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Tracing the Effects of Nigeria's Fuel Subsidy Reform

Evidence on Fuel Consumption Patterns

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Nigeria's fuel subsidy reform has generated much debate over the past year.

Questions for this analysis...

- What are the fuel consumption patterns in Nigeria?
- And based on the patterns, what are the likely impacts of the subsidy reform?
- Who is affected? And by how much? How is food security affected?



Study Objectives

Analyzing the subsidy:

Desk review on the subsidy

What were the costs?

What factors led to the reforms?



Examining impacts:

Which sectors and households are affected directly and indirectly?

Any impacts on food security?



Communicating findings

Through consultations with other analysts and policymakers, share findings and contribute to dialogue on role of agriculture in mitigating impacts

Background on Fuel Subsidies

- Crude oil revenues have been the major source of government revenue
- Resource-sharing compromise between crude oil producing states in the south and relatively resource-poor northern states
- Fuel domestic price regulation since 1970s
- Initial justification for fuel subsidies based on world fuel price spikes in 1970s
- Subsidy as share of crude oil revenues has been relatively small until recent years



Why is this an important issue for Nigeria?

1. Subsidy reform was a major reform after more than 40 years of fuel subsidies
2. Unlike other reform efforts in the past, no immediate reversal of the policy (though some indications of a gradual reintroduction)
3. Linked to the other major reforms – exchange rate harmonization and setting agriculture and export diversification as a priority – in aiming for a shift from oil-dependent economy

How has the public responded?

- Public reaction is a mix of broad acknowledgement that reforms were needed, but along with...

- Demands for use of saved revenues for pro-poor public spending (but questions remain whether there are any savings)

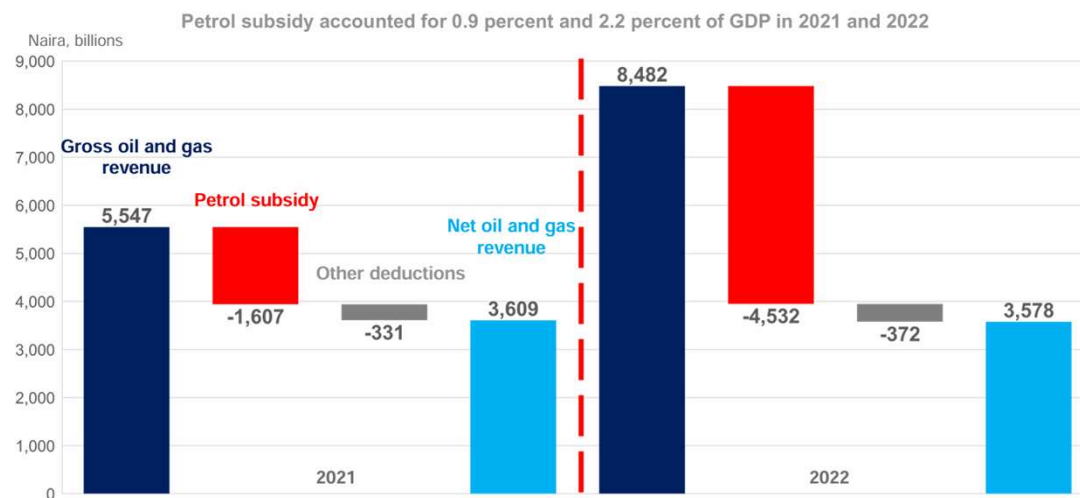
- Demands for measures to mitigate the impacts, including social protection for the poor

- Questions about whether partial subsidy is still in place



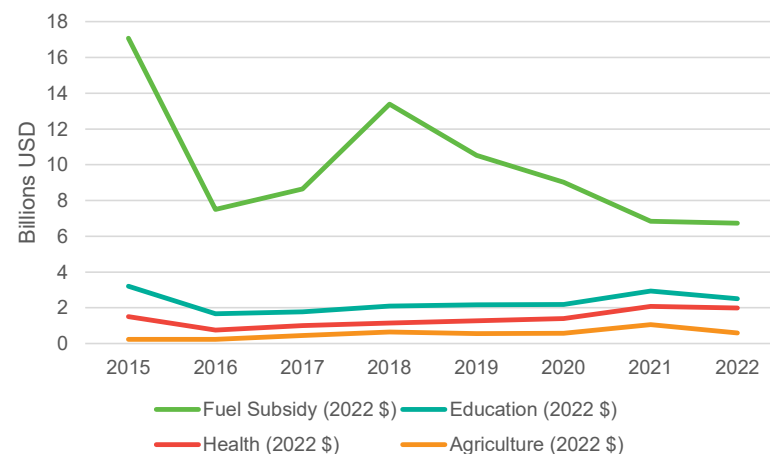
Motivation for reforming the fuel subsidy...

...a significant fiscal burden



Sources: World Bank calculations based on data from OAGF and NBS

...crowding out other public spending priorities



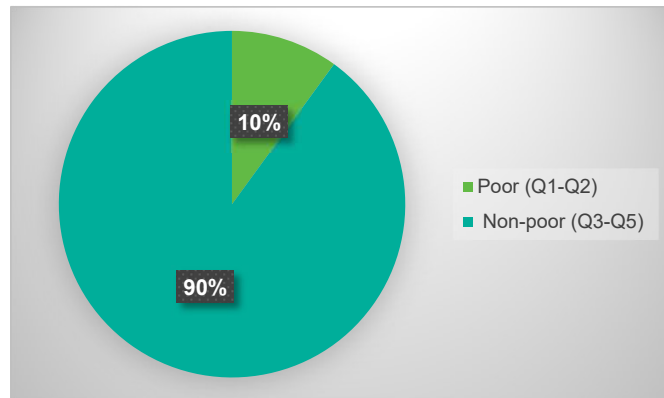
Sources: IFPRI calculations based on data from IMF and Budget office of the FRN

However, it's necessary to examine who is affected by the subsidy reform by analyzing the fuel consumption patterns:

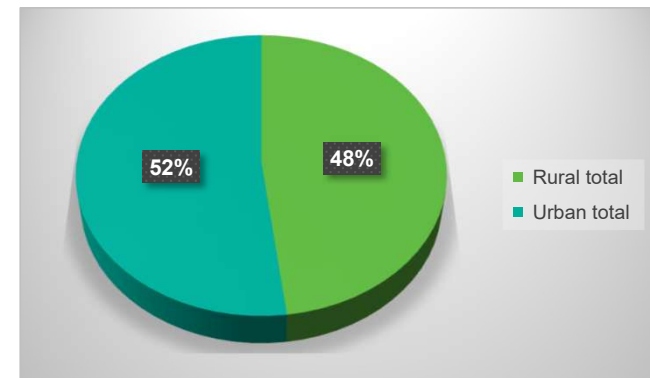
- Fuel is consumed directly by households and many sectors of the economy.
- The fuel subsidy reform impacts are both direct and indirect

Fuel direct consumption is higher for higher income quintile groups; and similar for rural and urban; higher per capita in urban

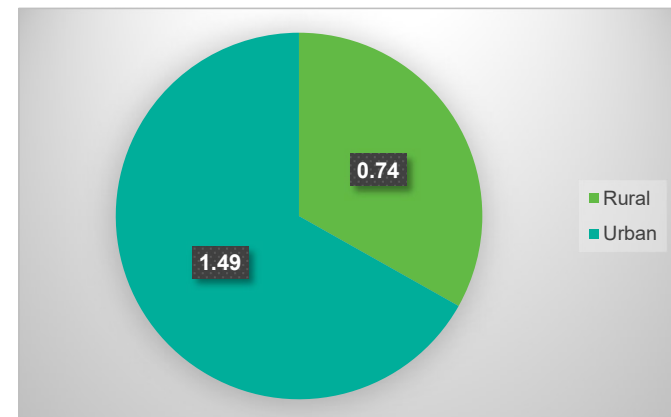
Direct fuel consumption by poor and non-poor households



Direct fuel consumption by rural & urban households



Fuel consumption share/population share



Sources: IFPRI calculations based on data from CBN, WB, NBS, and NG SAM

Slide 9

AK(NO Austine, these bars should be closer, 48% and 52%. Why such a difference? Can you check and replace?
Andam, Kwaw (IFPRI-Nigeria), 2024-07-24T17:46:48.013

Intermediate fuel consumption is higher than direct

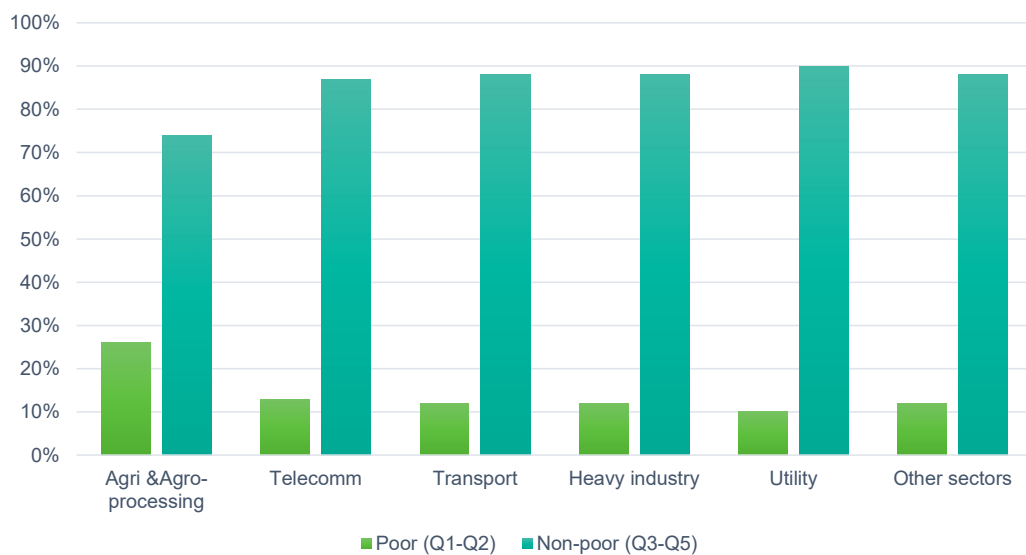
	Value (billions of naira)	Share of total
National total fuel consumption	7,139	
Fuel consumed directly by households	1,736	24.3%
Indirect: Fuel use in production process by all sectors of the economy	5,403	75.7%

Note: Year 2021

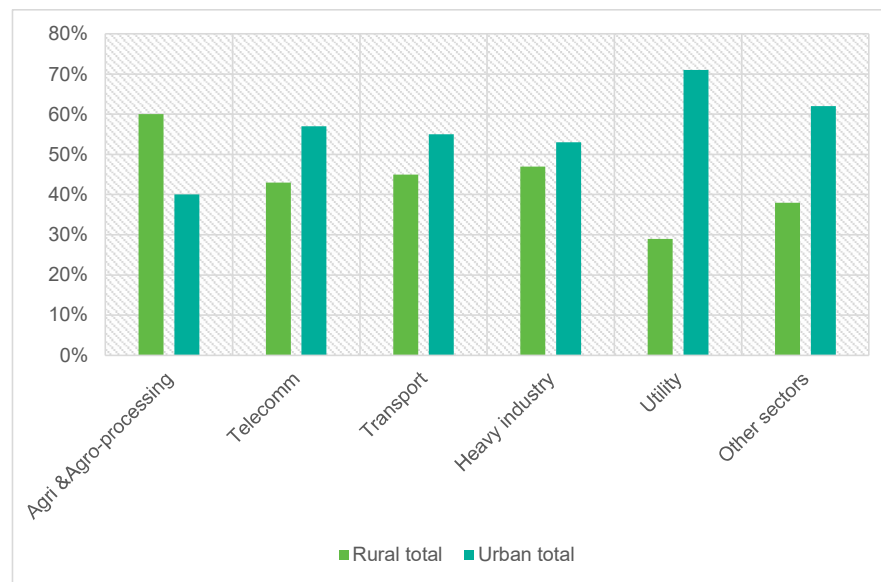
Sources: IFPRI calculations based on data from CBN, WB, NBS, and NG SAM

Poor/Rural household indirect consumption of fuel highest through consuming products from agri/agro-processing than other sectors

Indirect consumption of fuel through sectoral groups by poor and non-poor households



Indirect consumption of fuel through sectoral groups by rural and urban households



Sources: IFPRI calculations based on data from CBN, WB, NBS, and NG SAM

Summary

- Subsidy reform was a major reform after more than 40 years of fuel subsidies
- Discourse and demands on government calls for evidence on impacts of the reform
- Fuel direct consumption is higher for higher income quintile groups
- Intermediate fuel consumption is higher than direct
- Poor/Rural household indirect consumption of fuel highest through consuming products from agri/agro-processing than other sectors



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