the framework for analyzing the work. Neo-liberalism is an economic and political ideology that advocates for free market capitalism, deregulation of business, trade liberalization, privatization, and reduction of government spending. The

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central tenet is that unfettered markets and minimal state intervention will maximize efficiency, economic growth, and individual freedoms. The intellectual foundations of neo-liberalism trace back to classical liberal economic ideas of Adam Smith, Friedrich Hayek, and Milton Friedman. They argued that markets have an inherent ability to self-regulate efficiently through price signals and competition. The role of the state should only be to ensure property rights, contracts, and monetary stability. Beyond this, state intervention risks distorting markets through excessive regulation, subsidies, and welfare benefits (Manfred, Steger & Roy, 2010)

Starting in the 1970s under leaders like Ronald Reagan and Margaret Thatcher, these neoliberal theories gained policy dominance with market deregulation, privatization of state enterprises, cuts in subsidies, reduced corporate taxes, and limits on things like union power and welfare programs. Developing nations were also pushed towards similar reforms through structural adjustment programs of international institutions. Critiques of neo-liberalism argue that unfettered markets concentrate power in the hands of corporations and financial institutions, exacerbate inequality, endanger social cohesion and mobility, undermine environmental sustainability, and foster financialization of the economy. More balanced approaches balancing market efficiency with regulation, redistributive policies, and public investment are hence necessary for equitable, stable growth (Stiglitz, 2002)

Neo-liberalism privileges the role of competitive markets in socio-economic progress but risks downplaying complex market failures and externalities, which affect long run development. In practice, no modern economy adopts an absolute neoliberal model with a complete absence of regulation and social welfare policies. Rather, the debate lies around the appropriate balancing of market incentives, private property rights and public interest. However, the main points of neo-liberalism include: first, the rule of the market which liberate “free” enterprise or private enterprise from any bonds imposed by the government (the state) no matter how much social damage this causes. It reduced wages by de-unionizing workers and eliminating worker’s right that had won over many years of struggle. No more price control, all in all, total freedom of movement for capital, goods, and services. An unregulated market is the best way to increase economics growth which will ultimately benefit everyone (Harvey, 2005)

Secondly, is the cutting of public expenditure for social services such as education and health care, reducing the safety-net for the poor and even maintenance of roads, bridges, water supply. In reducing government’s role, neo-liberalists do not oppose to government’s subsidies and tax benefits for business but are concerned about the operations. Third is privatization which is the sale of state-owned enterprise, goods and services to private investors. This includes banks, key industries, toll highways, electricity, schools, hospitals, and even fresh water. Although, this is usually done in the name of efficiency which is often needed in the state to ensure citizens enjoy these services (Prasad, 2006). Privatization has the effect of concentration of wealth even more in a few hands and making the public pay even more for its needs as evident in the privatization policy of government in Nigeria. Nigeria pays more during privatization regime of government, especially in the electric power sector.

Application of the Theory

Neo-liberalism as a market driven economic ideology frowns at any form of state intervention in the economy. Its basic projections involve among others an unfettered free flow of goods and service in the global world and most importantly, allowing the invisible hands of demand and supply to determine what, when, how and to whom to produce in the economy. But the state, according to the Marxian view, the creature of the base and the most decisive element of superstructure insisted its meddlesomeness on the economy through varied interventions especially in the oil sector. Sequel to the interventionist regime, the idea of fuel subsidy emerged in the political diction of Nigeria. At the initial stage, the essences were utilized where the poor masses were granted free and affordable access to the general oil products such as fuel and kerosene. This was a situation where the government pays some part of the cost of the oil product allowing the masses to pay little and affordable amount for the product.

At this stage, the expenditures on the subsidization of the oil were reasonable and transparent thereby justifying the well thought out gestures. As the time went on, the pressure from the neo-liberal economic vendors to divest the government from market mechanisms and the corrupt practices on the subsidy regime made a jest of the programme. The unpopularity of the arrangement stemmed from the fact that the expenditure incurred by the government on the account of fuel subsidy was counterproductive because it drains the coffers of the economy with insignicant values on the poor citizens hence, the reason behind the controversial issue of subsidy removal. This development according to the fuel subsidy removal apologies is geared towards channeling the expenditure to developmental projects in the country.

Essentially, if the whopping amount of money that is ploughed into fuel subsidy in the yearly basis is reinvested in developmental projects, the economy of the country will be significantly developed. By implication, the more the subsidy expenditure is stopped, the more citizens pay higher is fuel supply, the more the government save money from oil proceeds, the more resources for developmental projects are available, the more we actualize economic development in the country.

Subsidy Expenditures and Economic Development in Nigeria

The core variables in this study are subsidy expenditure and economic development. Therefore, this segment of the study is fashioned to interrogate the nexus between the two phenomena. To begin with, the motivation for introducing petroleum subsidy in Nigeria in the early years of the discovery of oil was to ensure that volatility of international oil prices does not negatively impact price stability of refined

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products (Okonkwo & Ayogu, 2015). This was even made more feasible when it became clear that Nigeria has the potential and capacity for commercial production and export of crude oil. Petroleum subsidy was essentially intended to facilitate the price of refined products to ensure it was available to Nigerians at low and stable prices. The policy when it was introduced did not pose much of a problem, but as the population of Nigeria increased and domestic refining capacity became inadequate, the policy gradually became a major fiscal, structural and macroeconomic challenge to the Nigerian government and the economy. For instance, at the time it was introduced, international oil prices were low and stable. Subsequently, however, the operations of OPEC as a production cartel had obvious consequences on high global energy prices and by extension on the price of imported refined products. Therefore, for Nigeria, maintaining the subsidy regime in the face of increasing international oil prices, while dependent on imported refined products characterized by high price volatility, had become costly and unsustainable going forward (Okonjo, 2012).

Consequently, the implication of maintaining the subsidy regime against all odds, on Nigeria's fiscal sustainability and macroeconomic stability had become a major concern to policymakers. For instance, on April 14, 2022, the National Assembly approved N4 trillion to finance fuel subsidy for 2022. The amount represents more than 800% increase from the initial estimate of N442.7 billion, which was first submitted for approval. The increase in the subsidy budget pushed the total budget deficit up by more than 15% to N7.35 trillion. In order to accommodate the additional subsidy budget, the government not only had to consider borrowing to fill the gap but had to also slash the budgets for basic health, basic education, technology infrastructure, and allocations to Niger Delta and North-east development commissions (Kreston, 2022).

Notwithstanding, given its potential welfare effect on the poor, removal of petroleum subsidy had become topical and contentious issue over the years. Those who support its retention argue that subsidy on petroleum products has enabled Nigerians to enjoy some benefits directly from the country's oil and protected the vulnerable poor from price shocks associated with its removal. However, those who support its removal argue that it would bring about stability and fiscal sustainability for the economy. But more than the legitimate economic arguments, the debate has become intractable because it has also become political and a critical mobilizing issue for opponents who continuously resist what they consider 'anti-people' policies of government. Therefore, efforts to remove petroleum subsidy had been met with stiff opposition more by the fear of the unknown of what might become its consequences on the people and less by the stark realities of its consequences on the economy (Abdulhakeem, 2022)

Therefore, attempts over the years to remove petroleum subsidy had been at best sub-optimal. After decades of contentions, subsidy on diesel and kerosene was removed in 2004 and 2016, and the supply of both products stabilized over market-determined prices. But the impact on the economy was minimal as both products account for only a fraction of the subsidy bill. The muted resistance to full deregulation of diesel and kerosene, even though their prices have been shown to have a more proportionate impact on poor and low-income households, calls for a constructive review of the ideological positions that have been canvassed on fuel subsidy.

In the economic diction, the opportunity cost of any action is a foregone alternative, which implies that the money channeled into welfare services of the citizens through fuel subsidy is a foregone alternative of developmental projects in the country. Inversely, if that money is saved through subsidy removal, the implication is that it would be channeled into developmental projects thereby enhancing economic development in the country. Empirically, the table below demonstrated the amount of money spent in subsidization of fuel in the past twelve years in Nigeria.

Table 1: Fuel Subsidy Expenditure from 2011-2022

S/N	Year	Payment (Billion Naira)	Payment (Billion Dollar)
1	2011	2110	13.5
2	2012	1360	8.6
3	2013	1320	8.3
4	2014	1220	7.4
5	2015	654	3.3
6	2016	240	0.9
7	2017	154	0.5
8	2018	1190	3.9
9	2019	508	1.7
10	2020	864	2.4
11	2021	1430	3.6
12	2022	1250	6.1
Total		**12300**	**60.2**

Source: NNPC Financial Reports; NEITI Report (2023)

The table shows the fuel subsidy expenditure in Nigeria from 2011 to 2022, in both Nigerian Naira (billion) and US Dollars (billion). The total fuel subsidy expenditure from 2011 to 2022 is approximately 12,300 billion naira, which is equivalent to $60.2 billion. The highest fuel subsidy expenditure was in 2011, with a total of 2,110 billion naira (approximately $13.5 billion). The fuel subsidy expenditure decreased significantly in 2016, with a total of 240 billion naira (approximately $0.9 billion). The expenditure increased again in 2018, with a total of 1,190 billion naira (approximately $3.9 billion). The highest fuel subsidy expenditure in recent years was in 2021, with a total of 1,430 billion naira (approximately $3.6 billion). The fuel subsidy expenditure in 2022 was 1,250 billion naira (approximately

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$6.1 billion). The expenditure has been volatile, with significant increases and decreases over the years. It has been a significant burden on the Nigerian government, with a large portion of the country's budget being allocated to subsidy payments. The increase in recent years may be due to the reintroduction of fuel subsidies by the government, as well as the increase in global oil prices.

Conclusion

In conclusion, the Nigerian experience of fuel subsidy has mixed results, with the policy having both benefits and drawbacks on the economy. While fuel subsidy has made petroleum products affordable and accessible to Nigerians, the expenditure has strained the country's resources thereby diverting funds from critical infrastructural projects. Furthermore, the subsidy regime has been marred by corruption, which made the diversion of resources into the subsidy regime a mere ploy to siphon the economy. This anomaly brought about inefficiencies, where the aims and objectives of the gesture are defeated and finally it has created fiscal imbalance in the Nigerian economy, which is particularly exacerbated by fuel price hikes, ultimately compromising the policy's effectiveness.

Based on the above findings, the study recommends the following as the ways forward:

1. To optimize economic outcomes, the government may consider adopting a market-driven pricing mechanism for petroleum products, complemented by regulatory oversight to stabilize price volatility. This strategy would facilitate fiscal prudence, minimize the financial burden of subsidies, and mitigate the adverse effects of fuel price increases on the economy.
2. The government should prioritize creating a favorable environment for private investment in refineries, addressing key challenges like power supply and infrastructure. This would help ensure a steady supply of petroleum products, prevent unnecessary expenditures and price volatility, and optimize resource allocation, ultimately supporting economic growth and development

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