

BEST PRACTICES REPORT ON SUBSIDY REFORM, MITIGATION OF IMPACTS FROM KEROSENE SUPPLY CHAIN DISRUPTION

Despite policy pronouncements in 2009, heralding the removal of kerosene subsidy removal by the government of Nigeria, it is clear kerosene subsidy has in many ways, continued by successive governments since 2009¹. This is because policy and regulatory uncertainties, as well as deliberate mismanagement of the removal process foiled official attempts to remove the kerosene subsidy and as a result Nigeria' payment of these subsidies continued to rise over the year². As Spaces4Change a social advocacy group which has done significant work on the issue of kerosene subsidies reports, there is a price modulation in place that gives the government some leeway to adjust domestic product prices to reflect minute changes occurring in the international oil price market.³ This is coupled with the fact that despite a policy shift in 2009, removing subsidies on Kerosene, it is clear that subsidy payments continued at least up until 2015.⁴ Spaces4Change reports a statement made by the Nigerian Senate on the amount paid for kerosene subsidy to be “more than double of the aggregate annual budget for education, health, roads, security and agricultural sectors” and only less “than 10 per cent of Nigerians benefit from this heartless massive scheme that drains the nation's treasury.”⁵

It is also evident from the conundrum surrounding the issue of kerosene subsidy, that the lack of complementary policies remains insufficient to address the issues of productive use of the product, particularly for lighting. The kerosene subsidy regime in place in Nigeria neither lead to lower prices, nor made the product easily available, therefore, taking the benefits the subsidies farther beyond the reach of the poor it intended to target. Women were most impacted by this trend of cost and unavailability and the subsidies itself created a whole new layer of problems centered diversion and product adulteration.⁶

¹ Punch Newspapers (2016) Stop kerosene subsidy scam. Available from: <https://punchng.com/stop-kerosene-subsidy-scam/>

² NNPC (2014) Press Release - Petroleum Minister Says No Gazette on Withdrawal of Kerosene Subsidy. Available from:

<http://www.nnpcgroup.com/PublicRelations/NNPCinthenews/tabid/92/articleType/ArticleView/articleId/497/PRESS-RELEASE--Petroleum-Minister-Says-No-Gazette-on-Withdrawal-of-Kerosene-Subsidy.aspx>

³ Spaces4Change (2016) Policy Brief - Kerosene Subsidy Reform and the Burden of Supply. Available from: <http://www.spacesforchange.org/wp-content/uploads/2016/08/Policy-Brief.-Kerosene-Subsidy-Reform-and-the-Burden-of-Supply.-July-2016.pdf>

⁴ Opara, S., Nnodim, O., Asu, F. (2016) \$1bn spent on kerosene subsidy in 2015 – Osinbajo. Punch newspaper. Available from: <https://punchng.com/1bn-spent-kerosene-subsidy-2015-osinbajo/>

⁵ Spaces4Change (2015) Policy Brief. pp. 3, 4 as retrieved from 2014 Lead debate paper in support of a motion in the Nigerian Senate sponsored by Senator Babajide Omoworare (Osun East), titled: 'Urgent Need to Stop N700 million a day Illegal Kerosene Subsidy'. See also: OnyediOjiabo, Senators Oppose N700m Daily Withdrawal for Kerosene Subsidy, February 21, 2014, <http://thenationonlineng.net/senators-oppose-n700m-dailywithdrawal-for-kerosene-subsidy>

⁶ Op cit. Spaces4Change (2016)

The potential for off-grid solar lighting in Nigeria is quite high⁷ and small pico solar has an immense potential for scale particularly in rural and peri-urban communities.⁸The Federal Government launched its energy mix prospectus which targets 18% renewable energy generation by 2018 and 20% by 2020.⁹ This has also been approved and provides a holistic plan for off-grid electrification in underserved communities in the country.¹⁰

Nigeria has a set of policy tools at its disposal to accelerate the adoption of off-grid lighting: taxes and tariffs incentives, subsidy on alternatives, quality control and technical assistance. The most important of these tools is removing subsidy on alternatives such as kerosene which will offset the effect of implementing tariffs and tax incentives as well as provide financing for technical assistance.¹¹

Several studies and reports support the findings that the reduction or elimination of import duties will enable companies import solar products as individual components and assemble in-country, lowering labor and transportation costs and ultimately, price.¹² This will allow Nigeria as the potentially the largest off-grid lighting market in Africa to take a chunk of the 1.8 million jobs the full-penetration of these technologies in sub-Saharan Africa is projected to create, or about 30 jobs per 10,000 people living off-grid, according to an estimate from UNEP.¹³

Previous subsidy reform attempts in Nigeria and why they failed

Fuel subsidies were introduced in Nigeria in 1973 to provide uniform pricing for fuel products across the country irrespective of associated transportation and cost differences.¹⁴ The first subsidy was provided at 35.7% which was then reduced to 2% in 1978 as the international price of crude oil rose from \$3/bbl to \$14.10 per barrel.¹⁵ The

⁷ Nwoke, O. (2014). Summary of Activities at the National Centre for Energy Research and Development (NCERD), University of Nigeria, Nsukka. Presentation at ECOWAS Solar Thermal Energy Capacity Building and Demonstration Programme, 13 -14 June 2014, Praia, Cape Verde. As cited in Maarit Virtanen (2014) (ed.) - Identifying Possibilities and Building Networks for Renewable Energy in Nigeria, Kenya and South Africa: Connect Project Experiences. Lahti University of Applied Sciences Lahti .

⁸ ibid

⁹ SE4All, ECOWAS (2016) Nigeria: Sustainable Energy for All Action Agenda & Investment Prospectus (SE4ALL-AA&IP) Implementation. Available from: https://www.se4all-africa.org/fileadmin/uploads/se4all/Documents/Abidjan_workshop_2016/3_YABO_Nigeria.pdf

¹⁰ibid

¹¹Lighting Africa (2013) Lighting Africa Market Trends 2012: Overview of the Off-Grid Lighting Market in Africa Available from: https://www.se4all-africa.org/fileadmin/uploads/se4all/Documents/Abidjan_workshop_2016/3_YABO_Nigeria.pdf pp.84

¹² Taylor, M. (2017) The Solar Boom. Here today or coming tomorrow. Available from: <https://costing.irena.org/media/10329/TAYLOR-The-Solar-Boom-presentation-June-10.pdf>. See also IRENA (2017) The Power to Change: Solar and Wind Cost Reduction Potential to 2025. Available from: http://www.irena.org/DocumentDownloads/Publications/IRENA_Power_to_Change_2016.pdf

¹³Africa Progress Panel (2016) Electrifying Africa. Available from: http://www.africaprogresspanel.org/wp-content/uploads/2017/03/APP_Lights_Power_Action_Web_PDF.pdf p. 42

¹⁴ Adekinjiju, A. (2012) Phasing Out Fuel Subsidies in Nigeria. Oxford Energy Forum.

¹⁵Soile, I., Mu, X. (2015) Who benefits from fuel subsidies? Evidence from Nigeria. *Energy Policy*, 87, pp. 314-324

price of fuel products has undergone numerous increases and reductions as the international price of crude oil has also risen. The price of kerosene rose from \$0.01/litre in 1990 to \$0.32/litre in 2012; that of petrol from \$0.05/litre to \$0.62/litre in the same time period while that of diesel from \$0.05/litre to \$0.80/litre in the same time period (Soile & Mu, 2015).¹⁶ In 2008, subsidy on diesel was removed while those on petrol and kerosene were maintained.¹⁷ In 2012, attempts to remove the subsidy on petrol were fiercely resisted by massive nationwide protests.¹⁸ This resulted in an increase in price for petrol (or reduction in subsidy) while kerosene was more heavily subsidized.¹⁹ The attempt at removing subsidy failed mainly because there was a lack of trust in government to invest the savings, a lack of communication with citizens and the absence of palliatives to cushion the effect of the removal of the subsidy.²⁰

Case studies of subsidies in other countries – Subsidy reform and elimination vs. recommendations.

Numerous countries in the past few years have deregulated their fuel markets by eliminating or reducing subsidies and allowing for free market pricing, taking advantage of the recent low international crude oil prices.²¹ Indonesia in 2005 launched a cash transfer scheme to compensate for raising product prices by an average of 114%, even though new levels were below international market prices.²² Senegal encouraged a shift to cleaner fuels using cash transfers through existing structures such as retirement homes, hospitals and schools to distribute transfers via payments through banks, post offices or private companies.²³ Malaysia introduced a smart card system for public transport vehicles and fishing boats.²⁴ Iran in 2010 used a coherent reform policy of

¹⁶ ibid

¹⁷Op cit. Adekiniju, A. (2012)

¹⁸Adam, N. (2012) Nigerians Protest Rise in Oil Prices. The New York Times. Available from: <https://www.nytimes.com/2012/01/10/world/africa/nigerians-protest-oil-price-rise-as-subsidies-end.html>

¹⁹Op cit. Soile, I., Mu, X. (2015)

²⁰ Ogbu, O.(2012). The Removal of Oil Price Subsidy in Nigeria: Lessons in Leadership and Policymaking in a Trust-Deficit Environment. The Brookings Institution. Available from: <https://www.brookings.edu/opinions/the-removal-of-oil-price-subsidy-in-nigeria-lessons-in-leadership-and-policymaking-in-a-trust-deficit-environment/>

²¹Chopra, A., Kloskowska, A. (2016). Impact of gasoline and diesel subsidy reforms: India case study. Energy Insights by McKinsey. Available from: <https://www.mckinseyenergyinsights.com/insights/impact-of-gasoline-and-diesel-subsidy-reforms-india-case-study/>

²²C. Beaton, C., Lontoh, L. (2010). Lessons learned from Indonesia's attempt to Reform Fossil Fuel Subsidies. Global Subsidies Institute (GSI), International Institute for Sustainable Development (IISD). Available from: https://www.iisd.org/pdf/2010/lessons_indonesia_fossil_fuel_reform.pdf

²³Laan, T., Beaton, C., Presta, B. (2010) Strategies for Reforming Fossil-Fuel Subsidies: Practical Lessons from Ghana, France and Senegal. Global Subsidies Institute (GSI), International Institute for Sustainable Development (IISD). Available from: <https://www.iisd.org/library/strategies-reforming-fossil-fuel-subsidies-practical-lessons-ghana-france-and-senegal>

²⁴Bacon, R., Kojima, M.(2006) Phasing Out Subsidies: Recent Experiences with Fuel in Developing Countries. Public Policy for the Private Sector, Viewpoint Note 310. Available from: <https://www.iisd.org/library/strategies-reforming-fossil-fuel-subsidies-practical-lessons-ghana-france-and-senegal>

defining objectives, legislation, reducing inflation, setting up a cash transfer system (which involved identifying beneficiaries and arranging physical distribution), a public relations campaign and addressing various industry concerns. This allowed them to increase energy prices up to 20 times.²⁵

Ghana implemented a massive public relations campaign to inform and educate the citizens on how low their fuel prices were in the West African sub-region. This was coupled with the immediate elimination of fees at government-run primary and junior secondary schools and a programme to improve public transport and convinced the public to accept fuel price increases.²⁶ Brazil used a phased approach to remove subsidies in order to minimize opposition from interest groups. It started with the removal petroleum products used by few consumers (e.g. asphalt, lubricants) and moving progressively to widely used products (e.g. gasoline, diesel, fuel oil and LPG). The first products to lose subsidies were generally used by politically weak stakeholders, while the politically more difficult subsidies were removed later. Subsidies for the supply of fuels to the thermal power plants of Amazonia, a politically sensitive issue regionally, were maintained for a period of ten years.²⁷

²⁵ Guillaume, D., Zyteck, R., Reza, M.F. (2011). Iran – The Chronicles of the Subsidy Reform. International Monetary Fund. Available from: <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Iran-The-Chronicles-of-the-Subsidy-Reform-25044>

²⁶ Op cit. Laan, T., Beaton, C., Presta, B. (2010)

²⁷ Oliveira, A., Laan, T. (2010). *Lessons Learned from Brazil's Experience with Fossil-Fuel Subsidies*. Global Subsidies Institute (GSI), International Institute for Sustainable Development (IISD). Available from: https://www.iisd.org/pdf/2010/lessons_brazil_fuel_subsidies.pdf