



COMPENSATION MECHANISMS FOR FUEL SUBSIDY REMOVAL IN NIGERIA

What is the problem?

- ▶ The Petroleum Motor Spirit (PMS) subsidy was introduced to alleviate high fuel costs in Nigeria, promoting economic growth, industrial development, and equity.
- ▶ However, the subsidy policy in Nigeria has been criticized about its success, despite initial myths.
- ▶ The subsidy is financed through public debt, causing depreciation and inflation. (See Fig. 1)
- ▶ Also, the policy is unequal, with the poorest 40% of Nigerians using less than 3% of PMS.
- ▶ Hence, the Nigerian Federal government has ended the subsidy regime due to fiscal constraints and policy failure, with the aim of reallocating proceeds to structural reform.
- ▶ While subsidy removal may improve efficiency and macroeconomic dynamics, initial shocks could have negative effects without appropriate interventions.
- ▶ In the long term, fuel price adjustments will follow the same process as other normal commodities, similar to liberalized sectors like telecommunications.
- ▶ Nonetheless, the effects need to be cushioned/compensated for.



How can it be cushioned?

To address the immediate impacts of subsidy termination in Nigeria, the following compensation mechanisms can be considered:

- ▶ Transport vouchers for students and civil servants
- ▶ Mass Transit Scheme for urban and rural workers, commuters, and transport providers
- ▶ E-wallet for smallholder farmers
- ▶ Cash transfers for education for New enrollees from poor households, including vulnerable groups
- ▶ Universal Health Coverage for vulnerable populations
- ▶ Youth employment and skill acquisition
- ▶ Institutional Framework:
 - Use existing MDAs for implementation.
 - Establish a Subsidy Reinvestment Monitoring Board (SRMB) for oversight.
 - Ensure each program has a coordinating department and primary agency.
 - Conduct periodic impact evaluations.

(See Table 1 for Institutional Framework for Implementation)

Table 1: Institutional Framework for Implementation

S/N	Compensation Programme	Coordinating Agency	Principal Implementing Agencies	Programme Monitoring
1	Free Universal Basic Education	Universal Basic Education Commission (UBEC)	SUBEB, LGEAs; Primary Schools and JSS	Federal Ministry of Education; Federal Ministry of Finance, Budget & National Planning
2	Universal Health Coverage	National Health Insurance Scheme (NHIS)	Federal, State, and Local government health authorities; Accredited public and private health centers, HMOs, Insurance companies, Commercial banks	Federal Ministry of Health; Federal Ministry of Finance, Budget & National Planning
3	Youth Employment and Skills Acquisition Programme	Directorate in the Office of the Vice President		Federal Ministry of Labour & Employment; Federal Ministry of Finance, Budget & National Planning

NISER to conduct periodic impact evaluations of the programme

Figure 1: Fuel Subsidy and Price Dynamics

