Working paper

Towards sustainable fuel subsidy reform in Nigeria

Evaluating progress and pathways to success

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Key messages

In May 2023, Nigeria removed its petrol fuel subsidy amid high-level political consensus that it was incurring unsustainable and inequitable costs. In 2022, the government spent the equivalent of $9.7 billion on fuel subsidy payments.

Petrol pump prices increased more than 200% overnight, leading to high welfare losses, particularly for lower-income and rural households.

Pathways to successful reform need to navigate counter-measures by entrenched interest groups, lack of transparency regarding oil and gas-related earnings and perceived benefits of the subsidy for low-income groups.

Carefully designed redistribution policies are needed to mitigate the adverse effects of the subsidy reform to ensure that lower-income, rural households and other vulnerable groups are adequately supported. This includes longer-term plans for reallocating funds to public infrastructure, education, health care and jobs, and complementary reforms to the energy sector, particularly to stimulate renewable energy industries.

Targeted lump-sum transfers, particularly to lower-income households, can effectively counteract some of the welfare losses and harness the progressive potential of the reform.

Building public trust and confidence in the government is key to successful subsidy reform, alongside meaningful engagement and dialogue with those most impacted.

Fuel subsidy reform, if accompanied by high-level political commitment to ensuring its success and productive reallocation of savings, can potentially stimulate other low-carbon and sustainable development benefits that can shift development pathways towards greater climate resilience.

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Acronyms

BLT	Bantuan Langsung Tunai (Indonesian cash transfer scheme)
CCCD	Centre for Climate Change & Development
CSO	Civil society organisation
GHG	Greenhouse gas
GDP	Gross Domestic Product
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
MENA	Middle East and North Africa
NDC	Nationally Determined Contribution
NGN	Nigerian naira (currency)
NNPC	Nigerian National Petroleum Corporation
NSSP-SU	National Social Safety Net Program Scale-up
PMS	Premium Motor Spirit
QUAIDS	Quadratic Almost Ideal Demand System model
SDG	Sustainable Development Goal
SMEs	Small- and medium-sized enterprises
SURE-P	Subsidy Reinvestment and Empowerment Programme

Executive summary

In May 2023 Nigeria's newly inaugurated President, Bola Tinubu, ended the country's petrol fuel subsidy, stating that the government could no longer afford its increasing costs.

Fossil fuel subsidies in Nigeria and worldwide are a drain on public finances, widen fiscal deficits, contribute to climate change, air pollution and congestion, discourage the adoption of cleaner renewable energies, disproportionately benefit those who consume more fuel and reduce the money available for investment in other areas.

Yet fuel subsidies are notoriously difficult to reform; previous attempts in Nigeria have led to public backlash and eventual reinstatement of the subsidy. In this instance, petrol pump prices increased more than 200% overnight.

Petrol subsidies are introduced and persist due to a combination of economic, social and political factors. Initially, governments introduce petrol subsidies by fixing the price of petrol below the international market price, using government funds to cover the difference. Continued public support for subsidies comes from specific groups, such as higher-income groups who own multiple cars, but also from poorer people who do not, but who indirectly benefit from cheaper petrol prices (which affect the price of public transport and transported foodstuffs). Poorer people, who consume less fuel, benefit less in absolute terms from fuel subsidies, but are more affected by fuel price increases, as transport costs make up a greater relative proportion of their budgets. The persistence of petrol subsidies can also be attributed to the political calculations of decision-makers. In some cases, the removal of fuel subsidies has led to mass protests. In other cases, subsidies have been used to temporarily stabilise employment.

Successful subsidy reform relies on public acceptance and faith in the government's commitment and ability to deliver social protection and compensation measures and redistribute and repurpose the savings from the subsidy.

This report provides rigorous and evidence-based analysis of the controversies around Nigeria's fuel subsidy removal. The report covers the salient issues, including the rationale for subsidy removal, and the distributional impact, as well as the determinants of the sustainability of the subsidy removal. The purpose of this report is to explore how savings from fuel subsidy removal can be used to foster sustainable economic development and address climate change targets and socio-economic development. It highlights that fuel subsidy removal is not bidirectional, but a function of multiple political, economic, environmental and social interactions that need to be managed in concert and at multiple levels. It notes that failure to recognise and integrate these dynamic factors in the policy process could undermine the success of fuel subsidy removal and its associated potential climate and development gains.

The findings from this report show that welfare effects of the fossil fuel subsidy reforms have been felt unequally across Nigeria (see Section 3). Particularly, increases in petrol prices following subsidy removal have disproportionately affected lower-income households, with rural and lower-income households experiencing higher welfare losses. Analysis also finds that in the recent Nigerian fuel subsidy removal case, there was little to no consideration or assessment of the impacts of the reform, no concrete plans or support measures in place, and no consultations with interest groups or communication with stakeholders before fuel prices started to rise (Section 4). While it is too early to offer any definitive judgement on the success or failure of social protection and compensation and the reallocation of savings from subsidy reform, analysis finds that since compensation measures were not put in place before the subsidy was removed, there was an ad hoc and poorly coordinated series of compensation measures which were widely felt to have been insufficient (Section 5).

There is potential for fiscal savings to be used for compensation measures, which can mitigate the negative effects of the subsidy removal and increase public support for the reform. Carefully designed redistribution policies are needed to mitigate the adverse effects of the subsidy reform to ensure that lower-income, rural households and other vulnerable groups are adequately supported. Alongside this, the government needs to put in place longer-term plans for reallocating funds to public infrastructure, education, health care and jobs, and introduce complementary reforms to the energy sector, particularly reforms to stimulate renewable energy industries.

Fuel subsidy reform, if accompanied by high-level political commitment to ensuring its success and productive reallocation of avoided expenditure, can yield other low-carbon and sustainable development benefits that can shift development pathways to be more climate- resilient.

In Nigeria, if there is political will, there could be scope for international support to design subsidy reform programmes, as well as in the financing of compensation programmes, as the World Bank is already doing. Civil society can play a valuable role in communications campaigns and in exerting pressure for the productive and transparent reallocation of the subsidy. While repurposing of savings and compensation programmes faces significant political, financial and technical challenges, successful and sustainable reform of the subsidy is essential to advancing Nigeria’s clean energy transition and shifting the country to a more climate-resilient development pathway.

1 Introduction

Nigerian President Bola Tinubu announced the removal of the petrol fuel subsidy (known locally as Premium Motor Spirit, or PMS) in his inauguration speech on 29 May 2023 (Orjinmo, 2023). Despite failed attempts to end the subsidy by previous governments, the newly inaugurated President cited economic reasons for the subsidy's removal, stating that the government could no longer justify the increasing costs of the subsidy amid dwindling fiscal space (The Presidency, 2023). The President highlighted the distributional inequality of the fuel subsidy and stated that it had 'increasingly favoured the rich more than the poor'. Importantly, he committed to 're-channel the funds into better investment in public infrastructure, education, health care and jobs that will materially improve the lives of millions' (Tinubu, 2023).

The subsidy had allowed Nigerian citizens to pay some of the cheapest petrol prices in the world, but had been a significant drain on the Nigerian economy as substantial portions of national revenue inflow were committed to funding the scheme (PWC, 2023). In 2019, the Nigerian government provided at least NGN 532 billion ($1.7 billion) of subsidies for oil consumption, equivalent to 0.4% of gross domestic product (GDP) (IEA, 2020). In 2022, the government spent NGN 4.39 trillion ($9.7 billion) on fuel subsidy payments – roughly 2.2% of GDP and more than four times the health budget (827 billion Naira) (IISD, 2023). The scale of state funds for the subsidy had mushroomed over the years, increasing to 32.4% of total revenues in 2022, more than the combined budgets allocated to health, education and social protection (World Bank, 2023a). Between January and May 2023, when the subsidy was removed, 1.8 trillion Naira was spent, representing a 55% increase compared to the same period in 2022 and highlighting the volatility and unsustainability of the scheme (Okafor, 2023).

Fuel subsidies lead to overproduction and overconsumption, distort markets and send inaccurate price signals to users. Subsidies contribute to local air pollution and congestion, and are a socially regressive form of state support, as they disproportionately benefit those who consume more and reduce the money available for investment in other areas (IEA, n.d.; UNEP, n.d.). Removal of the subsidy and transparent and well-planned reallocation of the savings into productive and low-carbon sectors such as inclusive and renewable energy projects holds potential to overcome many of the regressive dimensions of the fuel subsidy. Moreover, the Intergovernmental Panel on Climate Change (IPCC, 2023) assesses that fossil fuel subsidy removal can reduce global CO_2 emissions by 1–4%, and GHG (greenhouse gas) emissions by up to 10% by 2030, as well as improving public revenue and macroeconomic performance and yielding other environmental and sustainable development benefits (IPCC, 2023).

The benefit of subsidy removal is particularly clearly shown when comparing finance needs for renewables and fossil fuel subsidies. While energy investments over the next decade to limit global warming to 1.5°C are estimated at $2.4 trillion per year, the International Monetary Fund (IMF) estimated fossil fuel subsidies in 2017 alone totalled $5.2 trillion or 6.5% of global GDP (Coady et al., 2019). Subsidy removal therefore holds potential to contribute substantively to climate-resilient development through releasing finance for low-carbon and sustainable development imperatives. Yet the IPCC also cautions that subsidy removal can have adverse distributional impacts especially on the most economically vulnerable groups which, in some cases, can be mitigated by measures such as redistributing funds from the subsidy (IPCC, 2023).

Despite the arguments for subsidy reform, fossil fuel subsidies persist for strong political reasons. Cheap energy is one way to redistribute resources broadly enough to stave off destabilising political contestation. In practice, subsidies are a relatively straightforward way of buying popular support in the absence of more complex, progressive efforts to address social needs such as social protection schemes, service delivery and investment in capital infrastructure. While fuel subsidies disproportionately benefit the wealthy (who consume more fuel), subsidised fuel is more important to the poor, both symbolically and concretely, as fuel spending makes up a larger share of their disposable income. Despite fuel subsidies' regressive effects, poorer segments of society are often fiercely attached to them – particularly when there is low trust in the government to redistribute savings effectively. Subsidy reform could be implemented successfully if there is trust in the state and a willingness and ability to redistribute and repurpose the savings from the subsidy reform. Trust in government in Nigeria is in short supply, particularly against the backdrop of last year's highly fractious elections and continued contestation over the electoral outcome, as well as loud and ongoing criticism of the management of the oil and gas industry from the country's 'oil producing communities'. To establish trust, at the very minimum, governments need to build on pockets of effectiveness, and they need to minimise harm by timing subsidy reform for dips in oil prices (World Bank, 2023d).

While Nigeria's reform was crucial in addressing long-standing fiscal imbalances, it brought to the fore significant concerns regarding the socio-economic welfare of Nigerian households. In the aftermath of the subsidy removal, Nigerians are experiencing the worst economic crisis in more than two decades as fuel prices have tripled, leading to increases in the cost of food and transportation. At the same time, the naira has lost 70% of its value to the dollar since the currency peg ended in mid-2023 (Adeoye, 2024). Supporters of a return of the subsidy argue that government officials and not the general public are benefitting from its removal (Omonigho, 2024). Reports suggesting a partial return of the fuel subsidy towards the end of 2023, what the International Monetary Fund have called 'returned implicit fuel subsidies' (IMF, 2024, p. 6), also point to problems in how the reform was enacted, while debate and recriminations over basic facts related to whether current fuel prices indicate a de facto reinstatement of the subsidy point to the fundamental political economy and challenges in transparency and governance in Nigeria's oil and gas sector. In December, the World Bank suggested that prices were around NGN 100 below a cost-reflective tariff of NGN 750/litre (Payton, 2024).

There is potential for Nigeria to move towards a development pathway where savings from the subsidy reform could be allocated towards key development priorities such as economic diversification, and towards building cleaner, more efficient, affordable and equitable energy systems (Gençsü et al., 2022). Furthermore, there is significant scope for the reallocation of budget – both in the energy sector and elsewhere – to motivate action towards Nigeria's long-term, sustainable development goals, including progress toward SDG 13 on climate action. Subsidy reform could allow Nigeria to begin planning for a transition away from fossil fuel dependency. It should however be noted that merely saving money that would be otherwise allocated to the fuel subsidy is not in itself sufficient to ensure that these funds are equitably reallocated – indeed, there are a whole host of further governance challenges to be addressed to ensure that funds are appropriately and equitably invested in priority areas such as energy access, education, health and infrastructure.

The negative impacts being experienced by key population groups suggest that the subsidy reform in Nigeria lacks *ex ante* social impact assessment and governance by principles of distributional justice that would, at a minimum, include safeguards for the poor and most vulnerable and compensate those experiencing the greatest impacts. Given Nigeria's political economy and depending on how the government implements the reform, there is no guarantee that it would advance transition outcomes associated with equity and justice. For example, if it does not allow for meaningful engagement and dialogue with those most impacted (procedural justice), and if it does not address the distributional impacts faced (distributional justice) or the historical injustices in the sector (recognitional and restorative justice).

This report analyses the most recent fuel subsidy reform in Nigeria, complemented with information from experts who participated in key informant interviews and stakeholder workshops. It highlights the key challenges that need to be addressed to ensure the sustainability of fuel subsidy reform, and that it is a path to achieving key development priorities and more just and equitable outcomes. Section 2 provides a description of how the fuel subsidy has operated in Nigeria and discusses the political economy of subsidy reform. Section 3 provides deeper empirical detail on the observable distributional impacts of fossil fuel subsidy reform in Nigeria through quantitative analysis of household energy consumption patterns. This is followed by an analysis of key dimensions of management of the process of subsidy removal, concentrating on building trust and confidence in the government and public acceptance of the subsidy removal (Section 4). Reflecting on population groups that are identified as particularly affected, key dimensions of social compensation and budget reallocation and recycling are highlighted (Section 5). The conclusion draws together the empirical findings of the quantitative and qualitative assessment to highlight procedural and substantive dimensions of sustainable fuel subsidy removal, followed by specific recommendations for Nigerian policy-makers.

2 Political economy of fuel subsidy reform in Nigeria

Box 1 Operation of Nigeria's fuel subsidy

Although in theory a consumption subsidy, which fixed the end-user price at a rate below that of cost recovery, actual subsidy payments were made to fuel importers by the Nigerian National Petroleum Corporation (NNPC), the state oil company, to cover the difference between the international market price (the 'landing price') and the fixed end-user price. After 2016, when the NNPC became the de facto monopoly importer, these payments were made in the form of internal deductions from crude oil export revenues prior to their transfer to the Federation Account – so-called 'under-recovery'.

As with the export process, the lack of transparency around the import and distribution of fuel presented significant opportunities for profiteering. Smuggling fuel out of Nigeria to neighbouring countries where fuel is sold at non-subsidised rates was widespread. In 2016, it was reported that 80% of the fuel in Benin was smuggled from Nigeria (Ralby, 2017), and it has been suggested that Nigerian fuel imports are re-exported through Benin to much of West Africa (Usman, 2022). Informants also indicated that Nigerian fuel import volumes had significantly decreased (by around a third) following the removal of the subsidy and suggested that this was due to the removal of the incentive to illicitly re-export fuel (KII 4).

One direct result of this practice of 're-exporting' is that, in much of Nigeria, fuel was not always available at the subsidised rate, and the country suffered from periodic PMS shortages (Ogunjuyigbe, 2022). PMS availability and price varied substantially between regions – generally more available in the South-West (the region including Lagos), while in the North-East purchasing fuel on the black market was reputedly more common and average fuel prices were higher.

While the end of subsidy payments should in theory free up significant additional funds at all levels of government (and indeed state budgets have generally increased since the subsidy removal), it is likely that incurred but not deducted costs of under-recovery (in other words, costs paid to cover petroleum imports by the NNPC but not deducted from the export revenues transferred to the Federal Government) will be deducted from future oil revenues. Informants suggested that these incurred costs could be large (as much as 2–3 trillion Naira) and indicated that it was unknown how the NNPC had funded these outstanding costs.

Nigeria's fuel subsidy was introduced in 1973 in order to shield citizens from global price fluctuations, in the context of a widespread expansion of the provision of state-subsidised goods and services. While originally intended to last for only six months, it has remained in place for over 50 years. While prices for diesel, aviation kerosene and household kerosene have been successfully liberalised during the last two decades, the PMS subsidy remained despite numerous attempts to remove it. As a result, most of Nigeria's consumption subsidies are directed to PMS through a price cap (Box 1 provides an overview of the operation of the subsidy). Given that PMS is disproportionately consumed by wealthier households who own private vehicles (Soile and Mu, 2015), energy consumption subsidies in Nigeria are socioeconomically regressive. Additionally, low fuel prices combined with poor public transport have fuelled high rates of vehicle ownership compared to countries at similar income levels (Ukonze et al., 2020), leading to high levels of air pollution, congestion and traffic injuries which are primarily borne by lower-income urban residents. Compounding these challenges, multiple adverse climate impacts over the past five years have affected Nigeria, including severe flooding in late 2022. These have exacerbated current macroeconomic weaknesses through impacts on agriculture, contributing to a prevailing decline in output and a surge in food prices (Effiong et al., 2024; IMF, 2024).

Given their regressive nature and climate implications, there is sustained international pressure on countries – including Nigeria – to eliminate fossil fuel subsidies. For example, the Glasgow Climate Pact commits signatories to phase down inefficient fossil fuel subsidies (UNFCCC, 2021). In 2021, a $1.8 billion loan by the World Bank to the Nigerian government was conditional on reform of the PMS price cap (George, 2021). The subsidy was subsequently removed during a short window when low oil prices closed the gap between market prices and the price cap, so consumers were protected. However, payments resumed as crude oil prices recovered.

Despite being socially regressive and environmentally harmful, subsidy removal has proved extremely politically challenging, both in Nigeria and across the world. Fossil fuels play a fundamental role in Nigeria's political economy, and have enriched a substantial political-economic elite, through both licit and illicit means. At the same time, fuel subsidies are generally supported by ordinary citizens, who view them as one of the few consistent benefits delivered by the Nigerian government (even if, in reality, fuel was not consistently available at the fixed price across the country), while influential political constituencies, such as trade unions, have been vociferous in their opposition to past efforts at subsidy reform. For example, Nigerian trade unions have played an instrumental role in protests against fuel subsidy removals since the mid-1980s, most recently in the extensive 2012 protest known as 'Occupy Nigeria' (Houeland, 2022). These protests were grounded on the idea promoted by the trade unions that the fuel subsidy forms part of a social contract in Nigeria (Houeland, 2022). The government and IMF at the time argued that removing the subsidy was necessary to combat corruption, but protesters in Lagos carried signposts and T-shirts saying 'Kill corruption, not Nigerians', indicating the popular sentiment that taking away a public good instead of going after corrupt elites was unjust (Houeland, 2020).

The reform of consumption subsidies has been fiercely opposed because cheap fuel is widely considered to be the right of Nigerians as citizens of an oil-producing country (Houeland, 2020), and because higher energy prices may translate into higher costs for other goods as well. For instance, while higher-income households may consume more of this particular subsidy in absolute terms, pump prices also determine transport costs and household energy bills across Nigeria. Approximately 84% of households and businesses rely on their own petrol or diesel generator for electricity (Elinwa et al., 2021). Furthermore, prices of kerosene and butane, the most-used cooking fuels in Nigeria, are set based on the price of PMS.

The financial savings from this subsidy constitute a larger share of the disposable income of poorer households and are therefore relatively more important for this constituency. For many citizens, the fuel subsidy was widely considered to be the country's principal welfare mechanism in the absence of adequate social safety nets (Hossain et al., 2021).

Both the material experience of benefiting from the fuel subsidy and perception of government's ability to deliver on promises affect social opinions in Nigeria. A nationally representative household survey conducted in July 2018 that asked Nigerian men and women about their knowledge and attitudes towards subsidies found that those who pay more or who experience less availability of fuel tend to be more supportive of subsidy reform (McCulloch et al., 2021). On the other hand, the survey showed that people who believe the government is corrupt or lacks the capacity to implement compensation programmes appear strongly opposed to reform (McCulloch et al., 2021). Finally, the delivery of reasonable national and local services also improves acceptance of reform. It is important to understand that public beliefs about corruption and the government's competence to use subsidy savings correlate with opposition to subsidy reform. These results support the idea that building a social contract is key to the success of fuel subsidy reform (McCulloch et al., 2021).

At the elite level, the opacity of the subsidy regime – and of the fossil fuel sector as a whole – provides significant opportunities for rent-seeking and illicit enrichment, disincentivising political and economic elites from pursuing reforms in the sector. Fossil fuel reserves provide a substantial source of political and economic power, given their potential capacity to generate profits, tax revenues and foreign exchange. Who controls hydrocarbon reserves and their associated revenues, and how they control them, is a principal consideration in understanding the political settlement of fossil fuel-rich countries (Kelsall et al., 2024). Nigeria's price cap for PMS plays two roles in the national political settlement. First, the subsidy appears to redistribute oil rents from elites to broader society (even if, in reality, the fuel subsidy is an ultimately regressive intervention), which can help to maintain stability or secure popular support for ruling political elites. Second, these subsidies artificially hold down petrol prices and encourage consumption, enabling elites who control domestic supply to capture more rents.

Overall, there is little faith that subsidy reform will lead to distributive justice. For example, one interviewee highlighted that, even prior to the election, while the manifestos of all parties alluded to subsidy removal, there was no information about what would happen next to address the impacts. Rather, removal of the subsidy is seen as a means for elites to capture an even larger share of oil rents. Therefore, while reform of consumption subsidies may be a necessary step towards an energy transition, it may not necessarily advance justice or be politically feasible in Nigeria without sustained efforts to build trust in the state. Progress towards a more inclusive political settlement or renegotiated social contract must first be made on other fronts before compensatory promises are viewed as credible (Lockwood, 2015). The successful reform of energy consumption subsidies therefore depends on first strengthening trust in the government, particularly its ability and willingness to reallocate or repurpose fiscal savings (Inchauste and Victor, 2017; McCulloch et al., 2021). Successful fossil fuel subsidy reform may depend on making progress towards a more inclusive political settlement on other fronts as well, strengthening the confidence and organisational power of excluded groups to ensure an acceptable redistribution of resources. In Nigeria, as in all oil-and gas-producing countries, the nature and sequencing of climate actions is essential to secure a just transition, given how deeply the fossil fuel industry is bound up with broader macroeconomic dynamics, power relations and socio-political structures.

3 The impacts of fossil fuel subsidy reform in Nigeria

Understanding the distributional consequences of progressive fossil fuel subsidy reform is critical to the sustainability of reform as well as progress towards more just and inclusive energy transitions. Yet, in the Nigerian case, estimates of the costs and benefits of reform and the potential impacts of reform were lacking. The potential negative impacts appear to have been a secondary concern for government actors, rather than a key priority to be proactively considered and addressed before enacting the reform. As part of this study, the Centre for Climate Change & Development (CCCD), a Nigerian think tank, examined the welfare effects of fossil fuel subsidy reforms on Nigerian households, focusing on the socio-economic implications of petrol price changes due to subsidy removal (see Okereke et al., 2024).

Using an econometric model that analyses consumer demand and expenditure patterns, the research explores household energy consumption patterns, estimating budget, own-price and cross-price elasticities for petrol. The study critically evaluates the welfare impacts of petrol price increases and assesses the effectiveness of government redistribution policies targeting economically vulnerable households. It considers the immediate, direct impact of price changes on household budgets and adjustments households can make, including substitution between goods. By analysing these effects, the research provides a holistic view of the dynamic interaction between subsidy removal and household welfare, highlighting the varied impacts across different income groups and residential settings (Okereke et al., 2024).

The study finds that the increase in petrol prices following subsidy removal is disproportionately affecting lower-income households. This is because the average Nigerian household has become dependent on petrol and shows an inelastic response to price changes. This means a petrol price hike would not significantly deter consumption but would strain household budgets amid an absence of available, accessible, or suitable alternatives. There is significant variation in welfare impacts across different household income quintiles and locations, with rural and lower-income households experiencing higher welfare losses. The analysis demonstrates that targeted lump-sum transfers, particularly to the bottom 40%, that is households below the official national poverty line threshold earning less than the equivalent of $381.75 per person per year, would effectively counteract some of the welfare losses. These findings highlight the necessity of carefully designed redistribution policies to mitigate the adverse effects of subsidy reforms, ensuring that lower-income and rural households are adequately supported. Such policies need to consider disparate welfare impacts together with progress on the effectiveness of redistributive, recycling or palliative policies (Okereke et al., 2024).

Key findings from the study

- **Impact of petrol price changes**: The increase in petrol prices following subsidy removal is regressive, disproportionately affecting lower-income households.
- **Disparate welfare impacts**: There is significant variation in welfare impacts across different household income quintiles and locations, with rural and lower-income households experiencing higher welfare losses.
- **Effectiveness of redistribution policies**: Targeted lump-sum transfers, particularly to the bottom 40%, lower bound and upper bound poverty line households, effectively counteract some of the welfare losses, indicating the progressive nature of these policies.

For policy-makers, these results highlight the importance of crafting equitable and sensitive strategies in response to economic reforms. The study advocates for redistribution policies that balance fiscal objectives with social welfare considerations, ensuring that the economic burden of reforms is not disproportionately borne by the most vulnerable segments of society. Furthermore, appropriate policy targeting should consider variation within rural and urban areas and household demographics. This approach not only fosters a more equitable distribution of economic burdens and benefits, but also enhances the public acceptability of such reforms. Acknowledging the disproportionate effects of energy reforms on women-led households compels a re-evaluation of policy frameworks to ensure they are inclusive and equitable. It is imperative that policy interventions be designed with a deep understanding of the gendered nuances of energy consumption and expenditure. This means moving beyond generic policy solutions to embrace targeted approaches that directly address the specific needs and challenges faced by female-headed households (see Recommendations).

Given the breadth and scale of impacts on different and vulnerable groups across Nigeria that arise from fuel subsidy reform, it is critical to put in place measures that will mitigate its effects while ensuring the sustainability of the reform. The following two sections highlight how this can be done though building trust and confidence in the government and redistributing and reallocating fiscal savings.

4 Building trust, confidence and acceptance

Trust in the government is linked to people's perception that the government is willing and able to implement reforms. As a result, efforts to overcome trust deficits are a key enabler of successful subsidy reform, as they increase confidence in the government and support for the reform. One cross-country study has shown that support for reform can effectively double, or even triple in some instances, if it is coupled with compensatory policies financed using the savings from subsidies (World Bank, 2023d). In Nigeria, however, lack of trust in government and a belief that the government is unable to protect the poor and vulnerable mean that fuel subsidy reform may not be successful without first building trust in the state (McCulloch et al., 2021).

Despite low levels of trust in government, a high-level political consensus has formed in Nigeria during recent years that, due to its ballooning costs, continuation of the subsidy was unsustainable. In the 2023 Presidential election, all three major candidates promised to remove the subsidy, and state governors expressed their support for ending subsidy payments (Yusuf, 2023; Premium Times, 2023). This position was also supported by international organisations such as the World Bank and the IMF, which have for many years pushed the Nigerian government to end the subsidy (World Bank, 2022; Reuters, 2022).

While removal of the subsidy has proven difficult for the reasons described in Section 2, the negative effects of the subsidy were well understood long before Tinubu's unexpected announcement. Indeed, the Petroleum Industry Act, passed in August 2021, committed the government to removing the subsidy within six months (a deadline which was ultimately ignored) (Onuah, 2022). The outgoing Buhari administration announced during its last year in office that it was removing fuel subsidies, and in the budget Tinubu inherited in 2023 subsidies were only included until May 2023 (PWC, 2022), which potentially prepared Nigerians for subsidy removal.

One key informant suggested that the message had got through to the public that the subsidy was unaffordable and had to go. It was also suggested that civil society organisations (CSOs) had successfully raised awareness of the need for subsidy reform through capacity-building events and workshops, and educating citizens at grassroots level. The same informant suggested that education was much improved compared to during the 2012 reforms. However, the lack of protest and backlash in comparison to the 2012 reform was not solely due to these efforts. Informants and workshop participants argued that autocratic and violent responses to peaceful protests (particularly the #EndSARS protest in 2020) and the increasing use of court orders to stifle protests had weakened public appetite for protest. One workshop participant quoted Nigerian musician Fela Kuti to suggest that Nigerian citizens, rather than being supportive of the reform, were simply 'suffering and smiling' (see Appendix 3).

The Nigerian government fell short in building public support, credibility and confidence and gaining the trust of citizens. Tinubu's announcement was not accompanied by talks with labour unions and other civil society actors (Orjinmo, 2023; Sambo and Sule, 2024). One key informant indicated that governments past and present have been poor at consulting around these issues, and another highlighted that they were unaware of any meetings or consultations with CSOs on the subsidy reform. Beyond the lack of communication, the government also undertook a swift and immediate removal of the subsidy, even as labour unions and other civil society groups argued for a gradual removal that would allow the population to slowly adjust to post-PMS subsidy realities and higher fuel prices (KMPG, 2023).

A paced and sequential approach would have allowed the government to engage in dialogue with groups that would be impacted by the subsidy removal, including labour unions, manufacturers' associations, student unions and women's organisations, who could have provided insights into the impacts the reform would have on them and how they could be addressed. An interactive approach such as this would have increased transparency and credibility.

5 Redistributing and reallocating fiscal savings

In the short term it is important that the government redistribute the fiscal savings from the subsidy and introduce social protection and compensation measures to help address the short-term distributional impacts on the most vulnerable groups. In the long term it is important for the government to reallocate funds from subsidy removal to ensure these support long-term development priorities that benefit the wider population. Balancing short- and long-term priorities will be essential in ensuring successful and sustained subsidy removal, and in turn can ideally support a clean energy transition. If done well, it could increase distributional justice as part of a just transition away from fossil fuels by ensuring that those negatively affected are compensated in the short and long term.

Following the removal of the fuel subsidy, there were calls from the public to introduce social protection measures, including direct payments, essential goods and services subsidies and job creation initiatives (Fadoju, 2023). Some of the measures announced include a mixture of direct cash transfers, distribution of foodstuffs such as rice and provision of additional public transport services and wage increases for some public-sector employees and pensioners. A stocktake of measures announced to date is provided in Table A1 in Appendix 1. However, these compensation measures were not put in place before the subsidy was removed, leading to an ad hoc and poorly coordinated series of compensation measures, at the federal, state and local levels (see Appendix 2). These measures are widely felt to have been insufficient to address the impacts of the reform (Financial Times, 2023, Ewokor, 2023). Informants were generally critical of the measures introduced, such as transport palliatives which do not help Nigerians in areas without roads, and cash transfers which require well-functioning social registers to ensure fair disbursement of funds (see Appendix 3).

With regard to cash transfers, the World Bank has begun disbursement of an $800 million loan for the National Social Safety Net Program Scale-up (NSSP-SU) – intended to support the Federal Government's cash transfer programme. The government indicated an intention to reach 15 million households with cash transfers of NGN 25,000 in the first three months of 2024 (World Bank, 2023b). However, as of December 2023 $315 million had been drawn down and only 1.5 million households had received transfers. In the context of rising inflation, growing insecurity and spiralling poverty and hunger, these measures may be too little too late. On 27 February 2024, the Ministry of the Economy announced the introduction of a social security unemployment programme, a social consumer credit programme and social investment payment programmes (25,000 Naira to 12 million households) (The Guardian, 2024). Informants suggest that the proposed cash transfers would be insufficient and that there were questions around its sustainability (see Appendix 3). Additionally, key informants highlighted that there were criticisms that the programme is poorly targeted as it may not be reaching the groups most affected by the subsidy removal. Workshop discussions on current palliatives highlighted the increasing unaffordability of public transport fares and a lack of government accountability to deliver on its announcements: one key stakeholder remarked that the 'gain of the subsidy removal still goes to the top politicians while the poor masses suffer the most' (see Appendix 3).

Key stakeholders in workshop discussions described the existing social register as 'chaotic' and incomplete, arguing that better 'identity management' is needed to identify those most in need of cash transfers and prevent double participation (see Appendix 3). Informants also pointed to the need for transparency and accountability, ensuring that there is a way to track progress and distribution. There was an opportunity for the current government to learn from past mistakes in this regard, including from the 2012 Subsidy Reinvestment and Empowerment Programme (SURE-P) (see Box 2).

Box 2 The Subsidy Reinvestment and Empowerment Programme (SURE-P)

Following the 2012 reforms, a series of compensation measures were introduced. One main initiative was the Subsidy Reinvestment and Empowerment Programme (SURE-P), which the government said it would use to repurpose its share of the subsidy savings into programmes and initiatives to address the negative impacts of subsidy removal. SURE-P involved several social safety net initiatives, such as an increase in urban mass transit availability, conditional cash transfer programmes for maternal and child health services, a graduate internship scheme, temporary employment for youth and women from the poorest populations and vocational training (IISD, 2016).

Three years later, due to declining oil revenues, the government struggled to finance the programme. Alongside this, the National Assembly threatened to shut the programme down due to allegations of the non-remittance of NGN 500 billion saved from subsidy removal, along with concerns over transparency and the programme's perceived ineffectiveness. Several states also campaigned for the scrapping of the programme (Obiukwu, 2015). When considering specific initiatives within the SURE-P, it was found that the SURE-P Maternal and Child Health Project, which consisted of an innovative combination of interventions that targeted both supply of and demand for maternal health services, was only reaching a subset of its target (World Bank, 2016). SURE-P ended in May 2015.

Workshop discussions identified a range of potential measures that could be implemented to address the short-term cost increases of subsidy removal (see Appendix 3). The NSSP-SU programme is meant to target the most vulnerable in the immediate aftermath of the reform (KPMG, 2023). However, as the volume of funds made available by the subsidy removal increases, the government could implement a wider compact with Nigerian citizens to channel some of the increasing revenues to broader redistribution mechanisms, including targeted cash transfers, and to expanded and better provision of public services (World Bank, 2023c). One informant noted that denying compensation to wealthier households could lead to discontent, and expanding this measure may broaden popular support for the subsidy reform (CCCD Interview 3). However, since such a system of compensation would be hugely expensive and could potentially fuel inflation if it does not correspond with an increase in production, there is therefore a clear need to balance cash transfers with other forms of repurposing savings (IMF, 2024).

More localised (e.g. state- or local-level interventions) have the potential to be more targeted and responsive to local needs. However, one informant argued that many of the social protection measures taken were likely to be of limited effectiveness in mitigating the immediate effects of the subsidy removal (ODI Interview 4). It was suggested that, although measures such as rice allocations to states were more open to political manipulation than federal-level cash transfers, they did nevertheless contribute to the wider goal of 'keeping the subsidy gone', even if they fell short of more effective but less politically straightforward measures (such as universal cash transfers or long-term investments in health, education and public transport). Another informant noted that such measures are principally 'psychological' in that they simply provide a feeling that something is being done by the government (CCCD Interview 2).

In addition to these short-term measures, there is a need for long-term strategies for repurposing the funds from subsidy removal into development and climate priorities (Damania et al., 2023). When announcing the removal of the subsidy, Tinubu indicated that the government would instead rechannel the funds into better investment in public infrastructure, education, health care and jobs (Yusuf, 2023). One informant suggested that the subsidy reallocation should be channelled towards basic education, healthcare and transport, especially in rural areas (CCCD Interview 7). This was supported by discussions with key stakeholders (Appendix 3) and is in line with analysis by IISD (2016), which identified mass transit schemes for commuters in urban areas and for rural dwellers and free healthcare for the vulnerable including rural dwellers as key initiatives that should be put in place in future reforms. Findings from CCCD's Technical Review confirm that there is a need for carefully designed redistribution policies to ensure that lower-income and rural households are adequately supported.

Such investments could also include improving Nigeria's electricity supply, which would have significant benefits for economic growth. Nigeria is extremely reliant on gasoline-fuelled generators, with a 2015 estimate that industrial generator users alone cost NGN 3.5 trillion (approximately $17 billion) per year (IFC, 2019). These noisy, polluting generators produce significant negative externalities, and keep the effective end-use cost of electricity in Nigeria high, where 40% of Nigeria's population do not have access to electricity and only 5.3 GW of generation capacity is reliably connected to the grid (around 10% of South Africa's capacity). Investment in expanding electricity access could therefore reduce the need for generators and, provided it is accompanied by increases in renewable energy capacity, meet Nigeria's growing energy needs without compromising its climate commitments.

Nigeria is targeting diversification of its economy and growth in non-oil revenue as key drivers of job creation by medium and small enterprises, especially for its youthful and growing population. Nigeria's Nationally Determined Contribution (NDC) highlights that enabling this kind of economic growth requires sustainable debt levels and stable revenue (Federal Government of Nigeria, 2021). Funds saved from fuel subsidy reform therefore can also provide new opportunities for a more progressive and low-carbon development future for Nigeria. Nigeria's current medium-term economic plan, the 2021–2025 National Development Plan, aligns with this, suggesting '[r]eformation of the subsidy regimes for more fiscal space to fund priority economic and social programmes' (Federal Ministry of Finance, Budget and National Planning, 2021: 32). The Federal Ministry of Environment has set a long-term low-emission goal to reduce carbon emissions from Nigeria's oil and gas value chains which recognises the need for low-carbon, climate-resilient development as well as subsidy reform; however, how subsidy reform is linked to achieving these plans is not defined (Federal Ministry of Environment 2021).

Finally, in addition to addressing the distributional impacts and advancing distributional justice, savings can also be re-allocated to address historical injustices, for example by targeting investment in environmental remediation in areas affected by oil production or in biodiversity management and ecosystem connectivity that would support the adaptive capacity and resilience of affected populations (Schipper et al., 2022).

Fossil fuel extraction has had a vastly harmful effect on ecologies and the health and socioeconomic wellbeing of communities in oil-producing regions. The 2023 report of the Bayelsa State Oil and Environmental Commission ('the Bayelsa report') found that toxic heavy metals from oil spills had entered the food chain, with huge negative consequences for those living in the region, while groundwater samples were found without exception to contain harmful heavy metals, polyaromatic hydrocarbons and total petroleum hydrocarbons vastly above WHO-determined maximum safe levels. Life expectancy in oil-producing Bayelsa state is 50, four years below the Nigerian average and 30 below the OECD average. Harm to local ecologies has devastated agriculture and fishing industries, and a systematic failure to use oil revenues productively in local communities has contributed to the development of a vast political economy of oil theft and artisanal refining. Air pollution from generators could also be reduced by increased adoption of renewable technologies.

The Bayelsa report proposes that, to address the vast negative effects of the fossil fuel industry on Bayelsa state, the Nigerian government develop a Bayelsa Recovery Plan, funded by a newly established Bayelsa Recovery Fund managed by a specialist agency, and accompanied by a comprehensive compensation scheme for communities and individuals affected by pollution. Similar schemes could be developed for other oil-producing states which have suffered similar harm. Repurposing funds from the fossil fuel subsidy to support the socioeconomic and ecological recovery of those regions most negatively affected by the oil industry, alongside improved regulation and governance of the fossil fuel sector, would offer a clear demonstration of how funds from subsidy removal can be productively redirected to supporting long-term socioeconomic and climate-resilient development.

The sheer political difficulty of fuel subsidy removal has led to their reinstatement in numerous cases across the world – as the World Bank notes, the failure to follow subsidy reforms with 'tangible action' has historically led to resistance and subsequent reinstatement of subsidies (Damania et al., 2023: 252). In Nigeria as elsewhere, repurposed funds will therefore have to strike a balance between two related, but often divergent, goals – ensuring that there is sufficient political and popular will to prevent reintroduction of the fuel subsidy and directing revenues in ways that will shift Nigeria to an inclusive, low-carbon development pathway by investing in more complex and longer-term policies essential to delivering on the Nigerian government's socioeconomic development and climate commitments.

However, it is crucial to note that additional fiscal space and savings being made available is not in itself sufficient to ensure that they are productively reallocated – the development and implementation of new policies (e.g. aimed at improving health and education, WASH provision or supporting economic diversification) present an array of political, economic and technical challenges across all levels of government. Matters are complicated further by the limited elite appetite for large-scale redistributive measures such as universal social protection, while access to federally administered public services such as education and grid electricity remains starkly uneven, reflecting historical asymmetries between regions and groups (Archibong, 2018). For instance, historically the exploitation of oil and gas resources and the revenues derived from them have not delivered a decent standard of living for most Nigerians, instead generating rents for a small political-economic elite. As a result, there is a lack of faith that subsidy reform will lead to distributive justice, and that the benefits of fiscal savings will be repurposed equitably and appropriately.

6 Conclusion

By 2023, Nigeria's fuel subsidy had become a significant drain on the country's economy as substantial portions of national revenue inflow were committed to funding the scheme. In 2022, the government spent NGN 4.39 trillion ($9.7 billion) (2.2% of GDP) on fuel subsidy payments. The fuel subsidy was regressive, as PMS is disproportionately consumed by the relatively wealthy households who own private vehicles, and low fuel prices combined with poor public transport systems fuelled high rates of vehicle ownership, leading to high levels of air pollution and congestion.

Despite the multiple arguments and mounting calls for subsidy reform in Nigeria, it had been fiercely opposed by diverse segments of the population. In addition to fossil-fuel industry elites' resistance to reforms which would reduce their capacity to accrue rents, cheap fuel has also been widely considered to be the right of Nigerians as citizens of an oil-producing country, and it is believed that the subsidy is the country's principal welfare mechanism in the absence of adequate social safety nets.

The subsidy was removed in mid-2023, but it brought to light significant concerns on the distributional impacts across Nigerian households. Merely saving money that would be otherwise allocated to the fuel subsidy is not in itself sufficient to ensure that these funds are equitably reallocated and that there are just outcomes. Following the reform, the government introduced a series of short-term compensation measures to address the negative impacts of the reform. Some of the measures announced included a combination of direct cash transfers, distribution of foodstuffs such as rice and provision of additional public transport services and wage increases for some public-sector employees and pensioners. However, since compensation measures were not put in place before the subsidy was removed, this led to an ad hoc and poorly coordinated series of compensation measures, at the federal, state and local levels. These measures were widely felt to have been insufficient, and most recent reports indicate that groups are arguing that the reform has benefited only political-economic elites and not the Nigerian population as a whole. Additionally, the existing social register was described as 'chaotic' and incomplete, and there are arguments that better 'identity management' is needed to identify those most in need of cash transfers and prevent double participation.

The negative impacts being experienced by key population groups suggest that the subsidy reform lacked *ex ante* social impact assessment and governance by principles of distributional justice that would, at a minimum, include safeguards for the poor and most vulnerable and compensate those experiencing the greatest impacts.

Yet, subsidy reform could be implemented successfully if there is trust in the state and a willingness and ability to repurpose the savings from the subsidy reform. Efforts to overcome trust deficits are a key enabler in delivering successful reform. However, in Nigeria there is a general lack of trust in the government and a belief that the government is unable to protect the poor and vulnerable. In the latest reform process, the government fell short in building this support and gaining trust, as evidenced by a lack of prior assessment of the negative impacts on citizens, and a lack of consultation, engagement and communication with key stakeholder groups who would be impacted by the reform. A paced and sequential approach to reform, with an interactive approach, could have increased transparency and credibility and therefore support and acceptance.

In the medium term, as savings from the subsidy begin to materialise, there is potential for the cash-transfer programme to be expanded to cover a larger portion of the population. This will be expensive, and there is a clear need to balance cash transfers with other forms of reallocation of savings in the long term. Long-term, subsidy reallocation could be channelled towards basic education, healthcare and transport. The subsidy reform can provide fiscal space to fund priority economic and social programmes, in line with Nigeria's medium-term economic plan, and provide a new opportunity to make choices towards a more progressive and low-carbon development future in line with Nigeria's long-term, low-emission development and climate action goals. Increasing electricity access and expanding renewable generation capacity will be key to meeting Nigeria's climate and development targets. Savings can also be reallocated to address historical injustices, for example by targeting investment in environmental remediation in areas affected by oil production.

Subsidy removal is a potentially important step towards facilitating Nigeria's medium- and long-term development goals. It could also advance outcomes of climate justice including equity and justice for vulnerable groups. However, such progress is highly contingent on coordination and transparent reallocation that is explicitly linked to social, economic and climate planning needs, and on whether the underlying political economy challenges are addressed. For instance, in Nigeria there is limited elite appetite for large-scale redistributive measures such as universal social protection, and access to federally administered public services such as education and grid electricity remains starkly uneven. Given this context, the additional fiscal space and savings being made available are not in themselves sufficient to ensure that they are redistributed and reallocated appropriately and equitably. This brings to light the importance of understanding the national and subnational political economies to determine what kinds of interventions may succeed and under what conditions. In Nigeria, for example, fossil fuel subsidy reform cannot be viewed as a technocratic fix but will depend on complementary efforts to build trust in the state's desire for redistribution and capacity to deliver services. Armed with this kind of information, prospective reformers can tailor their efforts according to the degree to which power is concentrated and the breadth and depth of the social foundation.

Moreover, when it comes to utilising subsidy savings to address historical injustices caused by the fossil fuel sector, existing legal and governance frameworks are inadequate to the vast ecological harm caused by fossil fuel extraction in Nigeria in the last 70 years, and additional payments from oil revenues to oil-producing states have not improved citizens' socioeconomic well-being.

This suggests that, in addition to compensation payments, there is a need for further legal and governance measures to ensure that any compensation and ecological recovery initiatives can deliver meaningful environmental and socioeconomic benefits in Nigeria's oil-producing regions.

While the removal of the fuel subsidy should in theory free up substantial state funds for investment in other areas, there remain numerous points of revenue loss in Nigeria's fossil fuel sector, including resulting from insecurity, spills and theft of both crude oil and revenue from sales. Without broader efforts to address this revenue loss the effectiveness of the reform is likely to be limited. It is also essential that complementary measures address the complex political economy which has developed around fossil fuel rents, including improvements to governance and regulation of the energy value chain, which is fundamental to enhancing the accountability of state-owned entities. Efforts to improve transparency will be essential to improving governance and reducing revenue leakage in the energy sector, which in turn could yield additional savings which can be reallocated in ways which will contribute to the achievement of Nigeria's development and climate goals. As discussed above, however, ensuring that revenues are effectively and transparently reused will require further government-wide reform efforts, across different sectors and levels of government, comprehensive analysis of which is beyond the scope of this report.

Supporting the development of an improved regulatory and economic enabling environment for renewable energy generation will be crucial. In the long term, this may include a range of financial incentives for renewable energy small- and medium-sized enterprises (SMEs), as well as efforts to develop streamlined processes for the establishment of renewable generation capacity (assuming there are also complementary increases in electricity transmission capacity).

Past conditions have placed reliance on oil, but choices and actions made now and in the near future can improve outcomes despite the impacts of climate change. If sustained, the fuel subsidy reform can be an early action and an enabling condition to create current and future opportunities for progress towards a lower-carbon economy for Nigeria. As Africa's largest economy, a country highly vulnerable to climate change and also one of the largest emitters of GHG emissions in Africa, Nigeria has a key role to play in delivering the aims of the Paris Agreement (Federal Government of Nigeria, 2021). Removing the fuel subsidy is an essential first step in this direction. However, confronting the vast political, economic and technical obstacles to ensuring both that the subsidy reform is sustained and that the benefits of the reform are felt across Nigerian society is an arguably even greater challenge. Addressing these obstacles over the coming years will be a key test of the success or failure of the Tinubu administration, and international actors working to support Nigeria's socioeconomic development.

Recommendations

1. Further reforms to Nigeria's energy sector are essential to reducing revenue leakage and ecological damage, which can in turn increase government revenues which can be reallocated to meet the state's socioeconomic development and climate commitments.

2. Well-designed palliatives can mitigate the effects of subsidy removal while investing in Nigeria's climate-resilient and sustainable development. Palliatives should address intra-urban disparities, reduce transportation costs and enhance social protection.
   a. Successful implementation of the National Social Safety Net Programme Scale-up (NSSP-SU), which aims to provide cash transfers of NGN 25,000 ($29) per month for three months to 15 million households, could positively contribute to poverty reduction and increase support for the subsidy reform. However, transparency and social register issues must be addressed to ensure the fair disbursement of transfers.
   b. Targeted lump-sum transfers, particularly to the bottom 40%, lower bound and upper bound poverty line households, can counteract some of the welfare losses, indicating the progressive nature of these policies.
   c. Assistance programmes should be based on comprehensive data collection that accounts for household income, expenditure patterns, access to public services and other socio-economic indicators specific to urban or rural settings.

3. Redistribution policies are needed to mitigate the adverse effects of subsidy reforms. Lower-income and rural households must be adequately supported.
   a. Policies should recognise intra-urban disparities whilst remaining sensitive to the unique challenges facing both rural and urban low-income households – approaches should be granular and tailored.
   b. Heavily invest in improving urban public transportation systems. Affordable and efficient public transport can mitigate the impact of petrol price increases on urban low-income households.
   c. Implement a progressive taxation structure on petrol where higher-income households, particularly in urban areas, contribute a greater share. Use these funds to support low-income households.
   d. Redirect a portion of the resources saved from subsidy removal into targeted programmes for both urban and rural low-income households. This could include energy assistance programmes, subsidies for energy-efficient appliances or support for transitioning to renewable energy sources.

4. Given the disproportionate effect on female-headed households, policy-makers should target compensatory measures for these households to mitigate the adverse welfare impacts.
    a. Targeted financial assistance: implement direct financial assistance programmes for women-led households to mitigate the impact of energy price increases, ensuring these programmes are easily accessible and tailored to the needs of this vulnerable group.
    b. Enhanced social safety nets: strengthen social safety nets specifically designed to support women-led households affected by energy price reforms, including cash transfers and emergency energy vouchers.
    c. Gender-inclusive policy design: incorporate gender analysis in all stages of energy policy planning and implementation to ensure the unique needs of women-led households are considered and addressed.
    d. Women's participation in decision-making: establish mechanisms for the active participation of women, particularly those heading households, in energy policy decision-making processes, ensuring their voices and concerns shape energy policies that are equitable and effective.
    e. Given the disproportionate effect on female-headed households, policy-makers might consider targeted compensatory measures for these households to mitigate the adverse welfare impacts.

5. Increased communication with citizens, engagement with relevant stakeholders and active information campaigns detailing plans to address negative impacts can contribute to achieving the widespread buy-in needed for the reform's longevity and success.

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Appendix 1 Social protection and compensation measures

Table A1 provides a timeline and summary of compensation initiatives announced at Federal and State levels to mitigate the negative impacts of subsidy removal. These measures are not comprehensive but are a stocktake of the types of measures announced between May 2023 and January 2024. Measures are organised by category of intervention (Provision of goods; Provision of services; Cash transfers) and date of announcement.

Table A1 Social protection and compensation Initiatives announced by Federal and State governments following 2023 reforms

Intervention	Description	Beneficiaries	State/ Region	Announcement	Source
Provision of Goods					
Bulk Purchase Program	Reactivation of Bulk Purchase Program under the Gateway Trading; sale of food items like grains and rice purchased from the Central Bank of Nigeria at pre-deregulation prices	Farmers	Ogun State	15/09/2023	News & media outlet
Food Distribution	Distribution of rice to local governments and maize to farmers; recruitment of teachers and workers; reduced work week for civil servants; N40bn pensions payment – potential purchasing of bicycles, tricycles and CNG vehicles	General public	Delta	11/09/2023	State government
Food distribution, salary award and tax exemption	Distribution of food to 300 households, reduction of levies to micro transporters, salary increment by N12,000 for pensioners and public servants – concern over whether this has been fulfilled	General public	Anambra	04/09/2023	News & media outlet
Food Distribution	Distribution of food packs to vulnerable and less privileged (1,060 beneficiaries)	Vulnerable groups	Kano	04/09/2023	News & media outlet
Food Distribution	Distribution of rice (3,000 in first phase; 12,600 in second phase) to poorest households with clear instruction that government employees should not receive palliative	General public	Abia	03/09/2023	News & media outlet
Food Distribution	Distribution of 100,000 bags of rice; ticket-free Fridays for transporters until December 2023; N10,000 Bursary to undergraduates	General public	Akwa-Ibom	01/09/2023	News & media outlet
Food Distribution	Distribution of 250,000 bags of rice	Households	Kwara, Imo and Oyo States	31/08/2023	News & media outlet
Food Distribution	Transfer of N2 billion and 3,000 bags of rice from the federal government; approved transfer of N2m to 1,500 low-income workers	General public	Ebonyi	24/08/2023	News & media outlet

Intervention	Description	Beneficiaries	State/ Region	Announcement	Source
Food Distribution	Three-phased approach: distribution of food items to 1.05m people; transportation and assistance to smallholder farmers, micro, small and medium-scale enterprises; long-term revival of train service	General public	Kaduna	23/08/2023	News & media outlet
Food Distribution, entrepreneurship assistance	Approved purchase of five trucks of rice at the cost of N134 million to distribute to 'less privileged' and approval of empowerment programme for 1,500 young entrepreneurs	General public	Jigawa	10/08/2023	News & media outlet
Food Distribution	Distribution of food packs; 50% fare reduction in BRT ride, waterways transport	Households	Lagos	31/07/2023	State government
Provision of Services					
Transportation	Provision of buses	Public Servants	Rivers	21/07/2023	News & media outlet
Transportation	Initiative to replace buses with CNG buses	General public	Abuja	03/11/2023	News & media outlet
Transportation	Provision of CNG Mass Transit buses	General public	Ogun	30/10/2023	News & media outlet
Transportation	Investment of N2bn of federal support on transportation	General public	Abia	06/09/2023	News & media outlet
Transportation	Provision of luxury buses for public transport, purchased from local manufacturer	General public	Adamawa	01/09/2023	News & media outlet
Education support, training, cash transfer	Support to secondary schools, provision of computer and ICT training to youth, grants to 5,000 women	Students, Women, Youths	Benue	23/08/2023	News & media outlet
Transportation	Provision of 100 taxis and 6 luxury buses	General public	Bayelsa	20/07/2023	News & media outlet
Cash Transfers					
Conditional Cash Transfer	Conditional cash transfer of N75,000 to 15m households within 3 months, pending adequate verification of need	Vulnerable groups	National	17/10/2023	News & media outlet
Wage Award	Provisional wage award of N35,000 for treasury-paid federal government workers for 6 months	Federal Public workers	National	01/10/2023	Nigerian Television Authority
Cash Transfer	Cash payment of N10,000 to civil servants and N5,000 to pensioners	Public Servants, pensioners	Nasarawa	11/09/2023	State government
Cash Transfer	Cash payment of N10,000.00 to workers for 6 months	Public Servants	Cross River	09/09/2023	News & media outlet
Cash Transfer, transport subsidy	Earmarked N800m for leave grants for civil servants and N800m for pensioners, provision of shuttle buses for students at subsidised rates	Public Servants	Bauchi	05/09/2023	News & media outlet
Cash Transfer, food distribution	Approved financial support for civil servants and pensioners, total value of N2bn, and plan to distribute 100,000 bags of rice among 2,272 villages and other strategic groups	Public Servants, pensioners, general public	Akwa-Ibom	01/09/2023	News & media outlet

Intervention	Description	Beneficiaries	State/ Region	Announcement	Source
N5bn Loan to States	Federal government loan of N5bn to each state	All states	States	17/08/2023	News & media outlet
Cash Transfer	Cash payment of N10,000 for public servants and pensioners for 3 months	Public Servants	Ogun State	13/08/2023	News & media outlet
Cash Transfer	Cash payment of N20,000 to vulnerable people, total value of N500m	Vulnerable groups	Edo	10/08/2023	News & media outlet
Cash Transfer	Cash payment of N10,000 to students of Kwara origin in public-owned tertiary institutions	Students	Kwara State	01/08/2023	News & media outlet
Cash Transfer	Cash transfer of N5,000 plus a bag of rice, a bag of beans and one wrapper (for women), targeting 1.8m vulnerable persons	Households	Borno	01/08/2023	News & media outlet
Cash Transfer	Financial support (N50,000 each) invested in 1,000 women petty traders	Female Traders	Jigawa	27/07/2023	News & media outlet
Cash Transfer	Cash payment of N10,000 for civil servants and pensioners for 6 months	Public Servants	Adamawa	26/07/2023	News & media outlet
Conditional Support	Creation of N500m recovery fund for looted businesses	MSMEs	Kwara State	24/07/2023	News & media outlet

Sources: ODI & CCCD

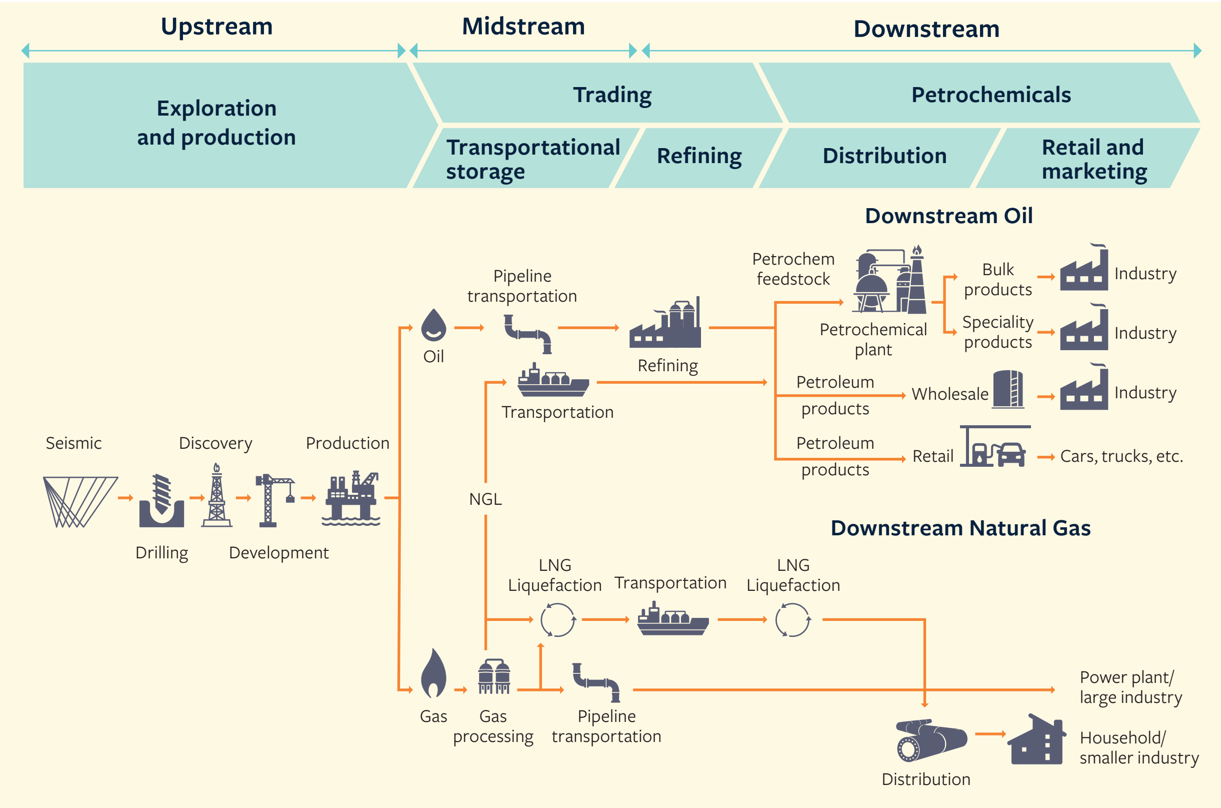
Appendix 2 Political economy dynamics in Nigeria's fossil fuel sector

While fossil fuel revenues are declining as a proportion of Nigeria's GDP, revenues from crude oil sales remain a significant source of foreign currency for the government (in 2020, oil exports were responsible for NGN 9.44 trillion ($26.49 billion), equal to around three- quarters of total exports (NEITI, 2022)), and the distribution of oil revenues continues to play a central role in Nigeria's political settlement.[1] However, the subsidy only represented one (albeit significant) point of revenue loss in the fossil fuel sector. As such, further efforts to reform the fossil fuel sector in ways which address the complex political economy which has developed around fossil fuel rents are essential. In Nigeria as elsewhere, broader reform of the governance and regulation of the energy value chain is an essential complement to fossil fuel subsidy reform as it ensures that state-owned entities can be held accountable and have no incentive to delay or obstruct reform efforts (UNDP, 2021).

The typical oil and gas value chain consists of exploration and production (upstream), transportation/storage and refining (midstream) and distribution and retail (downstream). However, Nigeria departs from this ideal model due to its low domestic refining capacity, which requires it to import significant volumes of refined petroleum to meet domestic energy needs, while it exports most of its crude production. A range of complex and opaque contracts and arrangements for import and export have provided significant opportunities for rent-seeking and have disincentivised efforts to reform and modernise Nigeria's fossil fuel sector, even as production levels have steadily declined.

1 A political settlement can be defined as an agreement or understanding among a country's most powerful groups about the basic rules of the political and economic game, which, by providing opportunities for those groups to secure a minimally acceptable level of benefits, prevents a descent into all-out warfare or disorder (see Kelsall et al., 2022).

Figure A1 Oil and gas industry value chain



This section provides an outline of some key political economic and sector governance dynamics which future reform efforts will have to address. It identifies key points of revenue loss across the value chain and the role these revenues play in sustaining the political settlement at federal, state and local levels. It then discusses the dynamics around fuel imports and exports, looking in detail at how the fuel subsidy operated and how these sector dynamics have held back efforts to reform the sector, and the implications for fuel subsidy reform.

Production

Nigeria has significant oil and gas reserves, primarily concentrated in the south-west of the country. However, while oil-producing states (Abia, Akwa-Ibom, Bayelsa, Delta, Edo, Imo, Lagos, Ondo and Rivers), particularly those in the south-west, receive a larger allocation of fossil fuel revenues compared to other states, they have benefited little from fossil fuel revenues and in many cases have suffered significant social and ecological harm.

Oil extraction is primarily carried out by a small group of international oil companies (IOCs) (in particular Shell, Chevron, Total, Eni and Exxon-Mobil, which together account for around 75% of Nigeria's hydrocarbon output) working with the state oil company (Bayelsa State Oil and Environmental Commission, 2023), the Nigeria National Petroleum Company (NNPC). However, IOCs are increasingly divesting from onshore developments and handing these over to Nigerian companies.

Informants pointed to numerous points of revenue loss at the production stage, due to a mixture of weak regulation and regulatory capture by IOCs (e.g. in the form of tax breaks), poor enforcement of existing regulations (e.g. ensuring that IOCs conform to all tax obligations) and theft and criminality. A lack of transparency in the sector, including the availability of reliable data is a further challenge.

There are several regulatory agencies mandated to enforce various environmental and industry standards at the production stage. However, these appear to have limited capacity and political influence, even following the passage of the Petroleum Industry Act. The Ministry of Petroleum Resources previously oversaw regulation of the sector through a regulatory agency called the Department of Petroleum Resources (DPR), but following the passage of the Petroleum Industry Act (PIA) in 2021, the DPR has been split into two agencies – the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and the Nigerian Midstream and Downstream Regulatory Authority (NMDPRA). The Bayelsa State Oil and Environmental Commission report suggests that these two agencies are primarily mandated to ensure oil sector profitability, a potential source of conflict with both their own and other agencies' environmental regulatory responsibilities.

The National Oil Spill Detection and Response Agency (NOSDRA) is responsible for overseeing oil spill preparedness, detection and response. However, it has historically lacked enforcement capacity, and has relied on IOC support to access pollution sites. The Bayelsa report suggests that NOSDRA has been historically significantly under-resourced, particularly in comparison to the now-defunct DPR.

Informants suggested that, rather than formal subsidies (including tax breaks), it was likely that the most significant 'subsidies' came from poor enforcement of existing laws and regulations. Examples include lack of capacity or will to challenge IOCs' tax returns, and limited capacity of regulatory agencies to investigate or enforce punishment for violations (e.g. relying on IOCs to provide access to spill sites, failure to enforce penalties for gas flaring).

Transportation

Transportation of crude oil presents several points of significant revenue loss for the Nigerian government – through leaks and spills, as well as siphoning and other opportunities for diversion and theft of crude.

A lack of transparency means that estimates of the scale of loss vary significantly. While the precise numbers are the subject of significant contention (with IOCs, for example, claiming that losses are overwhelmingly due to theft rather than to poor maintenance of pipelines – for which they would, ultimately, be liable), the losses, and the massive environmental costs associated with them, are beyond dispute. Estimates of oil losses range from 150,000 to 400,000 bpd (Nigeria's total production is estimated to be around 2 million bpd (Nwozor et al., 2020)).

Oil which is spilled due to negligence and poor maintenance is a significant source of foregone revenue for the federal government, while spills impose vast environmental, social and economic costs on communities, as well as local and state governments in the Niger Delta (Bayelsa State Oil and Environmental Commission, 2023).

Similarly, oil siphoning has developed into a sizable 'artisanal' refining industry, transforming local economies (which have in many cases become dependent on illicit refining, in the absence of other economic opportunities and the unviability of fishing and agriculture in environmentally devastated areas of the Niger Delta) and sustaining a significant illicit trade in refined products, both within Nigeria and in neighbouring countries. Reports suggest that illicit siphoning and refining continues with the collusion of armed groups as well as local politicians and military figures, all of which can profit from the trade (SDN, 2014).

Export/import dynamics

While there are a host of regulatory and enforcement issues leading to revenue leakage at the upstream stage, it is likely at the midstream (in particular in the export of crude and import of refined products necessitated by Nigeria's low domestic refining capacity (see Box 3)) that the largest moments of revenue leakage, including through payments related to the consumption subsidy, occur.

Box 3 Refineries

Nigeria has four oil refineries – two in Port Harcourt and one each in Warri and Kaduna. While these refineries have a total nominal refining capacity of over 400,000 barrels/day, they have performed well under capacity, necessitating the import of significant volumes of refined petroleum products (IISD 2016).

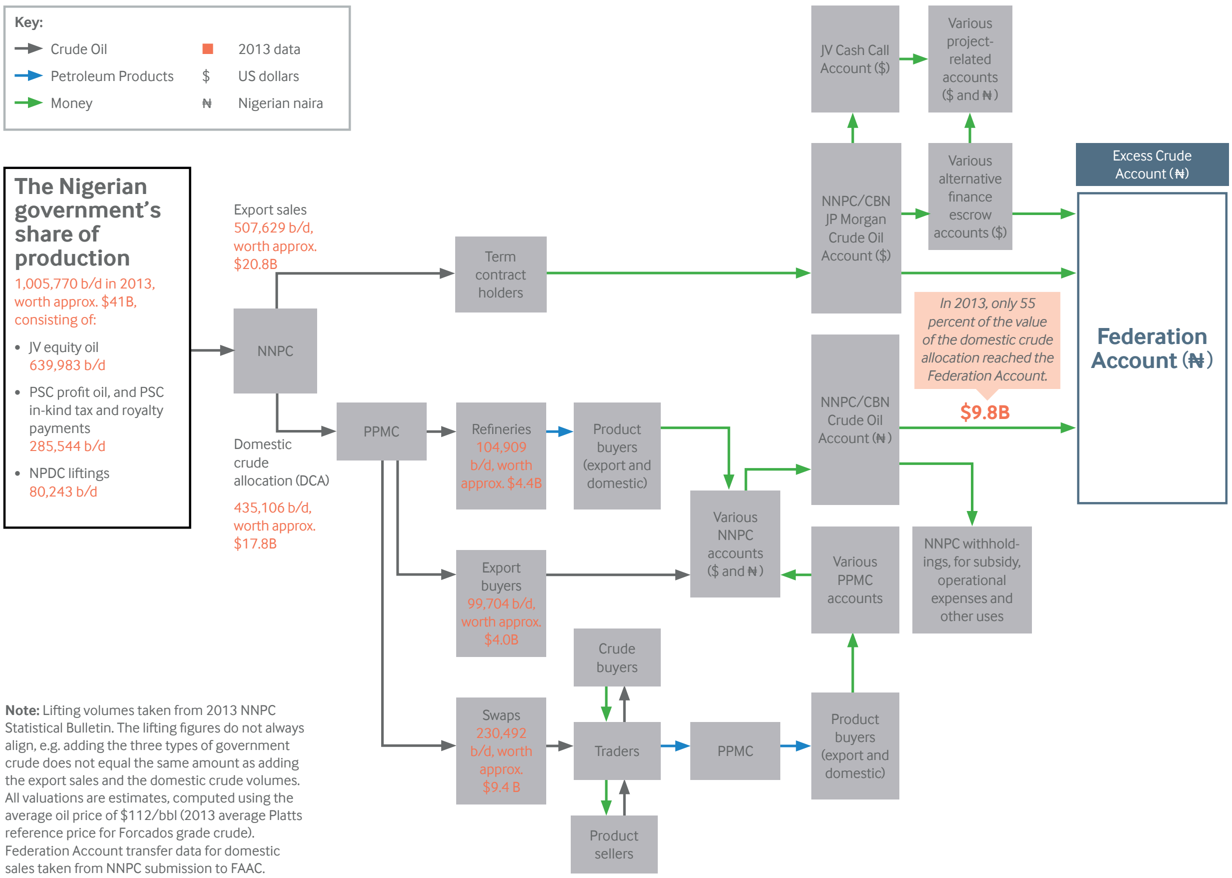
Maintaining inefficient and aging refining capacity, as well as several refurbishment contracts with limited results, has been a significant drain on Nigeria's national budget. Informants indicated significant vested interests benefiting from the current system, which provide both rent-seeking opportunities and are a source of employment, even as one informant described the refineries as 'unsalvageable' (ODI Interview 4).

A new refinery development, led by Aliko Dangote, Africa's wealthiest individual, is due to begin operations in late 2023/2024, with a nominal capacity of 650,000 barrels/day, equivalent to 73% of local demand (Budgit, 2023). However, informants were sceptical that, even when the plant is fully operational, oil will be sold domestically, indicating instead that it was likely to be sold on international markets. As such, it was suggested that the increased capacity could address scarcity issues in PMS supply but would not reduce the end-user price.

The key player at the export/import stage is the NNPC, described by informants as both a 'complete mystery' and 'the ATM machine of any president' (ODI Interviews 4 & 5). While the passage of the Petroleum Industry Act has transformed the NNPC into a limited company (in other words, still owned by the Nigerian state but commercialised), informants questioned how far this had changed its operations in practice. One informant noted that the NNPC 'remains the big player regardless of the renaming' (ODI Interview 5), while others pointed to the need for broader transparency and deregulation of the petroleum sector beyond the subsidy reform.

To date, the most comprehensive analysis of the NNPC's sale operations was conducted by Aaron Sayne, Alexandra Gillies and Christina Katsouris for the Natural Resources Governance Institute in 2015. This report notes that '[c]urrent governance problems thrive on byzantine arrangements which only a handful of people understand' (Sayne et al., 2015: 4), underlining the complex system of intermediaries and subsidiaries which enabled revenue leakage and prevented oversight. Figure A2 gives a sense of the complexity described in the report.

Figure A2 Overview of Nigerian National Petroleum Corporation oil sales



Source: Sayne, Gillies and Katsouris (2015)

However, the report goes on to note that '[t]he bad practices that undermine NNPC oil sale performance all have political interference at their root' (2015: 4). Thus, the combination of opaque expenditures (a 2014 audit found that the NNPC has made loans to foreign governments, alongside payments for a presidential helicopter and 'World Cup-related travel' (Toledano et al., 2020)), the routine routing of both funds and oil through subsidiaries, and multiple cases of the NNPC simply withholding oil revenues from the Federation Account, are not simply technical issues of 'weak governance' but are deeply political.

As Zainab Usman argues, oil rents are essential to horizontal competition between elites, as well as vertical distributional demands. Usman identifies PDP rule under Goodluck Jonathan's presidency (2010–2015) as key to the intensification of the process of distributing oil rents for political influence, as Jonathan's administration distributed importing and lifting (the transport of crude from production or storage to transport vessels) to allies to shore up political support. Indeed, numerous informants identified fuel marketers as the key elite constituency opposed to the subsidy reform (ODI Interviews 2 & 4).

As such, the opacity of the NNPC plays an integral role in Nigeria's elite-level politics, as a source of rents, and political as well as economic gain. Tellingly, the position of Minister of Petroleum Resources has been occupied by the president under Olusegun Obasanjo (1999–2007), Muhammadu Buhari (2015–2023) and Bola Ahmed Tinubu (2023–). Tinubu announced in January 2024 that the Central Bank of Nigeria will take over responsibility for oil sales and oil revenue collection from the NNPCL (Nwite, 2024). Depending on its implementation, this move has potential to significantly advance efforts to reform and increase transparency around Nigeria's oil export revenues.

Addressing the political economic dynamics outlined above will be essential to further reforms in Nigeria's fossil fuel sector. While reform efforts will likely be slow and incremental, they will be essential to ensuring that the potential positive effects of the 2023 subsidy reform are realised, and that revenues are made available for investment in meeting Nigeria's climate and socioeconomic development priorities.

Appendix 3 Virtual stakeholder workshop report

On 22 November 2023, ODI and CCCD (Alex-Ekwueme Federal University Ndufu-Alike) held a virtual workshop on 'Supporting Nigeria's subsidy reform and energy transition'. The workshop was part of ODI and CCCD's wider research that aims to understand fuel subsidy reform in Nigeria and its potential impacts, and an opportunity to share preliminary research findings with key stakeholders. This Appendix summarises the workshop agenda, breakout discussions and key takeaways for the ODI and CCCD research teams.

Background and key stakeholders

Key stakeholders were identified by the CCCD team. The key stakeholders in attendance were from academia, think tanks and civil society organisations working on energy and environment issues (in Nigeria and in other developing contexts); the Nigerian public sector; Nigerian media; Nigerian petroleum and energy industry organisations; the Nigerian private sector; multilateral organisations and Nigerians in diaspora.

Content and discussion: workshop agenda

ODI and CCCD prepared presentations on initial research findings for discussion with key stakeholders. ODI conducted a desk review and key informant interviews to understand the elite-level political settlement in Nigeria's fuel sector and opportunities for socially inclusive reallocation of fiscal savings from subsidy reform. CCCD presented initial results from their analysis of the distributional effects of fossil energy subsidy reform (across income groups) and understand potential remedies and opportunities to design and implement fossil energy subsidy reform and revenue recycling efforts. All participated in the break-out discussions, which were facilitated jointly by the ODI and CCCD team and structured around key questions, giving participants tan opportunity to respond to the preliminary findings. Table A2 shows the virtual workshop agenda.

Table A2 Workshop agenda

Time	Activity	Speaker
11:00 – 11:05 GMT **12:00 – 12:05 WAT**	Welcome and opening remarks	Nicholas Simpson, ODI Prof. Chukwumerije Okereke, CCCD
	Session 1: Elite-level political settlement in Nigeria's fuel sector This session will explore the key power dynamics and political economy factors in Nigeria's fossil fuel sector, focussing on fuel subsidy, revenue flows and future reform pathways.	Moderator: Shandelle Steadman, ODI
11:05 – 11:15 GMT	**Presentation:** Revenue Loss in the Oil and Gas Value Chain: A Political Economy Perspective	Theo Tindall, ODI
11:15 – 11:45 GMT	**Breakout Group Discussion** **Guiding Questions:** 1. What are the priority next steps for sector reforms building on the Petroleum Industry Act (PIA) and subsidy removal, and who is best placed to push for these as part of a 'reform coalition'? 2. Which actors can ensure revenues are recycled to support wider decarbonisation goals and consolidate support for the subsidy reform? 3. What are the risks of public support for the subsidy re-emerging? How should these be mitigated?	Facilitators: Nicholas Simpson & Elizabeth Tan, ODI
11:45 – 11:55 GMT	Reporting Back	
	Session 2: Consumption Subsidy Reform: Impacts and Remedies This session will discuss the distributional impacts of the recent fossil fuel subsidy reform in Nigeria, and the planned and ongoing measures that the Nigerian government has put in place to mitigate the negative effects.	Moderator: Shandelle Steadman, ODI
11:55 – 12:15	**Presentation:** The welfare effects of fossil fuel subsidy reforms-induced price changes on Nigerian households	Chukwuemeka Emenekwe, CCCD
12:15 – 12:45	**Breakout Group Discussion** **Guiding Questions:** 1. How can the Nigerian government effectively implement and administer progressive subsidy redistribution policies, ensuring precise targeting and support for the most vulnerable groups? 2. What strategies can be employed to continually monitor and manage these redistribution policies, ensuring they remain effective and responsive to the evolving needs of affected populations? 3. Beyond immediate financial support to the most vulnerable, what longer term revenue re-investment strategies will be most beneficial to deliver on development priorities?	Facilitators: Robert Onyeneke & Uchenna Nnamani, CCCD
12:45 – 12:55 GMT	**Reporting Back**	
12:55 – 13:00 GMT	**Closing Remarks**	Nicholas Simpson, ODI

First breakout discussion

The first breakout discussion reflected on political economy issues in the Nigerian extractive industries. The following is a summary of responses to each of the three guiding questions.

The first question ('What are the priority next steps for sector reforms building on the Petroleum Industry Act (PIA) and subsidy removal, and who is best placed to push for these as part of a 'reform coalition'?) generated discussion on the importance of political settlements in achieving energy transitions in Nigeria, the 'huge amount of distrust' among political elites and the 'ballistic' nature of oil-related issues given the short-term and transitory nature of politics in Nigeria.

First, the Nigerian central government is still dominant in petroleum sector. The 'heavy political influence' is apparent in how the Nigerian National Petroleum Company Limited (NNPC) Board and Management team are approved and appointed by President Bola Tinubu. Participants pointed to NNPC appointments of politicians who have 'no experience in oil industry or management of a major company'.

Despite the independence provisions of the Petroleum Industry Act (PIA), the sector is heavily state controlled. Participants expressed concerns that transparency and corruption issues will continue, and that the PIA is not far-reaching enough to ensure the efficient and transparent functioning of the NNPC and the sector more generally. Participants suggested the PIA can provide 'benchmarks' for the NNPC; however, many agreed that the political economy of fuel subsidy removal complicates the way forward. Outgoing President Muhammadu Buhari had planned to remove the popular but costly subsidy in 2022 as part of fiscal and petroleum sector reforms but abandoned the plan because of fears of protests in the run-up to the 2023 election.

Second, participants pointed out the need to understand the politics of NNPC as an institution, including the multi-level institutions within which the NNPC operates (i.e. at macro-, meso- and micro- levels). One participant noted the 'absurdity' of the President assuming responsibility regarding oil resources, which includes administration of a 'vast bureaucracy' and positions the President as a 'primary actor'.

The NNPC was described as having 'incredible scales of leakage', poor efficiencies and a lack of accountability and transparency. Other issues in the sector included a lack of monitoring and evaluation of NNPC's activities. Additionally, in the context of the Nigerian petroleum industry's under-recovery[2] arrangement, the NNPC and Nigerian refineries are incentivised to report

2 Under-recovery is a term used in the petroleum sector to denote the notional losses that oil companies incur due to the difference between the subsidised price at which the oil marketing companies sell certain products and the price which they should have received to meet the cost of production.

vast losses without question from civil society, which are accepted as ‘normal’. Participants emphasised the need for greater transparency in NNPC’s reporting on exporting and volumes and imported Petroleum Motor Spirit (PMS).

Third, participants suggested that civil societies and NGOs (non-governmental organisations) need to be more effective in calling government to account. One participant noted: ‘The next steps should be [improved] accountability because just yesterday the Federal Government announced that the country made over 1 trillion [Naira] as a result of the subsidy removal and there have been promises of palliative but there is no strong accountability in the real life scenario except just on paper and some faint movement here and there but in the actual sense there is no palliative going to the average Nigerian. The gain of the subsidy removal still goes to the top politicians while the poor suffer the most’.

Responses to the second question (‘Which actors can ensure revenues are recycled to support wider decarbonisation goals and consolidate support for the subsidy reform?’) highlight the need for transparency, responsibility and accountability from government and industry actors. Labour unions and civil society groups should intensify their efforts in asking government to recycle revenues into other productive sectors, so government is accountable. Government actors should work with reform actors outside of government to find an overarching position to bring government to account and demand transparency over subsidy re-establishment or continued removal.

However, by the time reforms come into effect, actors fail to provide necessary leadership to ensure continued success. One participant pointed out that the PIA has been in effect ‘for a long time before it was signed’ and expressed doubt over how strictly the PIA was followed or enforced. There was no clear consensus on what should be done to successfully maintain fossil fuel subsidy removal. Additionally, participants highlighted the politics of PIA enforcement, including ‘fights’ over political appointments to the NNPC board by the President, which further undermines the credibility of the NNPC and drew criticism of the Presidency. One participant commented that the President should ‘own up’ to the consequences of these political appointments.

The third guiding question (‘What are the risks of public support for the subsidy re-emerging? How should these be mitigated?’) linked subsidy removal to Nigeria’s macroeconomic issues and previous attempts to remove fossil fuel subsidies, and to Nigeria’s energy transition more broadly. First, participants expressed concern whether continued public support for the removal of the subsidy – which is already increasing pressure on household budgets – would be possible amidst high inflation and economic breakdown, and mitigating the larger economic situation should be the government’s priority: Nigerian ‘people have been suffering and smiling’.

One participant pointed out that the PIA did not make provision for post-removal measures for the public to recoup losses, or how subsidy revenues should be repurposed. Another echoed this statement and noted that the Nigerian government has not made a 'concerted reinvestment [reallocation]' of the subsidy revenues. Another participant suggested that the Federal Revenue Internal Service (FRIS) and Nigerian Upstream Petroleum Regulatory Commission (NUPRC) should create 'firmer policies' for palliatives and decarbonisation and should also plan Nigeria's energy transition.

Participants also commented on the weakening of institutions, which they attributed to autocratic responses to peaceful protests, including the brutalisation of protestors and increasing use of court orders to stifle protest. These were described as diminishing civil society's ability to hold government accountable. Notably, 'all three political parties' have supported subsidy removal, though the accountability and transparency arrangements needed to ensure subsidy reallocation are lacking. There is no consensus on the removal of the fuel subsidy and civil society has been unable to overcome transparency challenges to hold this arrangement to account.

Second breakout discussion

The second set of breakout groups convened to reflect on the consumption side of subsidy removal, including the distributional impacts of price increases and responses to the welfare analysis conducted by CCCD. The following is a summary of responses to each of the three guiding questions.

The first guiding question ('How can the Nigerian government effectively implement and administer progressive subsidy redistribution policies, ensuring precise targeting and support for the most vulnerable groups?') provoked discussion on defining palliatives and their effectiveness in the Nigerian context, especially to ensure interventions reach the majority of Nigerians and those most affected by subsidy removal. One participant's intervention highlights this key issue: 'What's an "effective" palliative measure? Is it a palliative (as I used to think) that is developmentally sound, well-targeted and fair value for money? So, an intervention that is good in its own right? Or is it a palliative that simply helps the subsidy remain gone (reducing the likelihood of subsidy re-emerging)? Thereby saving up to $10bn a year. Both should be important. But they are vastly different. One comes from a "development" perspective and limited to the specific intervention. The other is more political and pragmatic. Both are essential and overlap'.

This spectrum between well-designed interventions and ones that avoid subsidy reinstatement prompted further discussion on Nigeria's short- and long-term needs. Short-term palliatives identified included the procurement and distribution of clean cooking technologies for households, and the provision of CNG and electric buses to address increases in transport fares, though figures and beneficiaries were unconfirmed. One participant noted that state governors are scrambling to buy fleets of buses for workers at highly subsidised rates and that palliatives oriented toward mitigating transport costs do not reach most people in Nigeria, including communities who do not have roads. Many Nigerians in rural areas have no demand for petrol and would otherwise not be affected by the increase in petrol sticker prices; however, they are being affected by increasing bus fares. Participants also mentioned arrangements between employers and employees to reduce the number of commuting days a week to limit transportation spending. This highlights the importance that public officials are placing on remedial measures, the need to understand the limits of palliatives and the need for specific targeting of those most affected by the subsidy removal.

In the long term, participants suggested that Nigeria's public spending should move beyond palliatives on consumption to investing in a new low-carbon economy, including different solutions to rapid mass transit such as buying and replacing vehicles or job creation in the renewables sector, which could be seen as proactive and break down public resistance to the negative effects of removal. Other longer-term solutions should address livelihood concerns and revitalise Nigerian industries that have collapsed – one participant noted Nigeria's economic diversification before the development of the domestic oil industry. Nigeria's long-term planning should include social protection investments, such as better pay for teachers, school feeding programmes and basic health outreach services.

Additionally, the discussion highlighted the need to implement limits – time bounds – on spending, and opportunities for Nigeria to take the fuel subsidy discourse further to other structural issues in federal and state budgets, the quality of palliatives and finance going through the Federal Account Allocation Committee (FAAC). One participant highlighted the 'problematic' history of lump sum transfers in Nigeria, and that cash transfers have ended up in the hands of elites rather than with those in need. Another participant added that lump sum payments could result in inflation and contrasted this outcome with alternative investments in education and health, which would have more progressive macro-economic effects. There was broad agreement by participants that, considering the lack of effective transfer mechanisms, investment in productive social goods like education should be prioritised.

Participants discussed ways the Nigerian government should strategically communicate how resources for the subsidy have been redistributed, and that the government should better publicise these developments, if any. One example given was that the government had an opportunity to establish alternative power and renewables, which could increase confidence from the public.

The second question ('What strategies can be employed to continually monitor and manage these redistribution policies, ensuring they remain effective and responsive to the evolving needs of affected populations?') generated recommendations, including effective communication, data-driven policy, science-based targets and encouraging advocate groups to hold government to account. Clear monitoring, reporting and evaluation was emphasised – Nigeria 'does not have commitment to effective policy monitoring and evaluation'. Second, better 'identity management', or how to identify people who are registered to receive direct transfers, is needed to forestall double participation in palliative and redistributive interventions. The current social register was described as chaotic and is missing coordination with fuel subsidy removal policy. One participant characterised the current state of redistribution policies as lacking adequate implementation, asking how a more coordinated response might be achieved.

The third question ('Beyond immediate financial support to the most vulnerable, what longer-term revenue re-investment strategies will be most beneficial to deliver on development priorities?') prompted discussion on the overarching need for good governance and good development, and the clear reallocation of fuel subsidies towards addressing development needs. First, there is a need to strategically align Nigeria's Nationally Determined Contribution, Energy Transition Plan and current oil sector policy – core to achieving this should be economic diversification. However, Nigeria's Just Energy Transition would require addressing a backlog of environmental harms. One participant cited findings from the Bayelsa State Oil and Environmental Commission, which highlight the need for accountability and suggested that polluters should pay for oil industry damage to environments and communities. Second, although time-bound, palliatives can be considered as long-term investments. This includes creating investment taxonomies, long-term infrastructure like the provision of piped water for food and water security and strategies beyond replacing existing petrol vehicles.

Key insights from workshop discussions

Responses to the initial research presentations and guiding questions provided key insights for ODI and CCCD research. The current fuel subsidy reform provides an opportunity to shift the conversation away from dependence on fossil fuels towards building a pathway to a more resilient, production-based economy. Palliatives can be better or worse in design: some target development needs and present better-value public spending, and others address the cost increases presented by subsidy removal. This spectrum should inform better decision-making for the Nigerian government's short- and long-term planning for successful and continued subsidy removal. Political economy elements are involved at multiple scales, and understanding these would be crucial for designing solutions that span social protection, petroleum industry and governance. There is a need for more specific, technical interventions to move the needle – this includes freedom of information and greater transparency in government and the NNPC.

Greater policy coherence is needed to link the PIA with Nigeria's energy transition, specifically to link reducing reliance on fossil fuels, reducing Nigeria's emissions and aligning with domestic net-zero ambitions and align with UNFCCC ambitions to phase out fossil fuels. Policy-makers must be more targeted and strategic to repurpose subsidy revenue to enable the energy transition, backed by a commitment to do so. This requires a longer-term vision of Nigeria's economy, including economic diversification, and acknowledging that subsidy removal is needed not only to alleviate government debt, but also for achieving sustainable development. This requires greater understanding of political factors that could prevent the re-emergence of the fuel subsidy.

Appendix 4 List of key informants

1. ODI Interview 1
2. ODI Interview 2
3. ODI Interview 3
4. ODI Interview 4
5. ODI Interview 5
6. CCCD Interview 1
7. CCCD Interview 2
8. CCCD Interview 3
9. CCCD Interview 4
10. CCCD Interview 5
11. CCCD Interview 6