

# PETROLEUM MOTOR SPIRIT SUBSIDY REMOVAL IN NIGERIA: ISSUES AND CHALLENGES

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## ***Abstract***

*Ignorance of the masses is widely believed to be majorly responsible for the sharp public reactions and demonstrations against the removal of subsidy on pump price of petroleum motor spirit by the Federal Government of Nigeria at the very beginning of 2012. This cross-sectional descriptive study employed primary data generated from petrol users (bus/taxi drivers, bi- and tri-cycle commercial transport operators, civil servants, and others) by use of questionnaire distributed in Enugu metropolis. Five hypotheses were tested, using the chi-square statistical model. Significant findings include: the government adequately consulted with the key stakeholders of the nation before embarking on the removal; no time would be suitable for the subsidy removal in order to avoid protest; subsidy is not a democratic dividend or benefit to the masses; majority of Nigerians sided with the reversal of subsidy removal policy for a stepwise deregulation implementation; and the Government should repair the existing refineries and build additional ones to increase domestic supply. The following recommendations were proffered: increasing in the supply of fuel in the NNPC designated filling stations; reversing the classification of over invoiced fuel imports which were erroneously nomenclated as subsidy to cure the misguided psyche of the electorates who ardently believed that there was benefits accruing to them; restructuring our educational curriculum contents to impart elementary knowledge on oil and gas studies, and reversing the public perception of government development policies by publicizing some of*

*the implemented campaign promises with less rhetoric, and instituting adequate management and accounting control checks and balances to ensure proper verification of procurement vouchers and procedural compliances. Vacate the business interferences and save time for oversight and control functions which further create conducive environment for business deals.*

## **Introduction**

The deregulation of the downstream sector of the petroleum industry is not new in Nigeria. The Obasanjo administration (1999-2007) had removed the subsidy on gas. In 2011, the Goodluck Jonathan-led Federal Government of Nigeria muted its intention to remove the subsidy on the petroleum motor spirit (PMS). It consulted with various groups in the country, before the implementation at the tail end of the year. But, the Nigerian market has a way of responding instantaneously without regard to reality of market factors. In the wake of the subsidy removal, independent marketers shot up prices from ₦65 per litre to between ₦150 and ₦200 per litre. Consequently, transport fare short up by rates varying from 100% to 600% in various parts of the country. Most people who had traveled to their villages for the Christmass 2011 celebration were trapped and could not afford the high fare back to their workplaces and places of abode. The prices of other goods and services also automatically rose upward.

Certain odds against the government in pursuance of the removal policy implementation include the distrust of the government development intentions resulting from the inability of the past leaders to fulfill their campaign promises and outstanding cases of corruption on the part of politicians and the bureaucrats. Secondly, many Nigerians may be graduates but the refinement in attitude and character that accompany academic discipline was lacking in some of them, and the biting unemployment coupled with the scourge of hardships, and poverty could cause bewilderment and berserk among them. The next was the political opponents who lost in the elections of 2011 that

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brought Goodluck Jonathan to power. Their presence introduced a kind of bias that tended to hyper-criticism with ultra-sensory reactions. The fourth challenge was the peculiarities of the markets and the communication deficiencies that accompanied the announcement of the removal.

The controversy that ensued attracted contributions from every segment of Nigerian society and those with dissenting voices seemed to be more in number, and in most cases were hyper-critical about the issue. Another worrisome aspect of the controversy is that those who should have been better informed also joined the bandwagon of dissenting group, thereby, sending conjectured signals to the less-informed members of the society. The masses in the guise of workers under the auspices of the Nigerian Labour Congress (NLC) and the Trade Union Congress (TUC), went on a nation-wide protest. The protesters who were initially believed to be composed of NLC and TUC worker-group representatives were infiltrated by disgruntled politicians who hijacked the protest to paint negative pictures of the government's good intentions. Consequently, the federal government declined to negotiate with politicians except with labour-leaders, occasioning a deadlock.

On its side, the government rolled out a number of palliative measures to alleviate the sufferings of the masses. Some key stakeholders in the governance of the country claimed that they and the masses were grossly uninformed or ill-informed about the objectives of petroleum subsidy as a fiscal policy. Although uneasy calm existed in the five South-east states of the federation, tensions emanating from Lagos, Northern States and other cities of the country, coupled with the bombings and killings in the northern region created a very high sense of insecurity over-hang. The mass media (print and electronic), as information disseminating channels, were at their peak of labouring.

The resulting near-anarchy situation that attended the subsidy removal requires indept study, which is lacking in the academic circle on topical issues that appear transient. Usually, journalists take advantage of this and similar gaps to write inflammatory reports that

sell their newspapers and stations to the gullible public. This cross-sectional descriptive study was aimed at examining the controversy that ensued, with a view to mitigating the widespread disillusionment with government. The researcher interacted with PMS users, guided by the following research questions:

1. Did the government adequately consult with the key stakeholders of the nation before embarking on the removal?
2. Would anytime be suitable for the subsidy removal in order to avoid protest?
3. Is subsidy a democratic dividend or benefit to the masses?
4. Should the subsidy removal policy be reversed?
5. In what way should deregulation be proceeded with?

The corresponding hypotheses, which were tested at the end of the study were:

H<sub>1</sub>: The government adequately consulted with the key stakeholders of the nation before embarking on the removal.

H<sub>2</sub>: Timing for the subsidy removal was wrong.

H<sub>3</sub>: Subsidy a democratic dividend or benefit to the masses.

H<sub>4</sub>: Subsidy removal policy should be reversed.

H<sub>5</sub>: Deregulation programme should be pursued.

## **Literature review**

### **Petroleum subsidy in Nigeria: Meaning, origin and controversy**

Ukpong (2004) contended that the introduction of the subsidy on petroleum product was borne out of the need to remove disparity in pricing of the products across the country as well as the genuine desire to improve the economic well-being of all citizens. However, it may seem that adequate analysis of the economic consequences of subsidizing petrol consumption, instead of agriculture (production),

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was ignored. Again, as a fiscal policy tool, subsidy is not expected to have lasted too long (from 1973 to end of 2011). Interventionist measures, such as subsidy should be administered in the hope that the market conditions would replace such policy by its removal, after creating the enabling environment for market conditions to thrive.

Todaro and Smith (2006) defined subsidy as payment made by government to producers or distributors in an industry to prevent the decline of that industry as a result of continuous unprofitable operations. The subsidy as a fiscal tool was expected to support production as against consumption. But, Nigeria's case was wrong *ab-initio*. Perkins et al (2001: 429) stated that, "In virtually all developing countries employing budgetary subsidy, the stated purpose has been income redistribution... even if the ultimate effect is not always what was intended." Just as in the case of Nigerian subsidy, now at stake, the intention of the past military rulers who introduced the subsidy in 1973 was "... shrouded in secrecy", while the economic sense of it remained controversial, and is nothing but "Rape of the Nation" (Atojoko, 2009: 5).

Sanusi, in Iba and Otti (2011: 5), speaking on continual perpetuation of subsidy, stated:

*Nigeria is heading for serious economic crisis. If the oil price crash again then Nigeria will now face a serious economic crisis... the next administration would be saddled with a debt burden that would be difficult to manage.*

There is, therefore, certain vital information that should be properly communicated to the citizens, especially as the issue of subsidy removal is sensitive and critical to human development. At the initial stage of growth and economic development, government fiscal actions or interventions by way of subsidy may be needed to stimulate investment in vital economic sectors, which may not be left to chance and to the vagaries of a market economy. In such a case, the state-owned-enterprises (SOEs), such as the Nigerian National Petroleum

Corporation (NNPC), would need to be subsidized to prevent it from continuing in unprofitable ventures. Subsidy was applied as an antidote, but has out-lived its usefulness in the petroleum industry because of the abuse by embedded interest groups, who have been described as subsidy cabals. It is the responsibility of the government to adequately inform the citizens and carry along the majority of the key stakeholders by properly communicating the hard facts.

According to Nwosu and Nkamnebe (2006), the hard facts should be the basis of disabusing the minds of the Nigerian populace from the impact of the conjectured information transmitted through the various news media in the country by detractors on the issue of subsidy removal. In development economics, subsidy is not expected to span beyond five to ten years, but the subsidy in question in Nigeria spanned over three decades. It was, therefore, decayed and overdue for removal, for adoption of a market-oriented approach.

A market-oriented approach would seek to divest government pecuniary interests in the industry to allow private investors to participate in the down-stream oil and gas industry. The fears and apprehension of the Nigerian public against this market liberalization or deregulation has continued unabated because of weak communication and the intrigues of the subsidy cabals on the media, which combined to blur the perception of many Nigerians. The inflammatory messages were not only unprecedented in Nigerian leadership history, but reminiscent of the vicissitudes of democratic leadership. The civil society organizations (CSOs) in some cities concealed heinous motives supportive of the objective of embedded interest groups.

The apprehension may be seen in the uncertainty surrounding the impact of the removal on the living conditions of the electorates. World-wide, increases in pump price of fuel is directly correlated with increase in prices of foodstuff, transportation, clothing, shelter and every other goods and services with popular demand. However, Nigeria's President and his team believe that the complete deregulation of the downstream oil sector would enhance the construction of more

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refineries in Nigeria, besides the contacts already made with the original builders of the four refineries to keep them in full capacity production status. Nonetheless, these machineries ought to be concluded before the subsidy removal.

At full operational capacity, the four refineries would increase supply of available petroleum products locally, instead of being imported. If adequate supply of the product is locally produced to satisfy the internal demand (presently put at 35 million litres per day), the pump price per litre in different parts of the country by the independent marketers would adjust to a market-determined price.

### **The weak domestic production base**

Most productive sectors of the economy are weak and crawling, almost stagnated. The Apex Bank of the federation captured it as follows: “The growth rate of the real Gross Domestic Product (GDP) has been very low in the last five years” (CBN: 1995:80). The critical factors in this situation are quite many. In terms of capital formation, the Nigerian economy generates very low saving and investment ratios. Experts lamented that while the emerging economies of Asian Tigers have track records of saving and investment ratios of 60-70% of the GDP, Nigeria’s case showed ratios that were less than 20% of the GDP. Ten years later, CBN (2004: 106), recorded gross fixed capital formation of the GDP as 7.3, 7.2, 9.1, 12.0 and 16.2% for 2000, 2001, 2002, 2003 and 2004 respectively. The Federal Office of Statics (FOS) and National Planning Commission (Table 3.1) stated that the oil and gas industry barely contributed up to 32% between 2000 and 2004, whereas the Non-Oil Sector contributed about 68% within the same period. The average manufacturing capacity utilization was about 40%.

**Table 3.1: % contribution to GDP (1990 constant basic prices)**

<b>SECTOR</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
OIL Crude Petroleum (%GDP)	32.45	32.65	29.75	33.44	32.56
Non-Oil (%GDP)	67.55	67.35	70.25	66.56	67.44

<b>Total GDP</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
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**Source:** CBN, 2004

A situation where Nigeria exports crude oil to be refined outside the shores of the country, with the associated job opportunities losts, creates imbalance in our economic system. This was vividly captured by Eneh (2006: 28): “When there is imbalance between inputs and outputs, a functionality or productivity signal results”. This is evident in the very low GDP experienced perennially in the country. Continuing, Eneh (2006), asserted that a positive productivity signal occurs when outputs out-weigh inputs, while a negative productivity or danger signal occurs when inputs outweigh outputs. If the former situation persists, productivity grows; but if the latter persists, ebbing productivity results and the system is heading for imminent collapse, comatose and eventual death.

The Goodluck Ebele Jonathan administration may have observed the continual and persistent stagnation of the economic growth as observed in the low GDP, and so introduced the dreaded “removal of subsidy”, in order to enhance domestic productivity envisaged in Eneh (2008), as “a moral justification for the existence of anything,” (including Nigeria as a developing nation). This means that if the subsidy continues to be in place, the country may be plunged into untold hardships and unsustainable human development. If the Nigerian economy is not functioning enough for sustainable development, then there is no justification for continued existence of the nation. This justifies the removal of the petrol subsidy, which was misconstrued by the citizens because of knowledge gap. But improving productivity must result from attitudinal changes and calls for concerted efforts of all those directly or indirectly involved in the production process.

According to Mkpoyi (2008: 54-55), acquisition of skill goes beyond merely instructing our students to acquire the required skills, but also the development of correct attitudes and quality of character that will enable them to understand their job and perform effectively

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and satisfactorily. Before the reforms, previous governments paid lipservice to the development of local content, which led to the loss of over 85 percent of in-country jobs to other countries (SweetCrude, 2011). The productive deficiencies or inefficiencies of the domestic sector may have been substantially due to the inability to refine the crude petroleum locally, as domestic supply was constrained. The exportation of the crude outside the frontiers of the nation provided employment to foreign countries that refine it, but created wide employment gap in our country. This imbalance or dysfunctionality or supply gap may only be redressed by revamping the existing four refineries with a combined capacity of 445,000 bpd and additional new ones designated as Green-Field refineries in order to meet a total domestic demand of about 35million litres per day of petrol consumption by Nigerians.

The weak productive base of the domestic economy may be a causative factor of many negative influences which characterized a typical African economy. The ineptitude of many Nigerian workers many have been contributory to the weak performances of the domestic economy. Generally, people abhor drudgery. Decrying, the poor attitude of Nigerians in the work place, Eneh (2006) postulated that the workers should rather have reasons to perform than excuses to fail to perform. This involves cultivation of positive work attitudes, burning with desire to perform, to go the extra-mile, he adjured.

Unfortunately, most workers hardly have enough love for their work and job satisfaction to cultivate the positive work attitudes. They rather distance themselves from job ethics. The indolent disposition to work attitudes of our citizens may have evolved overtime, as the get-rich-quick syndrome, corruption and dysfunctional placement of personnel into sensitive positions, may have been seminal to the ineptitude which grew during the thirty years of graduate unemployment. This may explain some of the reasons why Nigerians love too many public holidays without regard to the counter-productive force of work-free days. Little wonder, the thought of strike or work-to-rule often thrive swifter than negotiation or dialogue, and the street

protests over the fuel subsidy removal was not too extra-ordinary, except that political opponents of the incumbent government gained access into the crowd on the street by subterfuge, for a vendetta.

### **Planning for sustainable development in developing countries**

The results of development planning in developing countries, especially Nigeria, have been generally disappointing. The poor performance of most African government development plans has created the quest for a more free-market oriented economic system. Most government planning decisions were barely supported by the actual planning experience. Thus, the gap between public rhetoric and economic reality has been wider, concealing fraud and economic crimes. Todaro and Smith (2006; 530), lampooned the less developed countries (LDC) as follows: “While supposedly concerned with eliminating poverty, reducing inequality, and lowering unemployment, many LDC’s planning policies have in fact unwittingly contributed to their perpetuation.” Some of the reasons for government failure are inadequacies in their planning process.

### **Over-ambition**

In this case, the government tries to accomplish too many objectives at once without considering that some of the objectives may be competing or even conflicting, and most of the time unsustainable. Ukpong (2004) found no cogent economic reason for introducing uniform pricing of all petroleum products. The defunct military government, concealing a heinous plot, alluded their reasons as “...the need to remove disparity in petroleum products’ prices across the country, as well as genuine desire to improve the economic well-being of all citizens...” These reasons were economically unethical as many other products essentially critical to the health and survival of the masses were not so treated or subsidized. For example, disparity in the prices of pharmaceutical products and even the prices of foodstuff

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were not subsidized by the same governments. The top government officials (military rulers) cooked this disguise for their bunkering activities.

#### **Insufficient and unreliable data**

The economic value of a development plan depends, to a very great extent, on the quality and reliability of the statistical data on which it is based. Data on Nigeria are weak, unreliable, or non-existent, as in the case of Nigeria during the period of introduction of the subsidy. Kupolokun (2004) stated that, "...with the change in the ownership structure, the pricing policy was modified and controlled to encourage national distribution at uniform prices. This incidentally introduced the issue of bridging and price equalization at government expense".

#### **Conflicting policies**

The NNPC merely inherited the issue of subsidy as imposed by the military administration. It was not a market-determined variable. Consequently, the mounting subsidy bills prevented the routine turn-around maintenance services, which were performed on three-yearly basis. Since it was no longer possible to fund the turn-around maintenance routine, the four refineries dropped in their capacity utilization/production level to about 4-20% level (Oniwon, 2011). Moreover, the subsequent vandalization of the pipelines conveying the crude oil to the refineries from the oil wells exacerbated the situation and resulted in the total breakdown of the local refineries. This was how the subsidization of petrol consumption truncated the funding of the local refineries which held the prospects of job creation. Refinery workers were laid-off, as the four local refineries became moribund. This also led to low contribution to the GDP from the oil sector.

#### **Institutional weaknesses**

The weaknesses of the planning processes is another factor that may be causing Nigerian planning module to fail. The planning agency is

distanced from the day-to-day decision-making machinery of government, leading to failure of planners, administrators, political leaders and workers` representatives to engage in a continuous dialogue with the masses and internal communication about goals and strategies instead of street protests or strike actions. The protest would not have been infiltrated by the civil society organization (CSOs) believed to contain some elements of the shadow of subsidy cabals. Moreover, the incompetent and unqualified civil servants coupled with cumbersome bureaucratic procedures, excessive caution and resistance to innovation and change may be unleashing havocs to the good intents of the subsidy reversal. Another factor is the interministerial personal and departmental rivalries. The finance ministries and planning agencies are often conflicting rather than becoming complementary forces in national development.

### **Lack of political will**

Political will entails much more than high-minded purposes and noble rhetorics. It requires an unusual ability and great deal of political courage to challenge powerful elites and vested interest groups, such as the secrete beneficiaries of the petroleum subsidy, and to persuade stakeholders that such policy reversal was in the long-run interest of all citizens even though some of them may suffer short-term discomforts. Todaro and Smith (2006:531) submitted that, "In the absence of their support, be it freely or coerced, a will to develop on the part of politicians is likely to meet with staunch resistance, frustration, and internal conflict." This accounts for the calls by the NLC and the TUC on their members and all Nigerians to embark on a nation-wide strike.

### **The penalty of subsidy on the domestic economy**

Subsidy payment led to financing consumption instead of production of fuels. Economic planning may be described as a deliberate governmental attempt to co-ordinate decision making over the long-run and to influence, direct, and in some cases even control the level and growth of a nation`s principal economic variables (income,

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consumption, employment, investment, saving, exports, imports, etc) to achieve a pre-determined set of development objectives (Todaro and Smith, 2006). A deliberate fiscal action, officially induces saving and investment into productive sectors of a market economy. For example, the budget for payment of contractors to build roads, schools, bridges, etc. enables or induces demand for other goods and services, represents payment for value received. The contractors, in turn, pay workers, save or buy more machines or build additional factories which further create employment opportunities. This is a typical example of an induced expenditure or money supply for productive activities, into the economic system. Induced expenses are, therefore, payments incurred in return for contribution to current output. However, if payment was made without any commensurate value received (like payment on the subsidy saga), it merely served as a form of transfer payment (Lipsev and Chrystal, 2007; Samuelson and Nordhaus, 2010). This type of money supplied into the system is an autonomous variable which impacts negatively on the domestic economy.

Lipsev and Steiner (1981) showed that induced expenditure variables create value and human development by stimulating productive activities, while the autonomous expenditure variables (transfer of payments) necessarily increase the volume of money in circulation without creating value for money disbursed, thus penalizing the domestic economy, as a causal factor of double-digit inflation, which has been perennial and intractable in Nigeria. This is why the monetary policies of CBN were, most of the time, ineffective. Paradoxically, more money was being infused into the system, whereas banks in Nigeria were experiencing problems of illiquidity, because so much of the subsidy fund paid out found exit into foreign accounts of the individual beneficiaries. The proceeds of corruption were not even reinvested in Nigeria.

Distraught with the turn-out of events, the CBN declared excess liquidity, and brought down deposit interest rate to a nuisance rate in 2010/2011 fiscal year. In Keynesian Theory of money supply, interest rate is inversely related to the supply of money. The subsidy claims

constituted injection of money into the economy, which justified the reduction of interest rate. If the subsidy payment stops, interest rate may be reviewed upward (Sanusi, 2012). Hence, an increase in the money supply reduces the rate of interest and increases desired investment expenditure. The upward review may increase bank deposits which may in turn stimulate lending as loanable funds increase.

### **The necessity for deregulation and subsidy removal**

Amidst the reversal of the subsidy removal is the need to deregulate the petroleum and gas industry to attract liberalized inflow of private foreign direct investments (PFDI) through the international oil companies (IOCs). These multinational companies (MNCs) seek out best profit opportunities and are largely unconcerned with issues, such as poverty, inequality, and unemployment alleviation. Yet, they have the technologies of production, tastes, and styles of living, managerial philosophies, advertising and transfer pricing (Todaro and Smith, 2006:708).

Deregulation of the downstream oil and gas sector would attract professional economic managers for development for the needed foreign direct investment (FDI) through international corporations that specialized in oil and gas. So far the country has recorded very low and perennial capital formation for over three decades. For example, an average saving and investment of barely ten per cent of GDP was recorded over a five-year period (CBN, 2004). This was too low compared with the high saving and investment ratios of the newly industrialized countries of Asia (60-70% of GDP).

The CBN (1995) attributed the low saving and investment ratios partly to institutional factors and partly to inappropriate macro-economic policy environment, especially monetary, credit, and exchange rate policies. This wrong fiscal policy was instituted about forty years ago and has outlived its usefulness. It might have as well contributed to derailing macroeconomic policies. For investments to take place, it is essential to influence economic environment by

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adopting market related strategies on fiscal and monetary actions, as the CBN (1995) had recommended.

Klein and Hadjimichel (2005:1) opined that, “There just is no articulated alternative to some form of market economy”. Again “Studies on the effect of foreign direct investment, the most powerful mechanism to transfer best practice across borders, suggest that its contribution is most significant when domestic capability is high”. Openness and competition provide opportunities and incentives to improve performance throughout an economy and across borders. Yet, without the capability of agents to respond effectively, performance will be suboptimal. The real issue is that Nigeria is in dire need of not just employment, but more of productive employment that enhances the needed rise in living standards. There is no justifiable evidence in Nigeria, that the subsidy benefits the poor masses. Whatever the merits and demerits of regulation and deregulation, various government documents characterize the government-owned enterprise, such as NNPC, as having monopoly, low and declining productivity, capacity under-utilization, feeble financial structure coupled with chronic indebtedness, considerable over-staffing, and very weak sense of accountability and financial discipline (Eneh, 2005, 2007, 2009). Iwayemi (1992) and Ayodele (2005: 27-28) corroborated the weaknesses of government-controlled enterprises:

*Some analyses have linked the ineffectiveness of the PEs-cum-government budgetary resource flows with the sources of the regulatory policies in Nigeria – the subsidization, debt guarantee, foreign/local borrowing, tax and subvention policies. These policies culminated in substantial tariff distortions, significant operational and technical inefficiencies and varying internal socio-economic imbalances in the overall economy.*

From the fore-going, it is obvious that the reversal of the subsidy regime is prerequisite for moving into deregulation of the oil and gas

industry and a prelude to the pathway to industrialization and sustainable development in Nigeria.

**The challenge of subsidy removal and public perceptions of the role of Government in sustainable development in Nigeria**

At the initial stage of growth and economic development, government fiscal actions (interventions) may be needed to stimulate investment into certain economic units or areas which may not be left to chance and the market forces. Such fiscal interventions remain in force until appropriate time as may be deemed necessary by the authorities. As a result, when discussing development in the less developed countries (LDCs), Jhingan (2007: 414) maintained that:

*It is universally recognized that in order to overcome the rigidities inherent in an LDC, the state must play a positive role. It cannot act as a passive spectator. The problems of LDCs are of such magnitude that they cannot be left to the free working of the economic forces. Private enterprise is unable to solve them because it does not exist in the modern sense of the term. State action is, therefore, indispensable for the economic development of such countries, in the sense of the term.*

As a country strives to develop, the existence of certain soft infrastructures, such as constitutional practices and existence of law and order to guarantee conduct of business deals, are paramount. This means that such documents as the Petroleum Investment Bill (PIB) must necessarily be passed for investors' confidence to rise. With the subsidy in place, no IOC would like to participate in the upstream or downstream sectors. International investors would want to be sure that every government interest is divested before they come in. Every government desire may only be represented on the PIB. Leaders should pursue policies that may attract foreign direct investment (FDI), and part of the process is deregulation by removal of subsidy or controls.

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Part of the challenges facing the masses when the path to positive development (subsidy reversal) is chosen, is temporary hikes in cost of foodstuff and other necessary goods and services. The government is mitigating the transportation difficulties, but time is require to see the effects. Therefore, the Nigerian people have confidence in the government. The government ought to sensitize the masses in such a critical matter as this.

The following diagrammatic illustration in Figure 3.1 (Development Continuum) and graphical presentation were supportive to elucidating the boom and doom, and the price swings respectively, and typified peculiar market characteristics. The left hand side (LHS) of the continuum depicts doom if subsidy regime is followed, while the right hand side (RHS) depicts boom.

Time Frame: 2012 – 2020

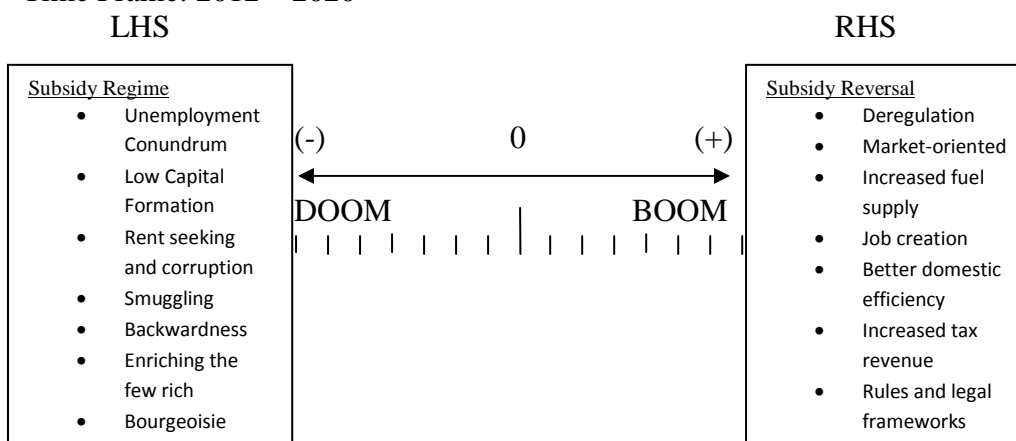
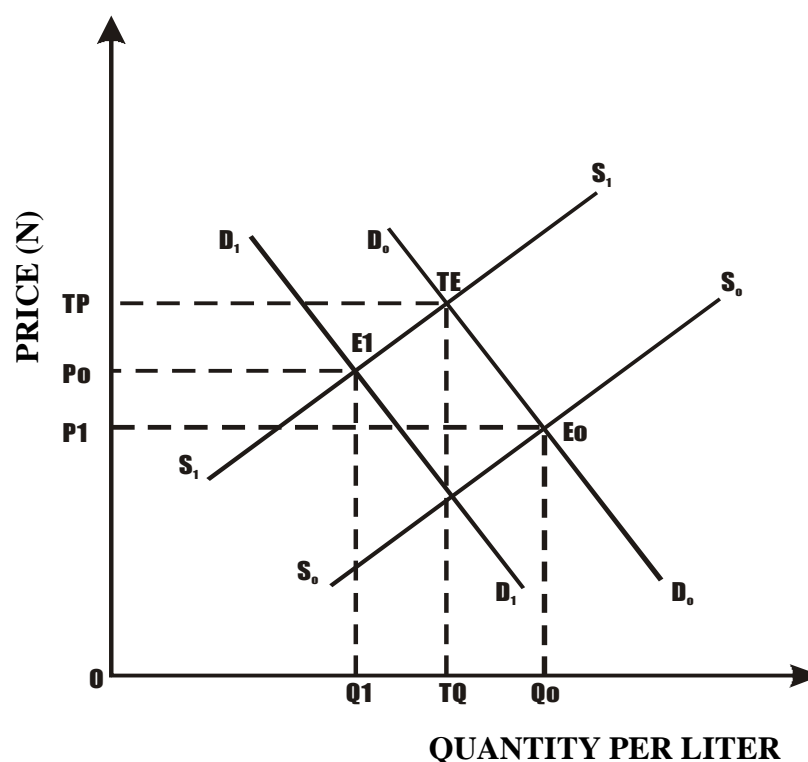


Figure 3.1: Development continuum

From Figure 2.1, when the government decides for subsidy regime on the LHS, low capital formation, distortion in macroeconomic policies, rent seeking and corruption would increase. Smuggling activities to neighbouring countries and the few rich people would be the beneficiaries without tax to government. This is extreme capitalism or

bourgeoisie, whereas these were not envisaged by the masses, and according to Atojoko (2009:5), the actual amount of subsidy had always been shrouded in secrecy, while the economic sense of it remains controversial.

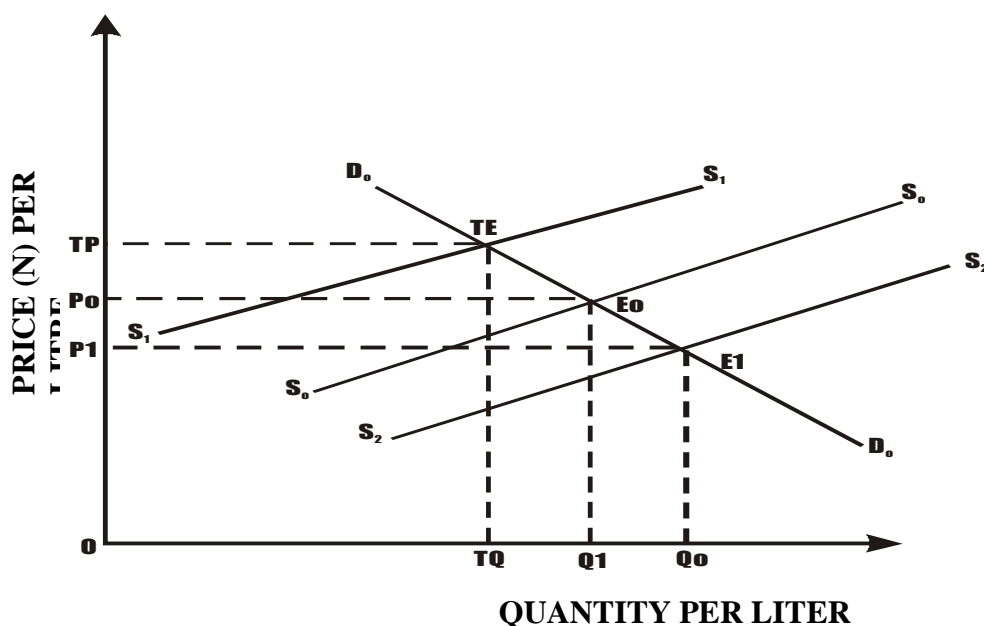


**Figure 3.2: Before the construction of additional refineries**

However, when the government decides to make the right decision by tilting to the RHS, it tantamounts to deregulation, market-oriented pricing systems, increases domestic productivity, increase tax revenue, rules and legal frameworks would be developed to protect the operators. If the government sticks to the RHS, then before 2020, the economic benefits of subsidy removal may be fully consummated with benefits flowing to the masses, who presently have to endure little pain

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otherwise known as sacrifice, as an alternative foregone to reap the future benefits. But, if the government decision tilts to the LHS, then, the country, according to experts, would face the risk of total collapse, as the continual borrowing to fund consumption (subsidy) may not be sustainable.



**Figure 3.3: Graphical Presentation of Market Peculiarities and Petrol Price Oscillations**

Figure 3.2 shows the phenomena in the market conditions, which resolves price hike. Before the arrival of the new refineries which would be expected to boost domestic supply, we assumed that the pump price ( $P_0$ ), was equilibrium ( $E_0$ ) price at the point where  $D_0$  cuts  $S_0$  with quantity ( $Q_0$ ) demanded. Upon the announcement of the subsidy removal, retailers, members of independent marketers (IPM) decided to withhold supply, which shifted from  $S_0$  to  $S_1$ , creating artificial scarcity and panic. This caused price to rise to a temporary

price (**TP**), with a temporary equilibrium (**TE**) causing the buyers to purchase less quantity, at temporary quantity (**TQ**). The consumers now adjust their fuel demand profile down-ward. Consequently, a new demand curve (**D1**) emerges which cuts the supply curve (**S1**) at a new equilibrium point (**E1**). It is, therefore, remarkable of note that the price (**P1**) is slightly above initial pump price ( $P_0$ ) but obviously below the temporary price (**TP**) which was too high when the subsidy removal impact was new. The beauty of a market economy is that given a particular time frame, prices will by and large adjust downward.

The situation here is quite different from Figure 3.2, which was driven by the consumers behavior to downsize their demand for fuel. In the situation shown in Figure 3.3, any attempt by the IPM to hoard fuel would fail because supply having increased with the commissioning of new refineries and the former four revamped and fully operational. Interpreting the diagram on Figure 3.3: **Full Capacity Utilization of Existing Four Refineries plus the New-Built Additional Refineries**. Initially at price  $P_0$ , the supply curve ( $S_0$ ) cuts the regular demand curve for fuel ( $D_0$ ) at equilibrium point ( $E_0$ ), and quantity demanded was  $Q_0$ . When IPM seek to withhold fuel supply in order to induce artificial scarcity, the supply would shift inward from  $S_0$  to  $S_1$  creating an equilibrium at  $T_E$  and a new price at  $T_P$ , the supply will automatically shift from  $S_1$  to  $S_2$ , as the NNPC designated retail-outlets commence sales, following the release of fuel from the local refineries (old and new), thus cutting the regular demand curve ( $D_0$ ) at price ( $P_1$ ) which is even below the initial equilibrium price ( $P_0$ ). At the new pump price level ( $P_1$ ), the new equilibrium point ( $E_1$ ) and the new quantity demanded ( $Q_1$ ) would be a replica of the fuel market when the refineries were fully operational as planned by the incumbent government. This means that when the four refineries are fully operating, in addition to the newly constructed ones, the market forces would drive the pump price down from the present N97 per litre, to even below N65 per litre. This is the true market prospect anticipated in the deregulation process, *ceteris paribus*.

**Management and accounting control deficiencies in Nigerian civil service**

Nigeria, no doubt, is one of the most endowed nations the world over. She is rich in natural, mineral and human resources. Paradoxically, her citizenry were crowded out of her riches and ranks high in the poverty profile among the comity of nations. The problem is, however, with how her resources are managed. Onodugo (2000: 194) described it as lack of integrity among most Nigerian government bureaucrats, adding that, “integrity is the inner conviction which helps to deter one from doing what is wrong or gaining an undue advantage over things that belong to all. Most people in Nigerian management crew regard everything but integrity”. It is alarming that corruption and looting are norms rather than exceptional behavioural characteristics. The society accords recognition and respect to affluence and not integrity. Successive leader replicates error or mistakes or control loopholes that engender corruption and looting of public treasury in breach of trust.

Owolabi (2007: 11) captured the mindset on corruption of government officials when he stated that, “Economically, misallocation of resources is worsened by corruption, and government officials will not press for change in the regulations from which they enrich themselves”. This may have been the case with the subsidy scam, where successive Nigeria presidents (mainly military dictators) perpetuated the fraud. Olatunde (2007: 20) sounded a warning that, “if urgent measures are not taken, concerted in some cases, to curtail its almost intractable dimension, corruption would frustrate the efforts of governments, with telling effects on the political and socio-economic well-being of the societies”.

The phenomena antecedental to the public street protest was a subsidy fraud. There were obvious neglects which attended the initial signals of the subsidy saga by the past leaders. Atojoko (2009), tried to capture it as follows: “The general feeling is that subsidy, rather than benefit the army of poor ordinary Nigerians, has over the years been a conduit for siphoning public funds by a cabal comprising

government officials and their cronies in the downstream sector of the petroleum industry.” Continuing, Atojoko (2007: 5) maintained that “the actual amount of subsidy had always been shrouded in secrecy, while the economic sense of it remains controversial.”

Based on the wide spread corruption, conducting government business degenerated so much by the year 2000. No serious attention was paid to *Public Service Rule Financial Regulations and Ethics and Norms* because of selfish reasons. In the 2000, however, Federal Government commissioned the World Bank to collaborate with some private sector specialists to study *Financial Systems and General Procurement* – related activities in the country. The essence of which is to assist Nigerian government “with a process of enthroning efficiency, accountability, integrity and transparency in government procurement and Financial Management Systems” (Ekpenkhio, 2003: 18). Some lacunas in the Nigerian Financial and Procurement Accounting procedures are:

1. Lack of modern law on public procurement and permanent oversight and monitor purchasing entities.
2. That the Finance (Control and Management ) Act 1958, together with Financial Regulations which set basic rules for managing public expenditure have gaps, deficiencies, and faulty implementation of existing regulations on procurement (eg lack of permanent arrangement for control and surveillance), which create opportunities or loopholes for bribery and corruption.
3. That procurement is often carried out by staff substantially lacking in training.

Moreover, Okwesisili (2004) pointed out that the absence of economic cost/benefit analysis of the government projects was appalling. A government that seeks to pursue reforms for human development, must entrench adequate checks and balances in the disbursement procedures, and systems, if the reforms must be sustained. According to Oguonu

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(2011: 28), “It is necessary that legislators should play a leading role in enthroning openness, accountability, probity and transparency.”

The ineptitude observable in the Nigerian management of public wealth is an aberration of international order, that ridicules Nigerian elites in the comity of nations. Avuru (2009: 11) argued that for over 15 years the NNPC has demonstrated beyond all reasonable doubt that it is incapable of consistently and efficiently operating these refineries to guarantee uninterrupted supply of petroleum products. The distribution of products remains a problem. Testifying to the weaknesses of the grandiose oil giant (NNPC), Muyiwa (2009:5) stated that NNPC, over the years, has been everything but efficient and transparent and that it has been adjudged to be the third most corrupt agency in Nigeria after Nigeria Police Force (NPF) and Power Holding Company of Nigeria (PHCN). Antecedental phenomena showed that the subsidy which was portrayed as a benefit to the masses was a monumental fraud. The subsidy fraud according to Agbakoba (2012), Oguonu (2011), Okwesili (2011) and Atojoko (2009) was fraudulent and emanated from the weak legal and financial frameworks which failed to checkmate, indict and prosecute culprits.

Amidst distractive mischief of the Islamic Sect (Boko Haram), amicable way of peaceful resolution of the subsidy palaver may be the alternative dispute resolution (ADR) option rather than calling out names behind the authorization of payments of the fraudulent subsidy. Consequently, truth and reconciliation may be implied in the way to resolving the hot burning issue, as the Nigerian masses (inclusive of NLC, TUC and CSOs among others) are eagerly waiting to hear not only the names of the bad eggs in the leadership of this nation who perpetuated the subsidy fraud, but also their prosecution.

**Truth and reconciliation implied**

The approach to resolving the subsidy saga resonates with Public Relations (PR) ethics of conflict and crises resolution. However, the Nigerian public must be properly educated about the hard facts that guided government’s decision to douse the issue, even though

unprovoked attacks have continued in the northern parts of the country; crises and conflicts are bound to occur in any organization or government. Unfortunately, they attract negative publicity and tension. Managing such volatile situations creatively and effectively without allowing them to disrupt normal operations, especially in the face of many reform programmes in the pipeline agenda of the government, is a major task of PR.

Emeka (2011) states that “Conflicts bring out the creativity in man as he thinks out ideas that will help him challenge the opponent and defend himself. Conflicts bring change because the people involved never remain the same after”. However, Nkwocha (2004: 97) submits that poor crisis and issues management affect public perception, credibility, image and reputation of a corporate organization or government adversely. The facts surrounding the subsidy saga are very dicey and appear sacrosanct. It requires care and tactics to douse. The basis of the idea of strategic forgiveness is the fact that the magnanimity a leader demonstrates must be highly principled. In the developed countries, security system has gone digital. Fundamental to this digital system in security and conflict issues is the place of the brain or intelligentsia. The emphasis is how to win war without fighting. This was borne out of the realization that conflict is a negative phenomenon.

According to Odigbo (2007: 201), “The major problem is the people to whom the masses entrusted power, hence their fate, lives and future into their hands – the political class. Monumental rigging of elections has been enthroned as a national culture, much to the smear of the nation’s image abroad”. The Nigerian polity was for long characterized by politically-motivated assassinations, murders or bloody death of one kind or the other. Added to these is the terrorism by Boko Haram (an Islamic Sect). These are the ills of past military administration, which may have groomed or bred militants for scoring one political goal or the other to truncate development reforms.

The issue of subsidy removal came up as a pragmatic economic development decision that ought to be applauded, except for the

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temporary hardships which was exacerbated by the extreme capitalist cultures of some Nigerian traders in the drive for profiteering. The culprits behind the subsidy saga may have been the predecessors of the present administration. Agbakoba (2012), in Agande and Ovaukporie (2012:14), attributed the deteriorating state of the economy to failure of successive governments to implement various laws made to govern the system. This brings to the lime-light the delays of the Upper and Lower Houses in the passage of bills.

Subsidy has been found to be a misnomer, but the lacuna in checks and balances in the payments and accounting procedures encouraged over-invoicing in the quantity of vessels with imported fuel. Sanusi (2011) was clear when he stated that the number of ship loads of ocean bound imports were very often inflated and charged to the States and Federal Government as subsidy. The subsidy palaver which attracted much publicity transpired to be a ruse for embezzlement of Federal, States and Local Authorities funds using the NNPC and its associates as a pliable conduit. So much money was siphoned by past heads of state has adversely affected the building and development of both hard and soft infrastructural facilities, absence of which has hampered the growth and development of domestic economy.

Apart from the absence of essential hard-infrastructures such as roads, electricity generating transformers/turbines, etc soft-infrastructures such as passage of bills, effective laws and other frameworks that foster implementation and sustainability, were, however, not adequately installed in Nigerian situation. Nigeria has been jointly and severally criticized for not being able to harness human and material resources for the ultimate well-being of her citizens (Waku, 2007:187). PR, as a communication-centered activity, is based on open discussion, truthful information and respect for the right of the individual to full information which is the basis for free discussion and decision making. However, the level of development of minds of the people varies widely and free discussion may not engender or elicit all the truth that may lead to reconciliation. Another

factor is the character of the personalities involved. For example, Heads of State (whether past or present) have immunities that appear to insulate them from indictment.

## **Methodology**

The cross-sectional, descriptive research approach was adopted. In addition to secondary information, primary data were generated by use of questionnaire, which contained two sections - the demographic section the technical section with ten structured or closed-ended questions consisting of a 15-item test instrument. The respondents were grouped into four, and the distribution pattern ensured that each category received a fair share of the questionnaire in a simple random sampling technique. The four categories selected, who cut across petrol users, were Bus/Taxi Drivers (33%), Okada/Keke Napep (17%), Civil Servants (33%), and others (17%). The spatial distributions in Enugu metropolis covered Obiagu, Old Park, and Abakpa. Five hypotheses were tested, using the chi-square statistical model.

## **Results**

Sixty-seven per cent (67%) of the respondents were males, while (33%) were females. The age distribution was 7%, 33%, 10%, and 17% for 10-20, 21-30, 31-40, 41-50 and 51-60 years respectively. The highest academic qualifications of respondents were FSLC (23%), Trade Test (33%), WAEC (33%) and Bachelor degrees (11%). Their income was between ₦15,000-~~₦~~30,000 per month.

## **Test of hypotheses**

Five hypotheses were empirically tested in this study using the chi-square statistical model and the result were analyzed as below:

*H<sub>1</sub>: Subsidy is a democratic dividend or benefit to Nigerian masses.*

**Table 3.2: Subsidy as a democratic dividend to Nigerians**

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S/N	Respondent category	Response Rate	
		Yes	No
1	Bus/Taxi drivers	7	3
2	Okada/Keke Napepe	5	-
3	Civil Servant	5	5
4	Others	5	-
<b>Total</b>		<b>22</b>	<b>8</b>
<b>Percentages</b>		<b>73%</b>	<b>27%</b>

*Source:* 2012 Field Survey

Where  $X^2 = (fo-fe)^2/fe$ ,  $X^2 = 3.27$ ,  $P = 0.001$ ,  $df = 3$ ,  $XU^2 = 7.81$

The chi-square table of critical value ( $XU^2$ ) is greater than the calculated chi-square. Thus,  $H_1$  was rejected. This means that subsidy, indeed, is not a democratic dividend or benefit to the masses.

*H<sub>2</sub>: Subsidy removal should be reversed*

**Table 3.3: Reversal of subsidy removal**

S/N	Respondent category	Response Rate	
		Yes	No
1	Bus/Taxi drivers	8	2
2	Okada/Keke Napepe	5	-
3	Civil Servant	8	2
4	Others	5	-

<b>Total</b>	<b>26</b>	<b>4</b>
<b>Percentage</b>	<b>87%</b>	<b>13%</b>

*Source:* Field Survey 2012

Where  $X^2 = (fo-fe)^2/fe = 8.07$ ,  $P = 0.001$ ,  $df = 3$ ,  $XU^2 = 5.99$

Since the calculated chi-squared ( $X^2$ ) is greater than the chi-square value in the table,  $H_2$  was accepted. This suggested that the generality of opinion of Nigerians, whose level of understanding of the technical implications of subsidy was conjectured, sided with the reversal of subsidy removal policy.

*H<sub>3</sub>: Government should repair existing refineries and build new additional ones to increase local supply*

**Table 3.4:** Building more local refineries would reduce pump price drastically

S/N	Respondent category	Response Rate	
		Yes	No
1	Bus/Taxi drivers	10	-
2	Okada/Keke Napepe	5	-
3	Civil Servant	10	-
4	Others	5	-
<b>Total</b>		<b>30</b>	<b>-</b>
<b>Percentages</b>		<b>100%</b>	<b>-</b>

*Source:* Field Survey 2012

Where  $X^2 = (fo-fe)^2/fe = 15.0$ ,  $P = 0.001$ ,  $df = 3$ ,  $XU^2 = 11.34$

The calculated value of chi-square ( $X^2$ ) is greater than the critical table value ( $XU^2$ ). Therefore,  $H_3$  was accepted. Thus, the Government should repair the existing refineries and build additional ones to increase domestic supply. This is illustrated in Figure 3.3 for new refineries and repair of the old ones scenario. The effect would be

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increased supply which would push the pump price further downward below the current ₦97.00 per liter.

*H<sub>4</sub>*: The timing of the subsidy removal was wrong

**Table 3.5:** Timing of the subsidy removal

S/N	Respondent category	Response Rate	
		Yes	No
1	Bus/Taxi drivers	9	1
2	Okada/Keke Napepe	4	1
3	Civil Servant	6	4
4	Others	3	2
<b>Total</b>		<b>22</b>	<b>8</b>
<b>Percentages</b>		<b>22%</b>	<b>27%</b>

*Source:* Field Survey 2012

$$\text{Given that } X^2 = (fo-fe)^2/fe = 3.27, P = 0.001, df = 3, XU^2 = 7.81$$

H<sub>4</sub> was rejected. This implies there would be no suitable time for the subsidy removal in order not to attract protest.

*H<sub>5</sub>*: Government did not make appropriate consultations on the subsidy issue before its removal

**Table 3.6:** Government inappropriate consultation on subsidy issue before its removal

S/N	Respondent category	Response Rate	
		Yes	No
1	Bus/Taxi drivers	10	-
2	Okada/Keke Napepe	5	-
3	Civil Servant	5	5
4	Others	3	2

<b>Total</b>	<b>23</b>	<b>7</b>
<b>Percentages</b>	<b>77%</b>	<b>23%</b>

*Source:* Field Survey 2012

Given that  $X^2 = (fo-fe)^2/fe = 4.27$ ,  $P = 0.001$ ,  $df = 3$ ,  $XU^2 = 16.27$

The calculated  $X^2$  is less than table value of  $XU^2$ ,  $H_5$  was rejected. Thus, the government adequately consulted with the key stakeholders of the nation.

### **Discussion of findings**

Result showed that Nigerians did not see the subsidy on the pump price of PMS as democracy dividend or benefit to the masses. This concurs with the literature views that subsidy is a fiscal policy instrument used to stimulate production and investment within a domestic economy (Todaro and Smith, 2001). Therefore, seeing the subsidy as right of the masses was not responsible for anti-subsidy removal upheavals. Rather, mistrust for government was. One of the greatest factors that fostered distrust in government and their development policies is the tendency to replicate predecessors' mistakes and errors. The public perception of subsidy was also conjectured by a number of factors, which included knowledge gap, political interest groups, pecuniary interest of the sponsored few. Knowledge gap shows in the majority of Nigerian being illiterate, while graduates were often disconnected from what they learned. Political interest groups combined with NLC and TUC to further the vendetta interests of the politicians defeated in recent polls. Pecuniary interest of the sponsored few manifested in some protesters under the guise of labour which concealed their heinous motives of working for the subsidy cabals, who had hired them.

Nigerians sided with the reversal of subsidy removal policy. Little wonder, the pump price value was subsequently reduced by the government to ₦97 from ₦138 per liter. This halted the protest and labour strike.

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Nigerians want the Government to repair the existing refineries and build additional ones to increase domestic supply, as a prelude to removal of subsidy. This showed support for subsidy removal, after adequate mitigating measures have been put in place. Little wonder, the the reduction from =N=138 to =N=97 per litre was accepted by Nigerians, 49% up from the former =N=65.

No time would have been suitable for the subsidy removal in order to avert protest. This can be attributed to the masses being grossly misinformed by detractors on the issue of subsidy. However, experts who were sympathetic with the government's decision, were of the view that the refineries and other connected infrastructures should have been in place before the subsidy removal to pre-empt the fuel speculators. On their side, the government considered the funding of these capital intensive investments and sought to remove subsidy to attract investors.

Results showed that the federal government adequately consulted with the key stakeholders of the nation before removal of the subsidy. The state governors, the federal executives, the civil society groups, the labour unions and the national assemblies were fully consulted. The level of consultations achieved succeeded in minimizing, but not averting, the protests. What many saw in the protesters was hunger and frustration of unemployment and under-employment, while others may have been on a vendetta mission. No time would have been suitable for the subsidy removal in order to avert protest, contrary to accusation of wrong timing.

### **Conclusion and recommendations**

Diverse interest groups polarized and politicized the removal of subsidy of the pump price of PMS, leading to heating of the system and its partial success so far, after mitigating measures for transportation were put in place. This study succeeded in feeling the pulse of a cross-section of PMS users on the removal of the subsidy. Surprisingly, it found out that the federal government adequately consulted with the key stakeholders of the nation before removing the

subsidy, contrary to the claims of many stakeholders. Nigerians want the Government to repair the existing refineries and build additional ones to increase domestic supply of PMS, contrary to speculations that they did not want the subsidy removal. However, they sided with reversal of the subsidy removal policy, in order to give room for adequate preparations. And, Nigerians do not see fuel subsidy as a democracy dividend, contrary to misinformation from the carbals.

The following recommendations are proffered:

1. Increase the supply side of fuel in the NNPC designated filling stations.
2. Reverse the wrong classification of over-invoiced bills which were mis-named subsidy and pursue recovery of the fraudulent payments.
3. Design a publicity campaign to cure the misguided psyche of the electorates who may have adhered to the belief that subsidy is a kind of benefit or favour from government.
4. Restructure our educational curriculum content to impart elementary knowledge on Oil and Gas Studies.
5. Reverse the public perception of government development policies by publicizing some of the implemented campaign promises with less rhetoric.
6. Institute adequate management and accounting control with checks and balances to ensure proper verification of procurement vouchers and procedural compliances.

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