



Fuel subsidy reform in Nigeria

The removal of Nigeria's fuel subsidy in 2023 delivered important fiscal gains, but the costs have reached households faster than the benefits. Continued hardship and the approaching elections could increase pressure for policy reversal. Making reform last will require making fiscal gains visible to citizens, using political power to curb elite excess, delivering credible relief and creating stronger incentives to sustain reform.

Afolabi Adekaiyaoja, Kenekchukwu Nwagbo and Cameron Thibos

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Practical insights

- **Nigeria has been trapped in a cycle of subsidy removal and reversal.** Fuel subsidies are costly, regressive and vulnerable to abuse, yet attempts to remove them have stalled or been reversed under political pressure. The survival of the latest reform is not guaranteed. Breaking the cycle requires understanding and tackling the political interests that sustain it.
- **Fuel subsidies served elite interests.** They created opportunities to distribute oil rents, reward allies and maintain political support. Importers exploited reimbursement systems and the NNPC enjoyed considerable discretion over its transfers into the Federation Account. Subsidy removal threatened these established sources of influence and financial gain.
- **Cheap fuel also served the interests of citizens.** In a country with weak services and limited social protection, ordinary people had come to regard subsidised fuel as their rightful share of the country's oil wealth. Removing it threatened a tangible benefit, and so popular resistance repeatedly reinforced the elite's self-serving opposition to reform.
- **The latest reform delivered fiscal gains faster than social dividends.** Subsidy removal has increased revenues available to federal and state governments, but improvements in household welfare are hard to see. The failure to turn higher revenues into tangibly better living standards could strengthen demands to restore the subsidy.
- **The changing political and economic landscape offers an opportunity to break the cycle.** Higher revenues give elites good reason to sustain removal, and the ruling party's growing dominance creates capacity to coordinate reform. Changes to the NNPC and the emergence of domestic refining have also created new pro-reform interests. These could strengthen support for lasting reform if the gains are used for development rather than more patronage.

Practical propositions

Reformers need to change political incentives to break Nigeria's removal–reversal cycle.

1. Embed subsidy politics into policy design and implementation
2. Be frank about corruption – and show the receipts
3. If you can remove subsidies, you can tackle elite excess
4. Leverage political capital to gamble on development
5. Change the subsidy story: a working Nigeria should not need one
6. Relief before reform – get ahead of the pain
7. Shrink the reversal coalition

I. THE PROBLEM

Nigeria is Africa's largest oil exporter, yet until recently it spent billions every year to subsidise the cost of imported fuel. For decades, Nigeria's subsidy regime relied on private marketers importing petrol at international market prices and selling it domestically at a lower, government-approved price. The government then reimbursed them for the difference.

In principle, this arrangement was intended to ensure a stable supply of affordable fuel. In practice, it was hugely costly, and its complex calculations and verification processes created opportunities for abuse. A parliamentary investigation in 2012 uncovered widespread fraud within the reimbursement system, including inflated import volumes, duplicate claims and payments for fuel that was never delivered.¹

Between 2005 and 2021, Nigeria spent around \$74.4bn (₦13.7tn) on fuel subsidies.² It spent \$9.7bn (₦4.39tn) in 2022 alone – more than twice what it received in official development assistance that year.³ In a country with large domestic oil reserves, one of the largest populations of poor people in the world (one in three Nigerians live in extreme poverty) and substantial flows of international aid (\$4.54bn net official development assistance in 2022, the second highest in sub-Saharan Africa that year), this vast resource could have been better spent elsewhere.⁴

Nigerian governments have long recognised fuel subsidies as a problem. There have been repeated attempts to remove them, including in the 1980s under General Ibrahim Babangida, in 2012 under President Goodluck Jonathan and in 2021–22 under President Muhammadu Buhari. But these all stalled or were reversed in the face of political pressure.⁵

Now it is President Bola Tinubu's turn. In May 2023, he proclaimed that 'the fuel subsidy is gone', marking the most decisive intervention to date. By this point, subsidy reform wasn't just a fiscal necessity. Improved transparency and accountability in the overall management of petroleum revenues were needed as well. This was due to the evolution of the subsidy system itself.

Over time, foreign exchange shortages and delayed reimbursements drove private actors out of the Nigerian market. This left the Nigerian National Petroleum Company (NNPC) with a monopoly over fuel importation. Administrative control of the subsidy also shifted to the NNPC. It began to self-reimburse, directly deducting costs from crude oil revenues before remitting them to the country's Federation Account (a process known as 'under-recovery').⁶ This new process curtailed some earlier forms of abuse. But it made the true cost of the subsidy harder to track.

As subsidy costs rose, state governors, bureaucrats, development partners and transparency advocates became increasingly concerned about a system that obscured its full cost while reducing revenues available for distribution by the Federation Account Allocation Committee (FAAC).⁷ It was against this backdrop that President Tinubu moved to end the subsidy regime.

The reform-reversal loop

Three years later, this reform is now also struggling to survive the removal-reversal policy loop. The fiscal benefits of reform have been accompanied by rising transport costs, food prices and inflation – the same pressures that undermined previous removal attempts. Some parts of the reform have already been undercut in some states, and a wholesale rollback remains a threat.

Pressure to reverse the reform derives from the interests and incentives of many different groups. For example, Nigerian citizens see cheap (ie subsidised) petrol, which has existed in some form since the 1970s, as a core part of the social contract.⁸ They support politicians who provide it, and protest those who try to take it away.⁹ Millions suffer real hardship when subsidised fuel disappears without compensatory welfare measures in place.

On the other side, politicians have long seen the fuel subsidy as a fundamental part of democratic competition. It can be a mechanism for patronage, a source of electoral support and a safety valve for managing popular discontent. Many officials also personally benefitted from the subsidy

system. Leakage and graft were common – the NNPC has been described by informed observers as both ‘a complete mystery’ and ‘the ATM machine of any president’ – and those involved also lose out if the subsidy stays removed.¹⁰

Nonetheless, it is self-evident that the fuel subsidy was unsustainable. Nigeria has one of the lowest revenue-to-GDP ratios in the world; despite recent improvements, total revenues and grants hover in the low-to-mid teens.¹¹ Meanwhile, the fuel subsidy regularly exceeded the total budget allocations of other major sectors. In 2022, the federal budget allocated more to the petrol subsidy than to education, health and social protection combined.¹² Nigeria spent around \$15 per person a year on the subsidy, against roughly \$6 on education and \$4 on healthcare.¹³

Underspending in these other sectors is detrimental to the country’s poor. A sixth of the world’s under-5 child mortality is in Nigeria, and an average child receives only five years of effective schooling – against 8.5 in Kenya.¹⁴ The World Bank estimates that with adequate food, schooling and healthcare, Nigerian children would grow up to be 2.8 times more productive.¹⁵ The subsidy was also regressive, benefiting the richest 20% four times as much as the poorest 20%.¹⁶

Under-recovery refers to the way NNPC paid for the fuel subsidy. NNPC’s main task is to sell Nigerian crude oil on global markets and transfer the revenue into the Federation Account (a central pot used to fund all levels of government). Historically, NNPC has also been the main (and often sole) importer of petrol, which it bought at market prices and then resold domestically at a lower, subsidised rate. To cover the costs of this subsidy, NNPC could have transparently submitted receipts to the government for reimbursement, or received an annual allocation in the government’s budget. Instead, it self-reimbursed. NNPC calculated the cost of the subsidy internally and deducted it directly from crude oil revenues before sending funds to the Federation Account. This opaque process is known in Nigeria as **under-recovery**.

The fuel subsidy was also vulnerable to exchange rate fluctuations and the whims of the global oil market. These external factors could suddenly increase the cost of the subsidy beyond the state’s control. Finally, the subsidy also created arbitrage opportunities with neighbouring countries: fuel could be resold across the border at a higher price. Black market vendors in Cameroon, Benin and Togo relied for years on smuggled Nigerian petrol, a trade that collapsed when the subsidy was scrapped in 2023. This smuggling market reduced the subsidy’s efficiency and undermined its intended effect.¹⁷ Removal has delivered clear fiscal gains, including greater stability, improved federal revenues and the reduction of cross-border arbitrage.

The emergence of domestic refining capacity offers a route to making these gains durable. The 650,000-barrel-per-day Dangote refinery met nearly 80% of domestic petrol demand by April 2026, transforming a downstream sector that had been import-dependent for decades.¹⁸ It has also reduced Nigeria’s vulnerability to exchange rate and global price shocks. S&P Global cited increased refining capacity and rising hydrocarbon exports as factors behind Nigeria’s first sovereign credit rating upgrade in 14 years.¹⁹

It is important not to lose these gains. But despite strong economic logic, reform-minded policymakers and partners must navigate a diverse coalition of actors to escape the removal-reversal loop and achieve durable reform. A thorough understanding of fuel subsidy politics in Nigeria, including the interests and incentives of the players involved, makes this task easier.

II. THE PLAYERS

The removal-reversal policy loop is sustained by a configuration of players whose interests, power and institutional positions shape whether reform proceeds or collapses. Influential players are part of Nigeria’s political, economic and bureaucratic elite, and the subsidy system historically provided opportunities to maintain power, distribute oil rents and secure political support. Yet

the politics of subsidy reform cannot be reduced to a simple conflict between elites and citizens, especially when the latter benefit from and expect cheap fuel.

Presidency

The Presidency sets the broad direction of fuel pricing policy and retains ultimate authority over whether to remove or reinstate subsidies. Fuel pricing decisions have high political visibility, and control over pricing announcements, compensation measures and savings allocations gives the executive branch considerable discretion. Presidents Obasanjo (1999–2007), Buhari (2015–23) and Tinubu (2023–present) all kept petrol under their control.

Fuel subsidies create asymmetric risks for presidents. Reform signals macroeconomic discipline and improves the country's finances, but the benefits for ordinary Nigerians take time to appear. The political impact of higher prices, on the other hand, is immediate.²⁰ This asymmetry is central to the removal–reversal trap. Presidents who remove subsidies risk backlash and protests. Those who avoid the issue face no comparable political penalty, despite perpetuating fiscal pain.

Ministry of Finance and Central Bank of Nigeria

Key technocratic positions within the federal executive also shape reform dynamics. Finance ministers have historically been among the strongest advocates for subsidy removal, viewing it as essential to fiscal consolidation.²¹ The governor of the Central Bank of Nigeria, meanwhile, exerts influence by setting monetary and exchange rate policies (naira depreciation directly raises the cost of importing fuel). The central bank's control over access to foreign exchange is a further, more direct lever. Because imported fuel is priced in dollars, only those with forex can participate in the import market. These two levers give the central bank governor influence over the cost of the subsidy and who benefits from the trade.

That said, technocratic decisions are constrained by the political calculations of the Presidency and other political elites. Their concerns and interests may override fiscal logic, particularly when the threat of unrest becomes acute. Also, despite having technocratic expertise, such appointees may lack the requisite political base to push through or even make a case for such reforms.

Federation Account Allocation Committee (FAAC)

Nigeria's oil and non-oil revenues are pooled and shared through the Federation Account Allocation Committee (FAAC). The committee meets monthly and brings together representatives of all three tiers of government. It is chaired by the federal minister of finance and includes the finance commissioners of all 36 states, the accountant-general of the federation and representatives of other institutions involved in collecting and monitoring public revenue. The officials around the table share an interest in maximising inflow into the Federation Account. As a result, FAAC has openly criticised the Nigerian National Petroleum Company (NNPC) and its practice of under-recovery, which reduced the amount transferred to the account and thus what could be redistributed further. Alongside the Ministry of Finance, the FAAC has historically pushed the NNPC to transfer all revenue first, and then submit verifiable subsidy bills afterwards.²²

National Economic Council (NEC)

The National Economic Council (NEC) is a constitutional body comprising state governors and the central bank governor, chaired by the vice president. State governors have used NEC as a national platform to challenge under-recovery and its erosion of allocations to states. Their pro-reform position is significant, as it highlights how state interests and citizens' interests can diverge when it comes to fuel subsidies (reform raised household costs, but it also raised state revenue).²³

Nigerian National Petroleum Company Limited (NNPC)

The Nigerian National Petroleum Company (NNPC) Limited was the single most important institutional actor in Nigeria's fuel subsidy system. Reconstituted as a commercial entity under

the Petroleum Industry Act (PIA) of 2021, NNPC remains wholly owned by the federal government and sits at the intersection of oil production, fuel supply and government finance. Its CEO is appointed by the president and, despite commercialisation, serves at presidential discretion.

NNPC produces and markets crude oil, supplies petroleum products and manages a significant share of the revenues generated by Nigeria's oil sector.²⁴ Because fuel subsidies are ultimately financed from oil revenues, NNPC occupies a pivotal position linking the revenue-generating side of the petroleum economy to domestic fuel pricing.

NNPC's institutional incentives have historically favoured the subsidy's continuation, as under-recovery allowed it to retain control over a substantial share of oil revenues. Removal threatens NNPC's institutional autonomy and its capacity to allocate resources with minimal scrutiny. A February 2026 executive order addresses this practice directly, by requiring oil and gas revenues to be remitted to the Federation Account rather than retained by NNPC as fees and funds at source. Whether this actually happens will be a critical test of reform durability.

Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA)

The Petroleum Industry Act of 2021 reorganised the sector's regulatory architecture.²⁵ It abolished the Petroleum Products Pricing Regulatory Agency (PPPRA) and the Department of Petroleum Resources, redistributing their functions to two new bodies: the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), which oversees exploration and production, and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), which oversees refining, distribution and pricing. PPPRA was, until it was abolished, the institutional embodiment of administered pricing. It set and policed the regulated pump price, the mechanism through which the subsidy operated. Dissolving it removed the bureaucratic machinery of price control and signalled, at least on paper, a shift towards market-determined pricing.

NMDPRA now holds the levers that determine whether reform sticks.²⁶ Under the PIA it is mandated to deregulate premium motor spirit (petrol) pricing, allow price competition, phase out the Petroleum Equalisation Fund, end transportation levies and enforce third-party access and rules against commercial malpractice.²⁷ Each of these is a building block of a deregulated market, and the pace at which the authority issues and enforces them effectively sets the speed and durability of reform. NMDPRA's interests lean towards subsidy removal, in the sense that its statutory purpose is to administer deregulation. An authority created to regulate competition has little institutional rationale for restoring price controls.

But deregulation on paper is not the same as deregulation in practice, and NMDPRA's decisions can pull in both directions. The clearest example is import policy. The authority's decision to relax restrictions on imports, even as domestic refining capacity grew, prompted the Dangote Refinery to take legal action on the grounds that import approvals undermined local refining and the objectives of the PIA. How NMDPRA deals with conflicting interests – in this case established importers vs domestic refiners – shapes whether the post-subsidy market consolidates around local supply or remains exposed to external dynamics. NMDPRA tilts toward reform, but sustainability depends on how NMDPRA exercises the discretion that the PIA gives it.

National Social Safety-Nets Coordinating Office (NASSCO)

Nigeria's present social safety net architecture is still nascent. The National Social Safety-Nets Coordinating Office (NASSCO) was established in 2016 and was built with support from the World Bank-financed National Social Safety Nets Project (NASSP). NASSCO's steering committee is chaired by the vice president and comprises ministers from relevant federal ministries, two legislative representatives and civil society representatives. It is funded primarily by the federal government with World Bank support.

NASSCO maintains the National Social Register and coordinates interventions across federal and state levels.²⁸ Actual cash transfers are disbursed by a separate entity, the National Cash Transfer Office, which pays beneficiaries through payment service providers. Delivery is decentralised by design: each participating state must establish a State Operations Coordinating Unit and a State Cash Transfer Unit to qualify for support, so capacity to deliver varies widely with a state's wealth and the political priorities of its governor.

Paradoxically, social protection agencies may be among the actors most likely to benefit from subsidy removal, since the stated rationale for reform has consistently been to redirect savings toward social spending. Effective subsidy reform could substantially expand NASSCO's mandate, budget and institutional authority. However, the agency's current weaknesses (incomplete and uneven enrolment, and low bureaucratic capacity in some states) make it poorly positioned to deliver the rapid, credible compensation that would be needed to prevent reform reversal.

State governors

Democratically elected state governors are pivotal brokers of reform durability. Nigeria has 36 states and the Federal Capital Territory, of which around ten are significant oil producers.²⁹ These oil-producing states receive additional revenue through the 13% derivation principle enshrined in the constitution, giving them a distinctive stake in how petroleum revenues are managed.³⁰

All states benefit from fuel subsidy reform, as this increases the amount of overall revenue redistributed by the FAAC. But the budgets of non-oil-producing states, particularly in the north, are more dependent on FAAC transfers than oil-rich states. They have a greater structural interest in growing the FAAC than their oil-rich neighbours. What is good for state budgets is not, however, necessarily good for state politics. Subsidy reform raises prices, and governors must contend with their citizens' anger and suffering despite having no direct control over the price of fuel themselves. Their state's capacity furthermore limits their ability to offer citizens compensation and support during the transition.

Fuel importers and marketers

Fuel importers and marketers were formerly an influential cluster in subsidy debates. The subsidy created a parallel revenue stream for well-connected downstream actors, as it paid distributors and importers the difference between the regulated pump price and the landed cost of imported product. This mechanism also created space for fraud, including claims for fuel never delivered, foreign exchange drawn for imports never made, and overcharging of the government.³¹

Key importers included Oando, Forte Oil (now Ardova), Conoil and MRS Oil Nigeria, whose owners and executives included some of the country's most prominent business elites. These importers operated alongside a wider field of more than 140 PPPRA-certified importers. They exercised influence through industry associations – including the Major Oil Marketers Association of Nigeria (MOMAN, now the Major Energies Marketers Association of Nigeria) and the Independent Petroleum Marketers Association of Nigeria (IPMAN) – and could disrupt supply by reducing or suspending imports when reimbursements were delayed.

The interests of downstream actors are not uniform. Established marketers had a substantial commercial stake in the reimbursement system as large sums of their capital could be tied up in importing petrol, leaving them dependent on government honouring verified subsidy claims. This commercial dependence did not necessarily make them opponents of subsidy reform. Some publicly supported deregulation and subsidy removal while simultaneously demanding payment of outstanding reimbursement claims.³² However, the weaknesses of the reimbursement regime created another constituency who had a much clearer material interest in resisting reforms that threatened access to subsidy-related rents. For example, the 2012 parliamentary investigation into the subsidy regime found widespread false claims and payments for products that were never supplied, and the chairman of the ad-hoc committee reported pressure from both oil marketers and government officials to influence the outcome of the final report.³³

The power of this bloc has since declined. Low access to foreign exchange has largely sidelined these operators since the 2010s. But they are waiting for an opportunity to return. The 2021 PIA and the May 2023 announcement were both (unsuccessful) attempts to break NNPC's import monopoly and reintroduce private importers into the system. NNPC remained the sole importer through much of 2023-24 as private marketers struggled to access dollars at competitive rates, and IPMAN has publicly called for the monopoly to be broken, but currently these actors remain marginalised.³⁴ The landscape has since shifted, though not how importers might have hoped. Rather than returning to imports, independent marketers now buy directly from the Dangote Refinery under a supply agreement reached in October 2025, and IPMAN has publicly opposed further petrol imports.³⁵

Domestic suppliers

The Dangote Refinery, owned by Africa's wealthiest man, Aliko Dangote, and other prospective domestic refiners are key beneficiaries of the broader deregulation process contained in the PIA, of which subsidy removal is a central component. Although PPPRA formally controlled pricing under the subsidised regime, NNPC's status as the sole importer gave it de facto control over import volumes and pricing from the 2010s. This left little commercial space for domestic refiners to compete. Deregulation allows Dangote and other domestic producers to sell fuel at market-determined prices, making large-scale refining commercially viable in Nigeria for the first time.

For decades, Nigeria's refining capacity was almost entirely public. The state owns four refineries with a combined potential capacity of roughly 445,000 barrels per day (bpd), but since the 2000s they have operated below that due to underinvestment, maintenance failures and theft of crude oil. The fuel subsidy is one reason private firms never invested in this sector. With cheap fuel flowing in from abroad at government-controlled prices, there was little commercial logic for any private actor to sink capital into domestic refining. Dangote's 650,000 bpd facility thus represents not merely additional domestic refining capacity, but something structurally far more novel: the first large-scale privately-owned commercially-oriented refinery in the country's history.

The Dangote Refinery has the potential to eliminate Nigeria's import dependence entirely, but its full impact remains to be seen. The evolving dynamics between Dangote, NNPC and independent marketers, including the October 2024 termination of NNPC's exclusive purchase agreement, are examined below.³⁶ The precise terms under which NNPC supplies crude to the Dangote refinery – and the market-structure questions that arrangement raises – are also examined.

Trade and transport unions

Trade and transport unions are federated organisations with nationwide structures. The Nigeria Labour Congress has around 4m predominantly blue-collar members. It operates alongside the Trade Union Congress, which represents white-collar workers, and the two oil workers' unions – the Nigeria Union of Petroleum and Natural Gas Workers (NUPENG) for blue-collar employees, and the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN) for senior staff. Union members sit at strategic points across the petroleum supply chain.³⁷

Unions are powerful, sensitive to fuel prices and ready to protect their interests. The 2012 'Occupy Nigeria' protests demonstrated organised labour's ability to mobilise around fuel-price increases. Full subsidy removal more than doubled the pump price from ₦65 to around ₦141 per litre. The widespread protests forced the government to partially reinstate the subsidy within two weeks, reducing the pump price to ₦97 per litre. The reversal held for over a decade: no government attempted another full removal until 2023. This success established subsidy protest as something close to an institutionalised price-setting mechanism: attempting a removal triggers strikes, strikes trigger negotiations, and negotiations result in partial climbdowns.³⁸

Trade unions are arguably the most powerful actors in the reversal coalition. They can paralyse economic activity and force governments to the negotiating table. They are adept at framing petrol price increases as an attack on ordinary Nigerians, converting a fiscal policy decision into a

broader legitimacy crisis for the government. It is notable that unions' core membership base is formal-sector workers, and often middle-class. These groups disproportionately benefit from subsidised fuel because of their higher rates of vehicle and generator ownership – a further reason why unions are able to generate activity around this issue.

International financial institutions and donors

The IMF and World Bank are influential advocates of subsidy removal in Nigeria. The IMF has consistently advocated subsidy removal through Article IV consultations, while the World Bank supports reform via the \$800m National Social Safety-Net Programme (NASSP). In June 2024, the World Bank also approved \$1.5bn in budget support through its Reforms for Economic Stabilisation to Enable Transformation (RESET) operation.³⁹

However, IFIs' policy advice tends to focus on the macroeconomic case for removal without adequately addressing the distributional and political risks that have repeatedly triggered reform reversals. In simple terms, it under-examines subsidy politics. IFI leverage has also been front-loaded. RESET made subsidy removal a condition of disbursement, but both tranches were released by November 2024, leaving little financial leverage should subsidies return before the 2027 elections.⁴⁰ There is also precedent from 2021: a \$1.8bn World Bank loan was conditional on reform of the petrol price cap, yet subsidy payments resumed once crude oil prices recovered.⁴¹ Low institutional memory among rotating international staff has also weakened the continuity of engagement.

There are also tensions across IFIs: the World Bank's social protection programming and the IMF's fiscal consolidation advice do not always align in practice. These gaps in political economy analysis and internal coherence have contributed to the removal-reversal cycle by enabling reform announcements that lack the compensatory architecture needed to sustain them. The effectiveness of IFI engagement is assessed further in *The State of Play*.

Nigerian households

Subsidised fuel offers a tangible, visible benefit to many Nigerian households. But it is regressive in terms of direct consumption. Wealthier, vehicle-owning households in urban areas consumed more petrol and therefore captured a larger share of the subsidy in absolute terms.⁴²

But both rich and poor households depend heavily on petrol: the wealthy for private vehicles and generators, the poor through public transport and the cost of goods moved by road. So while the welfare impact of the removal was felt across all income groups, wealthier households had greater capacity to adjust and the poorest households were less able to absorb shocks. Informal sector workers, market traders, and transport-dependent households experienced price increases as a proportionally larger blow to their already constrained budgets, and they were the least likely to be captured by the National Social Register or to receive compensation.

The near absence of organised protest reflects the weakening of Nigerian civic space since the 2020 #EndSARS crackdown and the lack of credible institutional channels through which citizens can shape policy.⁴³ Households remain passive recipients rather than active agents in the reform process, but their quiescence should not be mistaken for consent. Organised labour has also been less effective than in 2012. Although trade unions organised protests and threatened nationwide strikes in 2023, there was partial compliance and they have ultimately bargained for compensation rather than forcing the subsidy's reinstatement.

III. RULES OF THE GAME

What was the fuel subsidy and how did it work?

The term ‘fuel subsidy’ can be confusing because Nigeria has, at different times, subsidised or controlled several energy products. These have included premium motor spirit (petrol), household kerosene and electricity.⁴⁴ This paper focuses on the first of these because it has been the most constant, fiscally significant and politically contentious. In Nigeria, whenever politicians, unions, journalists and citizens refer to the ‘fuel subsidy’, they almost always mean petrol.

While the objective of the fuel subsidy has remained broadly unchanged – to keep petrol prices below their market level – the mechanisms used have evolved over time. In the 1970s and 1980s, when Nigeria's oil revenues were expanding rapidly, the subsidy largely took the form of direct state control over domestic fuel prices. The government owned the refineries, dominated fuel supply and simply sold petrol below its economic cost.⁴⁵

Until the mid-2000s, NNPC was largely responsible for importing refined petroleum products and maintaining domestic fuel supplies. As refining capacity deteriorated and fuel demand increased, the government progressively opened fuel importation to private marketers. The subsidy system evolved accordingly: rather than supplying cheap fuel directly through NNPC, the government increasingly reimbursed marketers for the difference between the actual cost of importing petrol and the lower government-approved selling price. This reimbursement system comprised the subsidy regime for much of the following decade.⁴⁶

PPPRA sat at the centre during this period. Using a template that incorporated international oil prices, shipping costs, exchange rates, distribution margins and other supply costs, PPPRA calculated the difference between the actual cost of supplying petrol and the government-approved price. This difference constituted the subsidy. Subsidy payments were administered through the Petroleum Support Fund. Once PPPRA verified documentation, payments were processed through a network involving the Ministry of Finance, Office of the Accountant-General and Central Bank of Nigeria. Alongside this system, the Petroleum Equalisation Fund compensated marketers for transporting fuel to remote parts of the country, enabling petrol to be sold at broadly similar prices nationwide. The Department of Petroleum Resources regulated petroleum operators, issued licences and permits, and supervised compliance across the sector.

The system evolved again during the 2010s. Foreign exchange shortages, delayed subsidy payments and rising import costs gradually pushed many private marketers out of the market. As a result, NNPC became the dominant importer – and eventually the sole importer – of petrol once again. Rather than reimbursing multiple private marketers, subsidy costs were increasingly absorbed by NNPC through deductions from oil revenues before they were transferred to the Federation Account. This became known as the under-recovery regime, and it gave NNPC considerable discretion over how much crude oil revenue ultimately ended up as ‘reimbursements’ rather than in the Federation Account.⁴⁷

The PIA significantly altered this institutional architecture. It abolished PPPRA and the Department of Petroleum Resources, replacing them with NMDPRA and NUPRC. The act also wound down of the Petroleum Equalisation Fund and created a framework for transitioning to market-based fuel pricing. The PIA committed the government to removing the subsidy within six months of its passage in August 2021; in January 2022, the outgoing Buhari administration extended this by 18 months, and the deadline lapsed without implementation. But the legislation provided incoming President Tinubu with a formal legal basis to declare that the ‘fuel subsidy is gone’ during his inauguration speech in May 2023. This declaration triggered the removal of the current fuel subsidy. No new legislation was required; the directive was an executive decision and represented the first serious attempt to implement reforms already envisaged under the PIA.

Social protection mechanisms

The formal architecture of subsidy reform extends beyond fuel prices. Successive governments have recognised that removing subsidies imposes significant costs on households, particularly poorer households that spend a larger share of their income on transport, food and energy.

As a result, subsidy reform has often been accompanied – at least in principle – by measures intended to cushion the impact of higher prices. Reform attempts in the 1980s and 2012 relied on ad hoc measures, like the (retroactively established) Subsidy Reinvestment and Empowerment Programme in 2012. NASSCO's establishment in 2016 emerged from the lessons of those earlier experiences, namely that removal without credible safety nets creates conditions for a reversal.

Multiple support initiatives at the national and state levels were also announced immediately after the fuel subsidy was removed in 2023. At the federal level, this included ₦100bn to acquire 3,000 CNG-fuelled buses, ₦200bn to boost agricultural production, ₦75bn for manufacturers and ₦125bn for micro-, small- and medium-sized enterprises.⁴⁸ Tinubu also announced plans for a monthly cash transfer to 12m of the poorest households. This was later revised upward, sending ₦25,000 per month for three months to 15m households, at a total cost of ₦1.13tn.⁴⁹

Some states also took direct steps. Ondo State, for example, announced some free transport provisions, suspension of hospital registration and consultation fees, and agricultural inputs for farmers.⁵⁰ Ekiti State introduced conditional cash transfers of ₦5,000 to 10,000 households from August to December 2023, health insurance enrolment for 10,000 persons, food distribution and salary adjustments for public workers.⁵¹ These provided some initial relief, but were generally neither sustained nor built into formal policy.

On paper, all this was intended to support transparent revenue management, stable fuel supply and market-based fuel pricing while providing citizens with relief from price shocks. But the operation of the subsidy and social protection systems has often diverged significantly from formal rules. Historically, they have been undermined by a deeply entrenched system of informal rules, norms and expectations that shape how the petroleum sector functions in practice.⁵²

Informal rules

Although governments, institutions and personalities change, the informal rules of subsidy politics have remained strikingly consistent for more than four decades. Citizens view cheap petrol as an entitlement. Politically connected actors benefit from the rents generated by subsidy systems. Governments remove subsidies under pressure and often abruptly before credible compensation mechanisms are in place. And citizens distrust promises that future benefits will offset immediate hardship. Together, these rules help explain why subsidy reform repeatedly leads to backlash and why governments so often retreat.

Rule 1. Citizens see cheap petrol as a welfare measure and social right

Cheap fuel is one of the few tangible benefits that the Nigerian state has consistently provided to its citizens. It is a core mechanism of welfare in the absence of functioning social safety nets.⁵³ The 2012 'Occupy Nigeria' protests, triggered by President Jonathan's attempt to remove the fuel subsidy, showed the political potency of fuel – a potency that had already been demonstrated through mass protests during the structural adjustment programmes of the 1980s and 1990s.

Strikingly, the 2012 protests occurred while a multi-billion dollar fraud scandal involving the subsidy was receiving national attention. This suggests that citizens' attachment to cheap fuel persists even when the system is being clearly abused. Protesters carried signs reading 'kill corruption, not Nigerians', signalling not only how threatened they felt by the subsidy's removal, but also their anger at losing a benefit in a context of well-publicised elite corruption.⁵⁴

Rule 2. Fuel subsidies fund patronage politics

Oil-derived rents are central to Nigeria's 'elite bargain' – the way power is configured across ruling and non-ruling elite groups. Nigeria's leaders have long relied on these rents to build coalitions, maintain support and manage competition. Fuel subsidies have historically played an important role in this process because they provide a mechanism for distributing those rents.

Different subsidy regimes have created distinct opportunities. Under military rule, control over oil revenues was highly centralised within the federal government and military leadership.⁵⁵ Fuel subsidies, controlled prices, public spending and state-led development projects were all methods for distributing the benefits of the oil boom.⁵⁶ Cheap fuel helped sustain political support; it provided a benefit to citizens and allowed rulers to present themselves as custodians of the country's oil wealth. Control over petroleum revenues also gave military governments discretion in allocating resources to political allies, regional elites and strategic constituencies.⁵⁷

During the transition to civilian politics, and especially under the dominant-party system of the People's Democratic Party (PDP), oil rents became increasingly important in managing a broad coalition of political actors spread across Nigeria's regions and states.⁵⁸ Because the ruling party faced limited external competition, maintaining internal unity often required distributing resources to powerful factions and regional networks.⁵⁹ The subsidy-reimbursement scheme became one way of channelling these resources.

Nigeria's elite bargain gradually became more competitive, particularly after the 2015 elections in which the All Progressives Congress (APC) ended PDP's 16-year rule. In the formal language of political economy, the post-2015 period can be described as competitive clientelist: a system in which multiple powerful coalitions compete for power and leaders must continuously maintain support across fragmented political networks. Elections in Nigeria are contests not only for office but also for influence over contracts, appointments, foreign exchange allocations and public revenues. In such systems, control over oil rents becomes a critical source of political leverage, while political leaders face constant pressure to distribute resources across competing networks.

For example, under the reimbursement regime that emerged after 2006, access to import licences, foreign exchange, subsidy payments and government approvals became highly valuable. Fuel imports expanded rapidly, and politically connected firms were often well positioned to benefit from the system. The transition to NNPC's under-recovery regime altered the mechanism through which rents were distributed but did not eliminate the underlying incentives. Rather than distributing rents through subsidy reimbursements to multiple marketers, opportunities for patronage became more concentrated within a smaller set of institutions. A 2015 analysis by the Natural Resource Governance Institute found that, in 2013, the treasury received only 58% of the value of the \$16.8bn in oil that NNPC had earmarked for its domestic crude allocation.⁶⁰

Rules 1 and 2 combine to make the subsidy attractive to very different groups of actors. Citizens value cheap petrol because it provides immediate, visible benefit in a context of weak public services and limited social protection. Political and economic elites have historically benefited from the opportunities for patronage, discretion and resource distribution that subsidy regimes create. However, the evolution of the subsidy system has also altered elite incentives. As subsidy administration became concentrated within NNPC, some actors – including state governors, fiscal technocrats and development partners – became increasingly supportive of reform because of its potential to increase transparency and redirect larger revenues into the Federation Account. Elite interests are therefore no longer uniformly aligned in favour of the subsidy.

Rule 3. Reform comes before relief

Reform happens in a hurry – with little time or thought to prevent shocks. Consultations with labour, civil society or affected communities are rare, and in 2023 compensation was not in place

before prices nearly tripled overnight. As a result, ad hoc, uncoordinated relief measures were introduced reactively across federal, state and local levels to try to limit the damage.

For example, federal officials announced cash transfers, rice distribution, transport subsidies and wage awards for public servants.⁶¹ The government also announced plans to disburse ₦25,000 per month to 15m households.⁶² But stakeholders described the national register used for targeting as 'chaotic' and incomplete.⁶³ The groups hit hardest by the price increase – rural, lower-income and female-headed households – were not necessarily those the cash transfer programme reached.⁶⁴ As a result, compensation reached a small fraction of those in need, and what did arrive was widely perceived as inadequate.⁶⁵

Rule 4. Subnational actors respond unevenly and through patronage

Subnational elites, such as state governors and their allies, have the power to entrench reform through political ownership or weaken it if they lack incentives. They can also hedge their bets by publicly endorsing reform, pushing for compensation and using their own resources to shield selected constituencies from the effects. After Tinubu's announcement, many state governors scrambled to introduce their own relief packages. They purchased buses, distributed food parcels and issued cash payments to civil servants and pensioners. The content and quality of these measures varied greatly across states, reflecting differences in fiscal and administrative capacity as well as the political priorities and the patronage calculations of individual governors. Wealthy, oil-rich states (Lagos, Rivers) have greater capacity than poorer northern states to provide relief, a dynamic that can also exacerbate regional tensions.⁶⁶

This pattern – bold pronouncements, but with little planning for their inevitable effects on welfare – is characteristic of Nigeria's elite bargain. Power is centralised at the federal level. The autonomy of state governments, the weakness of federal enforcement mechanisms and the incentive for politicians at all levels to distribute post-subsidy support through patronage networks rather than universal systems result in the formal promise of redistribution rarely translating into equitable outcomes. Shock reform happens because dominant elites can usually get away with it.

Rule 5. Citizens choose savings today over the promise of bigger benefits later

The success of subsidy reform is inseparable from the broader social contract, and trust in the government is low.⁶⁷ A 2018 survey found that people strongly oppose reform if they believe the government is corrupt or lacks the capacity to implement compensation. Conversely, the delivery of positively perceived public services increases the likelihood that reforms will gain acceptance.⁶⁸

The gap between elites and broader society challenges the political utility of undertaking reform. Often, it justifies avoiding it altogether. A fuel subsidy, however regressive and corrupt, delivers something tangible at the pump and lowers the price of goods. The promise of a cleaner system, coupled with cash transfers that may never arrive, cannot compensate for the immediate reality of tripled fuel prices. The lack of trust in leaders compels citizens to prefer existing benefits to vague promises of more later, making sustained subsidy reform that much harder.

IV. STATE OF PLAY

Put plainly, Africa's biggest oil exporter spent billions of dollars every year to subsidise imported fuel. These funds could have far greater impact if spent elsewhere. Nigeria's fuel subsidy was regressive (benefitted the rich more than the poor), leaky, inefficient and fiscally unsustainable.

Yet Nigeria's political elites have little incentive to pursue durable reform. Subsidised fuel helps them win elections, manage popular discontent and fund patronage networks. When the subsidy worked through reimbursement, it created opportunities for direct enrichment. With the under-recovery model, elite interests were served through three main channels: allocating crude oil at below-market prices to favoured buyers; discretion over how much revenue reached the

Federation Account; and personnel appointments at NNPC as a form of political currency. These factors explain why previous reform attempts failed to endure, and why it will be difficult to keep the latest reform out of the reform-reversal policy loop. But there might be some hope.

Today, the Dangote Refinery has reduced NNPC's import monopoly, and the PIA has restructured the sector's legal framework. The February 2026 executive order constrained the most direct of these channels – NNPC's discretion over oil and gas revenues – although it leaves crude allocation and appointments untouched, and its implementation was revised in March 2026.⁶⁹ But it remains to be seen whether these structural changes are sufficient to alter the underlying political incentives.

There are reasons for concern. Six months after Tinubu declared the fuel subsidy 'gone', reports emerged that fuel prices had fallen below cost-reflective levels. The IMF characterised this as 'partially returned implicit fuel subsidies' and noted the government had 'capped retail fuel and electricity prices – thus partially reversing the fuel subsidy removal'.⁷⁰ The World Bank estimated in December 2023 that pump prices were approximately ₦100 below a cost-reflective tariff.⁷¹

This continued into 2024, with the World Bank estimating that petrol prices were at times below import-parity levels.⁷² Pump prices returned to broadly cost-reflective levels by October 2024, and since then market pricing has remained nominally in place. But with elections due in 2027, the sustainability of the current pricing regime faces its most significant political test.

This illustrates an important feature of the current reform: removing the subsidy on paper has proved much quicker than removing it in practice. The World Bank estimates that the implicit subsidy was not fully eliminated until October 2024, almost 18 months after it was announced. Even then, the resulting fiscal gains did not immediately flow to government. NNPC began transferring the additional revenues to the Federation Account only in January 2025, and since then it has been remitting only half of those gains, retaining the remainder to settle arrears.⁷³

The timing of Tinubu's announcement did not make reform easier. It came immediately after deeply contested elections, amid ongoing criticism of oil and gas management by communities in the Niger Delta. It also coincided with several major shocks. The naira lost around 70% of its value against the dollar following exchange rate unification in June 2023, and headline inflation rose above 30% in 2024, with food inflation even greater for sustained periods.⁷⁴ Fuel price pass-through to transport and food costs was immediate, squeezing real incomes. Over 40% of Nigerians were already in poverty, and the impacts on welfare were visible.⁷⁵

The impact was also highly uneven. Households, including those with no institutional safety net, experienced immediate transport fare increases. Lower-capacity and remote areas bore disproportionate burden, as fuel dependency is higher where electricity infrastructure is weak and long distances raise transport costs. These effects fell hardest on rural communities in the North, and groups such as rural women, informal traders, subsistence farmers and displaced households. These groups are least likely to be included in Nigeria's National Social Register.

The present situation reinforces another recurring feature of subsidy reform: the costs arrive before the benefits. Such conditions are not conducive to building public support. The World Bank suggests that governments time subsidy reform to coincide with dips in oil prices and build on 'pockets of effectiveness' to establish credibility.⁷⁶ Nigeria's reform occurred at the worst possible time: a moment of maximum economic vulnerability and minimum public confidence.⁷⁷

The role of international financial institutions in sustaining the status quo should also not be overlooked. They have consistently promoted subsidy reform, and provided both a technical framework and a financial cushion to see it through.⁷⁸ But their engagement has not altered the elite bargain. IFI conditionality has been front-loaded and difficult to enforce once funds are disbursed, as the 2021 World Bank loan and the RESET operation both illustrate (see above). Now aid levels are dropping. Without changing strategy, their effectiveness is likely to diminish as well.

The latest reforms have not led to protests on the level of 'Occupy Nigeria' in 2012, but the underlying dynamics that make reform difficult to sustain have not been fully addressed. Oil rents remain a main source of political financing. FAAC transfers form the basis of government budgets. And citizens' expectation of cheap fuel has not been renegotiated. The critical question now is whether recent measures represent genuine structural change. The 2027 election cycle will be a decisive test: if price caps or informal subsidies re-emerge in the run-up to elections, that would be strong evidence that the political settlement remains unchanged.⁷⁹ Below, we offer several practical propositions for how to shift incentives and increase the likelihood of successful reform.

V. OUR PROPOSITIONS

Nigeria's many failed attempts at subsidy reform show that sustainability isn't built on economic logic alone. The politics of many actors – their interests and incentives – gives them rational reasons to try to reverse the reform and reinstate the subsidised status quo. The threat of this reform-reversal loop is unlikely to ever truly go away. Reformers will need to repeatedly negotiate the politics of both citizens and elites to keep the reform in place. To make this easier, we suggest:

1. Embed subsidy politics into policy design and implementation

Fuel subsidy reform should be treated as a political process, not simply a technical decision about the appropriate price of petrol. This paper goes beyond the usual, rational fiscal arguments for removing fuel subsidies to shine a light on the politics and powers behind policy resistance and reversal. We think that putting subsidy politics on the policy table in this way is useful, as it creates the basis for an open and honest conversation between all stakeholders.

Government, civil society and development partners should regularly assess who is gaining and losing from the post-subsidy system. Policymakers should treat public trust as a measurable precondition for durable reform, and can draw on Afrobarometer and similar tracking surveys to monitor public attitudes. Other useful forms of analysis include tracking the relationship between market costs and pump prices, NNPC remittances, the visibility of compensation coverage and how additional FAAC revenues are being spent. Sequence further reform steps against improvements in that data rather than against the fiscal calendar. This analysis should be updated particularly around elections and major price shocks, when incentives for informal price smoothing or outright reversal become strongest.

The objective is not merely to acknowledge that politics matters. It is to identify where pressure for reversal is accumulating before it overwhelms reform. The removal-reversal loop is a continuing political risk to be managed, not a problem to be solved once.

2. Be frank about corruption – and show what has changed

Afrobarometer's 2025 data showed that a majority of Nigerians are in favour of reinstating the subsidy. Protests against the reform have so far largely been suppressed, and genuine consent has yet to be obtained. Government cannot rebuild public confidence in reform without confronting the history that helped destroy that confidence. The PIA and subsequent reforms should therefore be explained not simply as measures to sell petrol at market rates, but as attempts to dismantle an institutional architecture that generated opacity, discretion and opportunities for abuse in an oil-dependent economy. This history needs to become part of the public conversation around reform. Governments can use Open PEA and similar products to explain, in accessible language, how the subsidy evolved, what went wrong with the reimbursement system, why under-recovery became problematic, what the PIA changed and what has happened to petroleum revenues since removal.

Civil society organisations, journalists, trade unions and independent fiscal organisations should be invited to scrutinise these figures rather than merely being asked to endorse government messaging. This would provide an opportunity to repair relationships with civil society and create

more credible channels through which citizens can question how reform gains are being used. The principle should be simple: do not ask citizens to trust that subsidy reform is working; give them the information and space needed to verify it themselves.

Social media can help reach citizens directly, but communication should be backed by independently verifiable information. A simple quarterly “subsidy dividend” could show petroleum revenues received, NNPC remittances, additional resources distributed through FAAC, what individual states received, how many households received social protection and which public services benefited. Reform is more likely to become durable if citizens have accessible channels for engagement, monitoring and accountability. Strong engagement around this with civil society organisations and interest groups could increase support for reforms, especially if it came with robust transparency mechanisms to enable accountability.

3. If you can remove subsidies, you can tackle elite excess

Subsidy removal has shown that the current administration has the political capacity to impose a reform that previous governments struggled to sustain. And their political strength has grown since 2023. For example, when Tinubu took office in May 2023, his party, the APC, controlled 20 of Nigeria's 36 states. Today it controls 31, and more than two-thirds of both chambers of the National Assembly. The question is what they intend to do with this political capital next.

Subsidy reform has required ordinary Nigerians to accept substantial short-term costs in pursuit of future gains. This request becomes less compelling when citizens experience austerity while political elites appear insulated. Those governing them need to demonstrate similar restraint.

Nigeria's political settlement has long relied on distributing public resources and rents to maintain support. The current concentration of political power creates an opportunity to alter that bargain: rather than using political strength to preserve existing privileges and discretionary spending, the governing coalition could use it to impose greater discipline on itself.

If subsidy removal demonstrates that difficult political choices can successfully be made, the same political capacity can be directed towards reforming how the state itself consumes resources. The fiscal savings available from cutting political excess are nowhere near large enough to replace the subsidy bill. That is not the point. The significance is political. This paper's analysis shows that distrust is one reason citizens prefer the certainty of cheap petrol today to promises of better services tomorrow. Visible expenditure on political appointments, official vehicles, travel, duplicated institutions and other discretionary benefits makes that distrust harder to overcome.

The administration should therefore use the political capital demonstrated by subsidy removal to pursue visible restraint within government: limit unnecessary political appointments, enforce existing monetisation rules and scrutinise discretionary expenditure. The same principle should extend to state governments receiving larger revenues after reform. Additional fiscal space should not simply sustain the spending patterns that existed before removal.

4. Make subsidy reform part of a gamble on development

A general election is on the horizon, creating an opportunity to strike a ‘development bargain’ around subsidy reform. A development bargain is when powerful political and economic actors conclude that their interests are better served by using state resources to build a stronger economy than by maximising the rents and privileges available to them under the status quo.⁸⁰

There are good reasons why this should be seriously considered by all Nigeria's elites. Most notably, the alternative would be to continue to preside over an ever-shrinking ‘national cake’. This is not sustainable. Decades of weak growth, low public revenues, deteriorating infrastructure and repeated macroeconomic crises ultimately erode the value of political and economic power itself. Poor governance can therefore become self-defeating for elites: resources absorbed by patronage are resources not invested in building a larger and more productive economy. The

alternative is for powerful actors to develop a stake in Nigeria's economic transformation – through industrialisation, domestic refining and other productive investments that generate higher and more sustainable returns than extracting rents from a stagnant economy.

One core challenge is making reform an electoral asset rather than a liability for Nigeria's elites. Other countries can provide inspiration for how to do this. For example, Brazil's Bolsa Familia and cash transfer programmes in India suggest that the durability of social protection increases when leaders directly associate themselves with it. The Tinubu administration has a clear interest in demonstrating that the reform's benefits are reaching households before the 2027 election. Likewise, state governors have a clear interest in claiming they have turned gains into visible local services. Clearly communicating these improvements as personal achievements during campaigns could increase the positive electoral salience of maintaining the reform, as well as candidates' chances of being elected.

At the same time, revenue-sharing commitments will be undermined if governors free-ride on reform while capturing fiscal gains for patronage expenditure. This can be measured through baseline assessments and periodic reviews, conducted by regional development commissions and overseen by the federal ministry responsible for them. While such reviews are unlikely to appear before the election, planning to begin them right after would allow for monitoring throughout the next electoral cycle.

5. Change the subsidy story: a working Nigeria should not need one

The political story of subsidy removal has overwhelmingly been about what Nigerians have lost: cheap petrol. Reformers need to articulate more clearly what Nigeria stands to gain.

For decades, Nigeria exported crude oil, spent scarce foreign exchange importing refined petrol, and then spent public revenues making that imported product artificially cheap. The resurgence of domestic refining offers an opportunity to change that model. The emergence of substantial private refining capacity is already altering the downstream sector. Subsidy removal should therefore be situated as part of a wider transition from subsidising imported consumption towards supporting domestic production, investment and energy security.

Fuel subsidies are relevant to other public policy debates – such as on aid, and around total spending on health, education and social welfare. In Nigeria, fuel subsidies were twice the size of aid, cost more per head than education and health spending combined, and benefited the rich much more than the poor. This hard reality was invisible to most. But highlighting it and regularly comparing the cost of fuel subsidies, and who benefits, with the budgets for other sectors could make the reform more politically palatable.

A new narrative coupled with a credible development bargain could mean that, over time, citizens accept the end of universal cheap petrol, governments receive greater and more predictable revenues, political elites invoke greater discipline over discretionary spending and patronage, and a visible share of the resulting fiscal space is directed towards social protection, infrastructure and public services.

A functioning petroleum economy should not require one of the world's major crude producers permanently to subsidise imported petrol. A Nigeria that works should increasingly produce what it consumes rather than subsidise its dependence on imports.

6. Relief before reform – get ahead of the pain

One of the clearest lessons from successive reform attempts is that governments have repeatedly imposed the costs of subsidy removal before credible compensation was ready. In 2023, petrol prices rose immediately, while cash transfers, transport support and other palliatives arrived later, unevenly or not at all. Nigeria's relatively young social-protection architecture was not equipped to compensate vulnerable households at the speed or scale required.

That lesson is retrospective, but it has immediate implications. Relief now needs to catch up with reform. Rather than creating another collection of temporary palliatives, government should invest in making the existing NASSCO/NASSP architecture capable of responding automatically to future shocks. The National Social Register should be continuously updated. Identity and payment bottlenecks should be resolved, payment mechanisms established in advance, and clear triggers developed for temporary additional assistance when petrol, transport or food prices rise sharply.

Special attention should be paid to sub-national politics. There is a risk that even a strong coalition for reform at national level could unravel at state and local levels if reforms substantially increase inequality. Adopting a national minimum compensation package across all 36 states could be one way to prevent this. So too could be legislating a defined portion of any increased FAAC allocation to social protection and public service investment. Support for the most vulnerable, as well as explicitly temporary support in key areas like transport, could also help smooth out short-term shocks, thereby making it easier to sustain the coalition for reform.

The end of cheap petrol will only resonate with citizens if they experience some of the gains of reform. Subsidy removal therefore needs to sit alongside functioning social protection, better transport, transparent use of additional revenues and improvements in public services. Otherwise, macroeconomic success risks remaining invisible to the households being asked to pay for it. The principle for future reforms should be straightforward: deploy the safety net first.

7. Shrink the reversal coalition by making solar a credible substitute

Fuel subsidy politics are so hard partly because removal inflicts immediate, visible pain on a very large group at once. Anything that reduces the number of people who experience that pain also weakens the coalition pushing for reversal.

Distributed solar is now one of the few levers that can do this on the electricity side of fuel demand. A large share of Nigerian petrol consumption goes to private generators, used because grid supply is unreliable. Subsidy removal sharply raised the cost of running those generators, and the falling cost of solar panels and battery storage has made small-scale solar a genuine economic substitute for generator power for many households and small businesses, rather than an aspirational one.

Every household or enterprise that shifts from a generator to solar is one less actor with a direct stake in cheap petrol. This is not a claim that solar can replace the subsidy. Petrol's transport function remains, and solar does nothing for it. The argument is narrower and political: targeting subsidy savings at solar access for the groups most exposed to generator costs converts a source of reversal pressure into a constituency with an interest in the reform holding. It also gives the government and governors a visible, attributable benefit to claim (per Proposition 4), on a faster timeline than grid expansion allows. Practically, this means ring-fencing a defined portion of subsidy savings for distributed solar and storage aimed at small businesses and lower-income urban households, prioritising the states and sectors where generator dependence is highest, and reporting delivery openly so the link between reform and relief is legible to the public.

VI. ENDNOTES

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- ⁷ This refers to revenues distributed from the Federation Account by the FAAC to federal, state and local governments. It is revenues available for distribution to all tiers of government.
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- ¹⁷ This was not a marginal activity: it benefited the networks of traders, transporters, border officials and security personnel involved. In mid-2021, then NNPC Group Managing Director Mele Kyari reported that petrol load-outs had reached 103m litres in a single day, well above estimated domestic consumption; PwC Nigeria later cited this as indicating that at least 58m litres a day were being smuggled. Removing the subsidy disrupted these networks, but did not destroy them. One study found that daily fuel movement dropped by 32% following the removal of subsidies, with an additional 15% decline after Niger's borders closed following the July 2023 coup. However, price differentials with neighbouring countries persist and smuggling networks remain deeply embedded in border communities where fuel trafficking qualifies as a primary livelihood. These networks retain the operational capacity to scale back up if price differentials widen. See: Dabang, P. 'Over 1,800 fuel outlets shut in Nigeria's northeast over smuggling dispute', *Reuters*, 24 June [🔗](#); Steadman, S. et al (2024) 'Towards sustainable fuel subsidy reform in Nigeria: evaluating progress and pathways to success', Box 1, p. 6 [🔗](#); PwC Nigeria (2023) 'Fuel subsidy in Nigeria – issues, challenges and the way forward', 6 June [🔗](#).
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- ²⁸ The register is incomplete. As of August 2025, the register held data on 19.7m households (over 70m individuals), of which only about 8.1m had received cash transfers, and as recently as 2022 it captured only about 53% of the multidimensionally poor population (69.9m of 132.9m people), with enrolment so uneven that some states recorded more registrants than they have poor residents. See: World Bank 'Evolution of payment system' [🔗](#); TheCable (2025) 'Stakeholders demand stronger role for social register in poverty reduction', 9 September [🔗](#).
- ²⁹ Abia, Akwa Ibom, Anambra, Bayelsa, Delta, Edo, Imo, Ondo and Rivers receive the 13% derivation fund.
- ³⁰ The derivation principle entitles states where natural-resource revenue is generated to a fixed share of that revenue before the remainder is distributed among all tiers of government. Under Section 162(2) of the 1999 Constitution, this share is set at not less than 13% of the revenue accruing to the Federation Account directly from natural resources. Mechanically, the 13% is deducted off the top and paid to the producing states first; only then is the balance shared among the federal, state and local tiers under the general allocation formula. The effect is that an oil-producing state benefits twice from the same revenue: through the derivation payment tied to its own production and through its ordinary share of the distributable pool. RMAFC sets the indices determining each state's derivation share based on the quantity of oil or minerals produced within it. See: Nigeria Governors' Forum 'Understanding the structure and composition of the federation account' [🔗](#).
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- ⁷⁷ Fiscal pressures made continued subsidisation increasingly unsustainable, while high inflation, rising poverty and weak social protection left households particularly vulnerable to its removal. The short-lived reform experience under President Jonathan in 2012 is also instructive. Following the partial removal of subsidies, the government established the Subsidy Reinvestment and Empowerment Programme to channel savings into social programmes, including cash transfers, mass transit and youth employment. Within three years the programme collapsed – undermined by declining oil revenues and revelations that ₦500bn (\$2.56bn) in subsidy savings could not be accounted for. The lesson for the Nigerian public was clear: don't believe promises when subsidies are being removed. See: The Guardian Nigeria (2016) 'Ending SURE-P', 6 January [\[4\]](#); Damilola, B. (2019) 'How corruption, bad governance helped make Nigeria poverty capital of the world', IACC [\[4\]](#). Exchange rate calculated using the Central Bank of Nigeria's naira-dollar listed rate at the end of 2015 (₦195.52 per dollar) [\[4\]](#).
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About the authors

Afolabi Adekaiyaoja is a political analyst and researcher working on electoral politics and democratic governance in West Africa. He is Civic Engagement Lead at Archivi.ng, and he coordinated CDD-West Africa's Election Analysis Centre during Nigeria's 2023 general elections. His recent work includes a chapter on election observers in *Election observation at a crossroads* (2025) and the Nigeria and Sierra Leone economy chapters in *Africa south of the Sahara 2026*.

Kenechukwu Nwagbo is the political economy specialist at Open PEA. She holds a PhD in Education and International Development from the University of Cambridge. She has led international research collaborations with multilateral agencies and policy think tanks across Africa, Asia and Latin America.

Cameron Thibos is the programme manager of Open PEA. He holds a PhD in international development from the University of Oxford.

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Email: open.pea@bsg.ox.ac.uk

Web: openpea.csae.ox.ac.uk

LinkedIn: linkedin.com/company/open-pea

