



## Fuel Subsidy Reform and the Social Contract in Nigeria: A Micro-economic Analysis

Summary of ICTD Working Paper 104 by Neil McCulloch, Tom Moerenhout and Joonseok Yang

Fuel subsidies in Nigeria are enormous. At last estimate, the state subsidises gasoline to the tune of USD 3.9 billion — almost double the entire health budget. Subsidies exist because the government fixes the price of gasoline for consumers below the international price and uses government resources to pay for the difference. They were first introduced in Nigeria in the 1970s as a response to the oil price shock in 1973. However, despite numerous attempts at reform, Nigeria has never successfully removed gasoline subsidies, in large part due to strong popular opposition to reform.

Such subsidies come at great cost: spending on other development objectives is lower; the distribution of resources to the state governments is reduced; the vast majority of the subsidy goes to better off Nigerians; and cheaper gasoline encourages greater pollution, congestion and climate change. Despite this,

our survey indicates that 70 per cent of Nigerians oppose the reduction or removal of subsidies.

### What determines support for gasoline subsidy reform?

Our paper draws on a nationally representative household survey that asked 16,000 Nigerian men and women about their knowledge and attitudes towards subsidies. We construct and test a set of hypotheses about the determinants of support for subsidy reform. The literature has mentioned a number of factors explaining why certain citizens are inclined (or not) to support (or oppose) subsidy reform. These factors include economic factors such as the level of consumption and price paid, trust in government, satisfaction with services, social and personal norms, as well as awareness of and knowledge about the subsidy. We tested the following hypotheses:

“Nearly all participants agreed about the fundamental value of petrol in Nigerian society, and how previous price increases had caused a negative impact amongst Nigerian households.”

Explanatory Category	Hypotheses tested
Neoclassical	1. People who pay more for fuel are more likely to support reform 2. People who suffer more from problems of availability are more likely to support reform
Trust in government	3. People with a higher trust in government are more likely to support reform 4. People who support the current President (who has opposed reform) are less likely to support reform
Reciprocity & fiscal exchange	5. People who are satisfied with services are more likely to support reform 6. People who have noticed an improvement in services are more likely to support reform
Social & personal norms	7. People who believe citizens need to contribute for the country to develop are more likely to support reform 8. People who are more religious are more likely to support reform
Knowledge & complexity	9. People that understand that a subsidy exists are more likely to support reform

We find that traditional neoclassical factors appear to be associated with support for reform. Where customers are charged more than the regulated price, or where they have experienced a lack of fuel, they tend to be in favor of reform. Trust in government is also associated with support for reform, as is delivery of reasonable national and local services, supporting the idea that building the ‘social contract’ is important. Social norms, such as support for taxation, and personal norms, such as active participation in religious groups, also appear correlated with support for reform. Intriguingly, actual knowledge about subsidies is not – people appear to form their opinions on the issue regardless of their understanding of it.

### **Can a simple intervention with factual information change people’s minds?**

Besides verifying correlates of support for gasoline subsidy reform, we also use a survey experiment to explore how different framings of the issue influence support for reform. Besides one control group, we tested four different information interventions, related to (1) the distribution of the benefit of the subsidy, (2) the alternative use of funds, (3) the availability of fuel, and (4) oil nationalism. None of these alternative framings show any statistically significant effect on support for subsidy reform. This is not surprising - it would be remarkable if a short information intervention was able to alter long-held views on a controversial issue.

**“Wider measures to build trust in government and to strengthen the social contract are likely to help in making subsidy reforms more feasible.”**

Focus group discussions supported this point. Nearly all participants agreed about the fundamental value of petrol in Nigerian society, and how previous price

increases had caused a negative impact amongst Nigerian households.

While focus group participants discussed issues such as the poor state of refineries, the distribution of benefits, and the availability of fuel, their opposition to reform seems to not necessarily be about the reduction of subsidies, but rather about maintaining the current price level. Some

impacts of low prices such as the poor state of refineries are then primarily linked back to corruption, rather than the current gasoline price.

### **The key policy implications**

Nonetheless, our results provide some pointers for policymakers designing policy reforms. Policy should strengthen the voice of those that have a natural support for reform, such as those experiencing high prices or shortages. At the same time, wider measures to build trust in government and to strengthen the social contract are also likely to help in making subsidy reforms more feasible. Information campaigns that aim to inculcate norms – for example about the importance of paying tax – also appear to strengthen support for reform. Our results also suggest that, while improving knowledge about the existence of fuel subsidies may seem to be a logical first step, it is neither necessary, nor sufficient, for increasing support for reform.

### **Further reading**

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### **Credits**

**Neil McCulloch** is Director of The Policy Practice and an Associate Fellow at the Institute of Development Studies, Brighton, UK.

**Tom Moerenhout** is a Professor at Columbia University and Senior Associate at the International Institute for Sustainable Development.

**Joonseok Yang** is a postdoctoral fellow at the University of California, Irvine.

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