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FUEL SUBSIDY: A SOUND POLICY TO ENDING ECONOMIC RECESSION IN NIGERIA

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Abstract - *This paper emphatically identified fuel subsidy as a sound policy that will resuscitate Nigeria from the present recession. Nigeria's economy was officially declared to be in recession, following the figures released by the National Bureau of Statistics (NBS) officially confirmed, although, various government officials notably, the Central Bank of Nigeria (CBN) Governor, Godwin Emefiele and the Minister of Finance, Kemi Adeosun, said the economy was in a "technical" recession, their official confirmation came with the new figures released in August, 2016, meanwhile, fuel subsidy was totally removed by the present administration in May, 2016. This recession became noticed after almost three months when fuel subsidy was totally removed by the present administration. Various attempts by previous government administration to remove fuel subsidy have huge negative effects on the nations' economy. For a developing country like Nigeria, fuel subsidy should be considered as major tool to enhance citizens' welfare most especially the middle and low income earners, meanwhile, the disbursement of fuel subsidy must be properly monitored to guide against corruption as shown in the past administrations. Strict policies can be set aside as punishment (such as death sentence, life imprisonment and other costly punishments) for any corrupt office holder.*

Keywords : Fuel subsidy, economic recession, transportation and sound policy.

INTRODUCTION

The importance of fuel connects to the high significance of transportation. As food is most significant in human sustenance, so also is transportation. The essence of transportation either in the developed and developing nations that cannot be farfetched or beyond the following: economic purposes; spatial interaction; and social integration. Without the efficient realization of these three giant purposes, it will be difficult for the country to maintain economic balance. These three purposes cannot be efficiently realized without fuel. Fuel is the power that propels the vehicle to move, meanwhile, the vehicle is one of the sub-systems of transport system. The entire system cannot function or realize it aim of efficiency without the completeness of the entire sub-systems.

Nigeria's economy was officially declared to be in recession, following the figures released by the National Bureau of Statistics (NBS) officially confirmed, Although, various government officials notably, the Central Bank of Nigeria (CBN) Governor, Godwin Emefiele and the Minister of Finance, Kemi Adeosun, had over a month ago said the economy was in a "technical" recession, their official confirmation came with the new figures released (Premium Times Newspaper, 31st August, 2016). This recession became noticed after almost three months when fuel subsidy was totally removed by the present administration. Various attempts by previous government administration to remove fuel subsidy have huge negative effects on the nations' economy.

Gasoline, premium motor spirit (PMS) or fuel as it is normally called in Nigeria is the second most used product after food in Nigeria (Ekine and Okidim, 2013). According to the Academics Dictionary of Economics (2006), subsidy can be defined as the cash incentive given by the government to an industry with a view to lower the price of the product of the concerned industry and to raise its competitive power. One important objective of subsidy is to keep its prices below the cost of production.

Apart from the global economic and financial crisis which has become a major concern for political leaders, economists and managers of financial institutions across the globe, there are also factors attributable to economic recession in Nigeria. One of the major causes of economic recession in Nigeria is the total removal of fuel subsidy which seems to be an unsound policy, although it is politically acceptable and environmentally suitable, but it is not socially credible, not analytically based, not economically sound, and not sustainable. The present administration sees total removal of fuel subsidy as a means to combating the deep seated corruption that surrounded the implementation of its policy.

Economic recession can be referred to as economic crisis or financial crisis; it is a period of economic slowdown that is characterized by declining productivity and devaluing of financial institutions often due to reckless and unsustainable money lending (Wikitionary). Economic recession is a period of general economic decline and is typically accompanied by a drop in the stock market, increase in unemployment and a decline in housing market (Study.com). According to Kimberly (2016), recession is when the economy declines significantly for at least six months. Economic recession is a situation of warning before transitioning into economic meltdown.

According to Adeniran (2016a), this present economic crisis resulted into lack of confidence by citizens in the present administration because of the severe level of affliction on Nigerians. It is expedient for the Federal Government to revisit fuel subsidy as a means to touching the entire lives of the citizenry positively and not the ₦5,000 monthly stipends given to the poor, nor the creation of more civil jobs. The proper implementation of fuel subsidy as a policy is a catalyst that will speed up the positive growth and development of the country. It will boost the economic activities; people will be able to cover distance (spatially) to trade and enhances social integration. For a policy to be sound, it must be analytically based, politically acceptable, socially credible, economically sound, environmentally suitable and sustainable for the betterment of the citizenry, all these criteria will be fulfilled by fuel subsidy.

Subsidies most especially in Nigeria are susceptible to corruption, especially when allocating subsidy payments. Subsidy removal is a policy on its own that is analytically based, economically sound, and politically acceptable but it is not socially credible and the sustainability will pose life threat on the citizens because of the unprepared atmosphere in Nigeria.

The impact of removing fuel subsidy without provision of efficient infrastructures and other forms of energy which can all serve as close substitutes to fuel, increments in transportation cost and transportation rate which directly and indirectly affect the cost of physical distribution, material handling, marketing, logistics and overall production are inevitable as witnessed today. The government thought that sudden removal of fuel subsidy is the way-out for a better Nigeria but the negative effect of fuel subsidy removal is highly severe on the citizens.

The aim of this paper is to establish the fact that fuel subsidy is policy that the government can urgently embark upon to overcome the present recession. Any slight increase in fuel price will jeopardize the economy. The objectives are:

1. To identify the concept, causes and general consequences of economic recession;
2. To identify fuel subsidy removal as the major cause of economic recession in Nigeria;
3. To establish the concept of policy and fuel subsidy as a policy;
4. To determine the effects of fuel subsidy removal on transportation cost and transport rates in Nigeria;
5. To determine the percentage fuel price increase from year 1973 to year 2016.
6. To make recommendations for the government.

ECONOMIC RECESSION

Economic recession is the combination of two different words "economic" and "recession". According to Merriam-Webster Dictionary, the word 'economic' deals with managing the production, distribution and consumption of goods and services. According to the same dictionary, recession is the period of reduced economic activities. The economic activities earlier mentioned are production, distribution, and consumption. According to Study.com, a recession is a general downturn in an economy. It is associated with high unemployment, slowing gross domestic product and high inflation.

Economic recession can also be referred to as economic crisis or financial crisis; it is a period of economic slowdown that is characterized by declining productivity and devaluing of financial institutions often due to reckless and unsustainable money lending (Wikitionary). Economic recession is a period of general economic decline and is typically accompanied by a drop in the stock market, increase in unemployment and a decline in housing market (Study.com).

According to Kimberly (2016), recession is when the economy declines significantly for at least six months. It means there is a drop in the following economic indicators:

1. Real Gross Domestic Product (GDP);
2. Income level of individual and revenue generation of government;
3. Employment;
4. Manufacturing and
5. Retail sales.

General consequences of economic recession

The general consequences of economic recession are:

1. High interest rates: This limits the liquidity or the amount of money available to invest.
2. Increased inflation: Rise in prices of goods and services over a period of time. As inflation increases, the percentage of goods and services that

can be purchased with same amount of money decreases.

3. Reduced consumer confidence: If consumer believe that the economy is bad, they are less likely to spend money. This is psychological which have real impact on the economy.

4. Reduced real wages: Falling real wages means that a worker's pay check is not keeping up with inflation. The worker might be making same amount of money, but his purchasing power has been reduced (Study.com).

Economic recession is a situation of warning before transitioning into economic meltdown. It is in-between economic buoyancy and economic meltdown. Economic buoyancy is a situation whereby the indicators of the economy tend towards the upward position, or tend towards 1. Economic meltdown is a situation whereby the indicators tend towards the downward position, or tend towards -1. Economic recession is a situation whereby the indicators tend towards the positive horizontal or negative horizontal position. If economic recession reaches the point of elastic limit such that it continues for six months and over; economic meltdown is inevitable.

In the second quarter 2016 Gross Domestic Product (GDP) declined by -2.06%, Annual inflation rose to 17.1% in July from 16.5% in June, and food importation rose to 15.3%. The pace of the increase in the headline index was however weighed upon by a slower increase in three divisions, namely, health, transport, and recreation and other culture divisions (NBS, 2016). The statistics agency said the onset of the harvest season was yet to significantly impact on food prices, with food sub-index rising by 15.8% (year-on-year basis) in July, about 0.5% points lower from rates recorded the previous month (Premium Times Newspaper, 31st August, 2016).

Oil price has crashed to less than $50.00 per barrel; Nigeria's production output has tumbled over 400,000 barrels due to militancy activities in Niger-Delta region. Oil production plummeted to 1.69 million barrels per day in the second quarter of 2016, down from 2.11 million barrel per day in the first quarter with oil-based GDP contracting by 17.5% in quarter two compared to 1.9% in the first quarter (Vanguard Newspaper, 26th September, 2016). The Crude Oil price forecast for 26th December, 2016 – 30th December, 2016 is $55.00 per barrel.

Naira (₦) remained at record low of ₦423 per Dollar in the black market, as Dollar exchange for ₦356.25 in the interbank market this month (Vanguard Newspaper, 26th September, 2016). Dollar to Naira exchange rate today December, 2016/January, 2017 is as follow: For black market, buying is ₦480 while selling is ₦485. For CBN Dollar to Naira, buying is ₦304.25 while selling is ₦305.25. Dollar to Naira official rate is ₦315 (Naija Naira, 24th December, 2016).

On employment, 4.58 million Nigerians have become jobless since last year, adding 2.6 million to unemployment figures of 1.46 million recorded in the third quarter of 2015 and 518,102 in the fourth quarter of 2015. According to reports during the reference period, the unemployed in the labour force increased by 1,158,700 persons, resulting in an increase in the national unemployment rate to 13.3% in second quarter 2016 from 12.1% in 2016, 10.4% in 2015 from 9.9% in third quarter 2015 and from 8.2% in second quarter 2015 (Vanguard Newspaper, 26th September, 2016). It was also recorded that 1.7 million Nigerians became jobless in nine months. The number of unemployed Nigerians rose from 9.48 million at the beginning of year 2016 to 11.19 million by end of September 2016. Also unemployment and underemployment were higher for women than men in the third quarter of 2016 (Punch Newspaper, 25th December, 2016).

According to a capital importation report for third quarter importation released by the National Bureau of Statistics (NBS), Nigeria's foreign direct investment, FDI fell by 52.54% in the third quarter of 2016 to $340.64 million from $718 million in corresponding quarter of 2015. However, when compared with the FDI of second quarter of 2016, it rose by 84.84% to $340.64 million from $184.3 million. According to this report, the total value of capital imported into Nigeria in the third quarter of 2016 was estimated to be $1,822.12 million, which represent an increase of 74.84% relative to the second quarter, and a fall of 33.70% relative to the third quarter of 2015 (Vanguard Newspaper, 8th November, 2016).

Causes of recession in Nigeria

There are two main causes of recession in Nigerian economy:

1. Economic recession caused by global economic and financial crisis; and

2. Economic recession caused by other Nigerian factors.

Economic recession caused by global economic and financial crisis

Current global crisis started as a financial crisis but now a global economic crisis. The crisis is unprecedented in severity of credit contraction (credit crunch & capital crunch). The roots are in banking rather than in securities market or foreign exchange. The crisis started in the U.S (due to certain laxities in the US financial system), spread to Europe, developing countries and has become global. Even countries not affected by the financial crisis are now affected by second-round effects as the crisis now becomes economic issues (Oladipo and Fabayo, 2012).

The global financial crisis followed a period of economic boom between 2003 and 2007. During that period, the world economy was growing at an average of 5% per annum. However, the current crisis was precipitated by a combination of factors including emergence of subprime rates in the USA housing sector, deepening crisis in the financial markets, rising crude oil prices and surges in commodity prices which triggered-off series of bankruptcies, forced mergers, loss of employment, firm closures and concerns in the corridors of economic policy analysts in the USA and major capitalist economies. In the course of the financial crisis, the world economic growth rate has dropped to about 1% between the fourth quarter of 2007 and third quarter of 2008 (World Bank, 2009).

The impact of the sub-prime crisis spread well beyond United States causing a widespread squeeze in liquidity and credit. And price hikes in primary commodities, fueled partly by speculation that has shifted from financial instruments to commodity markets, added to the challenge for policy makers' intent on avoiding a recession while at the same time keeping inflation under control. The Global Development Finance 2009 revealed the negative effects of the global financial crisis that have caused liquidity and other assets flow into developing countries like Nigeria to fall by 41% in 2008. From a peak of $1.2 trillion in 2007, the development finance coming into developing countries dropped sharply to $707 billion in 2008. From this projection, it is revealed that capital flows would fall further to $363 billion in 2009 due to the fact that not a few African banks depend on the international markets for some financing (Olowe, 2011).

The current global financial crisis is as a result of a number of factors that include in the following;

1. The collapse of the housing market in the United States;
2. The lax financial regulatory conditions; and
3. The lack of implementation of strict corporate governance conditions in the United States and most of the developed economies (Krugman, 2008).

The global financial crisis has caused the crumbling of many businesses including otherwise formidable corporate giants across the world. In these unusual circumstances, Nigerian's economic crisis is drawing attention. The country Nigeria went through oil boom- cycle from the late 1970s to the beginning of this century. Since the past one decade, Nigeria's economy has been caught in a prolonged stagnation which became obvious in the late period of year 2015. This coupled with systemic financial crisis. Because of these, the researcher will tag this era as "Crisis Era" so as to make it memorable because of the falling economic activity and weakening financial system.

Economic recession caused by other Nigerian factors

Among other numerous causes of economic recession in Nigeria, the most impacting ones will be listed and emphasis will be laid on fuel subsidy;

1. Oil boom;
2. Total removal of fuel subsidy;
3. Unsound, weak, defected and inconsistent policies;
4. Intractable power crisis at the pinnacle;
5. Corruption; and
6. Lack of good governance (Adeniran, 2016a).

Oil Boom as a cause of economic recession in Nigeria

The massive increase in oil revenue as an aftermath of the Middle-East war of 1973 created unprecedented, unexpected and unplanned wealth for Nigeria, and then began the dramatic shift of policies from a holistic approach to benchmarking them against the state of the oil sector. Furthermore, in order to make the business environment conducive for new investments, the government invested the newfound wealth in socioeconomic infrastructures across the country, especially in the urban areas. As well, the services sector grew. The relative attractiveness of the urban centre's made many able-bodied Nigerians to migrate from the hinterland, abandoning their farmlands for the cities and hoping to partake in the growing and prosperous (oil-driven) urban economy. This created social problems of congestion, pollution, unemployment and crimes. Economically, the national currency, (Naira) strengthened as foreign exchange inflows outweighed outflows, and foreign reserves were built up. Until 1985, the Naira was stronger than the US Dollar; this encouraged import-oriented consumption habit that turned Nigeria into a perennial net importer, which became a major problem when oil earnings decreased with lower international oil prices (Oladipo and Fabayo, 2012).

The roles of implementing fuel subsidy in any nation, most especially the developing nations cannot be overemphasized.

FUEL SUBSIDY

Gasoline, premium motor spirit (PMS) or fuel as it is normally called in Nigeria is the second most used product after food in Nigeria (Ekine and Okidim, 2013). According to the Academics Dictionary of Economics (2006), subsidy can be defined as the cash incentive given by the government to an industry with a view to lower the price of the product of the concerned industry and to raise its competitive power. This may be given as a counter balancing measure to the imposition of the custom duty (In the nature of protection duty) by an importing country government. One important objective of subsidy is to keep its prices below the cost of production (Adeniran, 2016d).

Moreover, subsidy can also be defined as any measure that keeps prices consumers pay for a goods or products below market levels for consumers or for producers above market. Subsidies take different forms. Some subsidies have a direct impact on price. These include grants, tax reductions and exemptions or price controls. Others affect prices or costs indirectly, such as regulations that skew the market in favor of a particular fuel, government sponsoring technology, or research and development. Thus, there are two major classes of subsidies;

1. Production subsidies: These form is associated with developed countries and;
2. Consumer subsidies: This is found mainly in developing countries like Nigeria (Adeniran, 2016d).

A subsidy is a reverse tax. It is a deliberate attempt by government to support a chosen economic agent a consumer and a producer and it can be applied in any market that involves the buying and selling of products and or services.

Furthermore, according to OECD, subsidy is basically government action that decreases the consumption price of the consumer and or increases the selling price of the producer. Subsidies enjoy widespread use in several countries and several commodities such as petroleum products, food or farm inputs liker fertilizer and machinery (UNEP, 2002). Fuel subsidy is a government programme created to reduce how much Nigerians have to pay for petroleum motor spirit (PMS), automotive Gas Oil (Diesel), and to protect the citizens from crude oil volatility on the international market.

Fuel subsidy can also be referred to the effort by the government to pay for the difference between the price of fuel in the pump and the actual cost of the product. So by paying the difference, the government enables fuel to be sold at a lower price so that it will help alleviate the burden on its people especially the lower income group. Fuel subsidy in Nigeria was before the coming of the Buhari's administration, it is a policy of federal government meant to assist the people of Nigeria to cushion the effects of their economic hardship. Conceptually, fuel subsidy seeks to enhance financial capacity but also to accept the implied financial losses by it in the sprint of its national responsibility to ensure the well being of the populace (Emeh, 2012).

Historical overview of fuel subsidy removal in Nigeria

According to the Centre for Public Policy Alternatives (2011), the executive arm of the Federal Government has taken the view that subsidy removal is an important element in the larger scheme to accelerate Nigeria economic development. The history of fuel subsidy removal in Nigeria is rather a long one particularly with the negative effects it has on the polity. Specifically the story of subsidy removal dates back to 1978 when the then military government of Gen. Olusegun Obasanjo reviewed upward the pump price of fuel which was at 8.4 kobo to 15.37 kobo. The concern was for government to generate enough money to run the administration particularly when it was preparing for the 1979 democratic elections and also to carter for the social needs of Nigerians (Ering and Akpan, 2012; Adeniran, 2016d).

Moreover, Gen. Olusegun Obasanjo second coming as a civilian president did not help matters as he unleashed a reign of terror on Nigerians. In his eight years reign, the nation witnessed several rounds of fuel price increases. The first started on 1st June, 2000, where the petrol price per litre was raised to ₦30.00 but only to be reduced to ₦25 one week after due to massive protests by organized labour, civil society organizations and the ordinary Nigerians. Five days later, on 13th June, 2000, the pump price was further adjusted to ₦22.00 per litre (George et al., 2014). On 1st January, 2002, Obasanjo regime increased the price from ₦22.00 to ₦26.00 and to ₦40.00on 23rd June, 2003 just one year after. In June, 2007, also the same regime raised the price of fuel per litre to ₦70, and later to over ₦100 per liter.

In a statement delivered by Dr. Kachikwu, on May, 2016, it is on record that when the late President Umaru Musa Yar'Adua assumed office in May 2007, the Nigeria Labour Congress (NLC) resisted the increase and forced him to revert to ₦65 per litre. In January, 2012, the government of former President Goodluck Jonathan attempted to remove the acclaimed subsidy but this was stoutly resisted and the commodity whch was billed to sell for ₦97 per litre was later pegged to ₦87 per litre (Vanguard News, 25th May, 2016 in Adeniran, 2016d).

The statement further stated that during President Buhari's administration in 2015 to present, Nigerians have been asked to buy the product at a peak price of ₦145 per litre. Government said it decision in this regard is informed by the fact that despite the decline in the price of crude oil in the international market, marketers are finding it increasingly difficult importing refined petroleum products due to scarcity of foreign exchange (Vanguard News, 25th May, 2016).

Table 2.1: In-Depth Qualitative Analysis Of Different Petrol Adjustments And Different Pump Prices By The Different Administrations From 1973 To 2012 In Nigeria.

S/N	*DATE*	*ADMINISTRATION*	*PRICE*	*PRICE INCREASE*	*PERCENTAGE INCREASE*
1	*1973*	*Gen. Yakubu Gowon*	*6k to 8.45k*	*0.408*	*40.8*
2	*1976*	*Gen. Murtala Muhammed*	*8.45 to 9k*	*0.065*	*6.5*
3	*1st Oct, 1978*	*Gen. Olusegun Obasanjo (as Military)*	*9k to 15.3k*	*0.7*	*70*
4	*20th April,*	*Alh. Shehu Shagari*	*15.3k to 20k*	*0.307*	*30.7*

	1982				
5	31st March, 1986	Gen. Ibrahim Babangida	20k to 39.4k	0.97	97
6	10th April, 1988	Gen. Ibrahim Babangida	39.5k to 42k	0.063	6.3
7	1st January, 1989	Gen. Ibrahim Babangida	42k to 60k	0.43	43
8	Dec. 1989	Gen. Ibrahim Babaginda	60k	0	0
9	6th March, 1991	Gen. Ibrahim Babaginda	60k to 70k	0.167	16.7
10	8th Nov, 1993	Chief Ernest Shonekan	70k to ₦5.00k	6.143	614.3
11	22nd Nov, 1993	Gen. Sani Abacha	₦5.00k to ₦3.25k	-0.35	-35
12	2nd Oct, 1994	Gen. Sani Abacha	₦3.25k to ₦15.00k	3.616	361.6
13	4th Oct, 1994	Gen. Sani Abacha	₦15.00k to ₦11.00k	-0.267	-26.7
14	20th Dec, 1998	Gen. Abdusalam Abubakar	₦11.00k to ₦25.00k	1.273	127.3

15	6th Jan 1999	Gen. Abdusalam Abubakar	₦25.00k to ₦20.00k	-0.2	-20
16	1st June, 2000	Olusegun Obasanjo (as Civilian Ruler)	₦20.00k to ₦30.00k	0.5	50
17	1st Jan, 2000	Olusegun Obasanjo (as Civilian Ruler)	₦30.00k to ₦22.00k	-0.267	-26.7
18	1st Jan, 2002	Olusegun Obasanjo (as Civilian Ruler)	₦22.00k to ₦26.00k	0.182	18.2
19	June to Oct, 2003	Olusegun Obasanjo (as Civilian Ruler)	₦26.00k to ₦42.00k	0.615	61.5
20	29th May, 2004	Olusegun Obasanjo (as Civilian Ruler)	₦42.00k to ₦50.00k	0.191	19.1
21	25th August, 2004	Olusegun Obasanjo (as Civilian Ruler)	₦50.00k to ₦65.00k	0.3	30
22	27th May, 2007	Olusegun Obasanjo (as Civilian Ruler)	₦65.00k to ₦100.00k	0.539	53.9
23	June 2007	Alh. Umaru Shehu Yardua	₦100.00k to ₦65.00k	-0.35	-35
24	1st Jan, 2012	Dr. Goodluck Jonathan	₦65.00k to ₦97.00k	0.492	49.2

25	*Jan, 2015*	*Dr. Goodluck Jonathan*	*₦97.00k to ₦87.00k*	*-0.103*	*-10.3*
26	*May, 2016*	*President Buhari*	*₦87.00k to ₦145.00k*	*0.667*	*66.7*

Sources: Ering and Akpan (2012), Egiuche (2012), George et al. (2014), Vanguard (2016) and Adeniran (2016d)

The above table can be analyzed in the figure below;

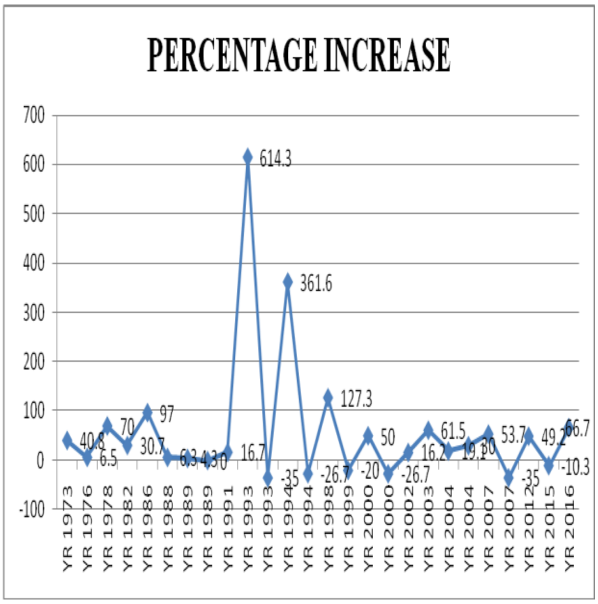

Figure 2.1: Graphical representation of table 2.1 (Percentage increase as y axis and Year as x axis).

Source: Adeniran (2016d).

During Chief Ernest Shonekan's administration, the peak on the line graph is in Year 1993 and the percentage fuel increase is shown as 614.3%. Also, during Gen. Sani Abacha's regime in the year 1993 and Alh. Umaru Shehu Yar'adua in the year 2007, the percentage decrease was -35% each respectively. It was clearly obvious that Yar'adua's administration was targeted towards citizen's welfare (Adeniran, 2016d).

Effects of fuel subsidy on transport costs and transport rates

Transport costs are a monetary measure of what the transport provider must pay to produce transportation services. They come as fixed (infrastructure) and variable (operating) costs, depending on a variety of conditions related to geography, infrastructure, administrative barriers, energy, and on how passengers and freight are carried. Three major components, related to transactions, shipments and the friction of distance impact on transport costs (Jean, Claude and Brian, 2006; Adeniran, 2016d).

Transport rates are the price of transportation services paid by their users. They are the negotiated monetary cost of moving a passenger or a unit of freight between a specific origin and destination. Transport rates are often visible to the consumers since transport providers must provide this information to secure transactions. They may not necessarily express the real transport costs. The difference between transport costs and transport rates results in either a loss or a deficit from the transport service provider (Jean, Claude and Brian, 2006; Adeniran, 2016d).

Transport systems face requirements to increase their capacity and to reduce the costs of movements. All users (e.g. individuals, enterprises, institutions, governments, etc.) have to negotiate or bid for the transfer of goods, people, information and capital because supplies, distribution systems, tariffs, salaries, locations, marketing techniques as well as fuel costs are changing constantly. There are also costs involved in gathering information, negotiating, and enforcing contracts and transactions, which are often referred as the cost of doing business. Trade involves transaction costs that all agents attempt to reduce since transaction costs account for a growing share of the resources consumed by the economy (Jean, Claude and Brian, 2006; Adeniran, 2016d).

Whenever the price of fuel goes up, the price of everything goes up. This is because the transport cost for providing essential services goes up and it creates multiplier effect in the economy, the ripples are felt even up to the rural areas. No part of the economy functions in isolation, every part of the economy depends on the other for services. The movement of agricultural product from one place to another depends on the transport subsector, the tagging of price of agric transport cost; Removal of subsidy means increase in transport cost (Ekine and Okidim, 2013; Adeniran, 2016d).

Frequently, enterprises and individuals must take decisions about how to route passengers or freight through the transport system. This choice has been considerably expanded in the context of the production of lighter and high value consumer goods, such as electronics, and less bulky production techniques. It is not uncommon for transport costs to account for 20 percent of the total cost of a product. Thus, the choice of a transportation mode to route people and freight within origins and destinations becomes important and depends on a number of factors such as the nature of the goods, the available infrastructures, origins and destinations, technology, and particularly their respective distances. Jointly, they define transportation costs (Jean, Claude and Brian, 2006; Adeniran, 2016d).

It is expedient to establish the concept of policy before identifying fuel subsidy as a sound policy.

POLICY

Policy is a term that is derived from politics. Policy and politics go side-by-side. Policy is a framework of guidelines for action and politics is the political decision-making process, involving a range of loci and actors. In other to properly define the term “policy” such that the idea of politics can reflect, the term “public policy” is been realized.

Public policy analysis emerged, particularly in the United States, as a science of action, a contribution by experts (analysts) to government decision-making processes. The central concern was to direct research in such a way as to be relevant, useful for action (Celia and Ernesto, 2006).

The terms “policy” and “planning” are used very loosely and are frequently interchangeable. Mixing them together is misleading. Policy and planning represent separate parts of an overall process of intervention; meanwhile, there are circumstances where policy may be developed without any direct planning implications, and planning is frequently undertaken outside any direct policy context (Jean, Claude and Brian, 2006). Planning is taken to be all those activities involving the analysis and evaluation of past, present and prospective problems associated with a particular sector or organization either at a local, national or international level and the identification of solutions (Adeniran, 2016c).

Policy is generally a response to the needs of a society and this is what makes its statements flexible and dynamic. Based on the values of a society, policy outlines what the society wants, how it wants it and how to go about it. In a parallel way, policy involves the public and private endeavors, but governments are often the most involved in the policy process since they either own or manage many components in a nation’s system. It should be noted that policy is expected to be enacted, rigid and become law for all people and policy statement will be flexible such that the statements is subjected to constant modifications and amendments (Adeniran, 2016c). Policy can also be seen as the intention of government.

Policy formulation and implementation

Policy formulation and implementation is an avenue to realizing government developmental policies or activities and programs for the benefits of its citizenry. According to David (1957), policy formulation is a decision making process as put down by a political scientist. He also interpreted political dynamics in terms of a continuous process, a system of interaction. To him, a political system is an interrelated set of activities, roles, and institutions that operates within an environment which provides inputs to the political system and then translates these inputs into policy outputs.

Government policy makers decide what should be done in order to respond to people’s demand for economic, social, political and developmental progress of the nation. These policies are therefore critical key in the management of peoples affairs as no good policy comes from the government without being criticized by either individuals or group in spite of the fact that government always weigh the merits and demerits of any policy before getting them implemented. Hence, for a policy to be accepted by people, it must undergo series of policy formulation processes and scrutiny. In certain situation, policies formulated are even tested before implementation so as to see the reaction of the public on the policies. Policy formulation is followed by policy demand, policy decision and policy statement (Adeniran, 2016c).

Policy statement is a government formal guideline that provides specific policy roles for its people. According to Egonmwan (1991), a policy statement is the formal expression as articulations of policy which include legislation statutes, decrees, presidential orders, administrative rules and regulations and court opinions. It could also be statements and speeches made by public officials indicating the intentions and goals of government and what and how it would be done to realize them. One should note that policy statements are sometimes ambiguous and conflicting.

Policy formulation is the development of effective and acceptable courses of action for addressing what has been placed on policy agenda. There are two phases of defining policy formulation:

1. Effective Policy Formulation or Analytical Phase

Effective policy formulation means that the policy proposed is regarded as a valid, efficient and implementable solution to issues at hand. If the policy is seen as ineffective or unworkable in practice, there is no legitimate reason to propose it. Policy analysis tries to identify effective alternatives. This is the analytical phase of policy formulation. The analytical framework and dissection of policy goals and values are important in understanding why specific policy should be adopted with respect to a particular sector and country. The analytical framework or elements for evaluating policies are;

a. Policy context: These include the institutional set-up and policy motivations. Institutional set-up evaluates the country’s general government structure and how sub-national entities fit into the policy formulation and implementation process, and policy motivations is derived from the country’s socioeconomic and political circumstances as end benefits as a result of institutional set-up.

b. Policy contents: These are summed up in terms of policy objectives, approaches and solutions depending on the respective sector objectives.

c. Policy consequence: These relates to the policy outcomes and performance of policy solutions (Adeniran, 2016c).

It approaches and solutions may results into ineffective or poor outcomes and on the other way round are effective and efficient outcomes. The outcome is highly dependent on the soundness of the policy (Adeniran, 2016c).

2. Acceptable Policy Formulation or Political Phase

Acceptable policy formulation means that the proposed course of action is likely to be authorized by the legitimate decision makers, usually through majorly building a bargaining process. That is, it must be politically feasible. If the policy is likely to be rejected by the decision-making body, it may be impractical to suggest it. This is the political phase of policy formulation. Effective policy alternatives, presumably based on sound analysis, must be made; then the policy must be authorized through political process, such as legislation or regulation. Both phases: analysis and authorization, comprises of policy formulation (Adeniran, 2016c).

Factors militating against implementing sound policy

There are several sound policies formulated with hope of implementing; meanwhile there are several issues or factors militating against the fulfillment or realization of its implementation which might turn the policies into a phantasm. The major hindrances against realization of sound policy implementation are;

1. Policy inconsistency;
2. Misalignment of responsibilities;
3. Lack of reliable data collection; and
4. Mismanagement of resources (man, material, money and machinery.

Other factors are;

1. Excessive bureaucracy: This is the level of official delay given to issues that should not have taken such a long time to deal with. Issues that would ordinarily take two days officially to treat and pass on the next level of processing would take more than one month to handle.
2. Corrupt tendency or Vested interest: Placing wrong persons in policy making meanwhile they go against the interest of the general public and fight for their own pockets. They also take bribe and this act is referred to as corruption. According to Adeniran (2016), corruption is not just about a specific act(s), but it is about our very mindsets and deep-seated behaviors. Kofele-Kale (2006) defines corruption as an act of requesting, offering, giving or accepting directly or indirectly a bribe or any other undue advantage or the prospect thereof, which distorts the proper performance of any duty or behavior.
3. Political instability: There is no way a nation will be in political crisis and expects formulated policies to be implemented. Situation of political crisis results into discontinuity of implementing policy process from where previous government stops by the newly elected political party in government.
4. Lack of skills and technical know-how: Lack of trained personnel that have enough skills and technical knowledge about policy will hamper a successful implementation of policy. It is also a pity that transport sector is administered by many professionals that knows nothing about the management and operations of transport.
5. Interferences from various professionals: The entire system of nation's economy is a complex system, it is multi-disciplinary in nature whereby professionals from various fields come together to decide on how the system will become developed. Professional or stakeholder involvement can be classified into three:
   a. Instructive involvement: This is where government makes the decision but mechanisms exist for information exchange.
   b. Consultative involvement: This is where government is the decision-maker but stakeholders have a degree of influence over the process and outcomes.
   c. Cooperative involvement: This is where primary stakeholders act as partners with government in the decision-making process.

None of these types of involvement is more desirable than another, or mutually exclusive. Much depend on the task to be undertaken by the political and social norms, as well as the capabilities and aspirations of stakeholders themselves. Professionals from various fields that are not well grounded or having little or no knowledge in the concerned sector of the economy will pose a challenge in the formulation of it policy.

6. Peculiarities of Nigerians: The characteristics of Nigeria are diverse cultures, multi-ethnic, multi-language and multi-religious. Individuals from various jurisdiction representing his people will want a policy that will be more favorable to his people, in this case, oneness cannot stand and these poses challenges in implementing a policy.

The implication of formulating implementable sound policies is the development of the best possible infrastructures with high conscious of sustainable development which is an important part of successful economic development and poverty alleviation strategy.

The development of sound policy or strategy statements has costs and benefits. The policy process may help identify conflicting policy objectives and encourage resolution before commitments are entered into. Development of policy or strategy statements absorbs scarce government time and resources and attracts interest group and bureaucratic interests seeking to promote their own positions. However this process could, among other things, clarify the government's views about its role, if any, beyond the delivery of the core regulatory functions. It could address how government ownership interests are going to be protected and managed. It would articulate how adverse environmental issues would be handled, both local and global (Celia and Ernesto, 2006).

Policy approach was obviously an ingenuous conception that tended to see a simplistic relationship between improved understanding of policy action and better government performance. In the late 1950s and early 60s it was believed that the association between experts (policy analysts) and policymakers would facilitate solutions to society's problems. This helped focus attention on crafting tools to be made available to politicians and decision-makers, while theoretical considerations were relegated to secondary importance (Celia and Ernesto, 2006). Hence, the roles of policy analysts and consultants in the success of governance cannot be overemphasized.

Effects of fuel subsidy on the factors affecting transport costs and transport rates

It is quite obvious that fuel subsidy has effects on the factors affecting transport costs and transport rates. Since transport costs are mostly fixed amount, the factors are mostly associated with transport rates meanwhile, the factors affecting transport costs and transport rates and how fuel subsidy impact them are listed below:

1. Geography: Its impacts mainly involve distance and accessibility. Distance is commonly the most basic condition affecting transport costs. The more difficult it is to trade space for a cost, the more important is the friction of distance. The friction of distance can be expressed in terms of length, time, economic costs or the amount of energy used. It varies greatly according to the type of transportation mode involved and the efficiency of specific transport routes. Landlocked countries tend to have higher transport costs, often twice as much, as they do not have direct access to maritime transportation (Jean, Claude and Brian, 2006). Fuel subsidy will tend to reduce the overall transport costs and transport rates incurred on distance and accessibility, also, the removal of fuel subsidy will add more or increase the overall transport cost and transport rates incurred on distance and accessibility (Adeniran, 2016d);
2. Type of product: Many products require packaging, special handling, are bulky or perishable. Coal is obviously a commodity that is easier to transport than fresh flowers as it requires rudimentary storage facilities and can be transshipped using rudimentary equipment. Insurance costs are also to be considered and are commonly a function of the value to weight ratio and the risk associated with the movement. As such, different economic sectors incur different transport costs as they each have their own transport intensity. For passengers, comfort and amenities must be provided, especially if long distance travel is involved (Jean, Claude and Brian, 2006). Fuel subsidy will tend to reduce the overall transport costs and transport rates incurred on product packaging, special handling, bulky or perishable products also, the removal of fuel subsidy will add more or increase the overall transport cost and transport rates incurred on product packaging, special handling, bulky or perishable products (Adeniran, 2016d);
3. Economies of scale: Another condition affecting transport costs is related to economies of scale or the possibilities to apply them as the larger the quantities transported, the lower the unit cost. Bulk commodities such as energy (coal, oil), minerals and grains are highly suitable to obtain lower unit transport costs if they are transported in large quantities. A similar trend also applies to container shipping with larger containerships involving lower unit costs (Jean, Claude and Brian, 2006). If goods are transported in large quantity, more fuel will be required. Therefore, the advantage incurred on transporting large volumes of goods is a disadvantage to the amount of fuel to be consumed. If fuel is been subsidized, the cost of fuel to be consumed when transporting large volumes of goods will be minimal but in the case of subsidy removal, the cost of fuel to be consumed will be at a very high rate and transport service provider must be critical and analytical in taking decisions of cost (Adeniran, 2016d);
4. Energy: Transport activities are large consumers of energy, especially oil. About 60 percent of all the global oil consumption is attributed to transport activities. Transport typically accounts for about 25 percent of all the energy consumption of an economy. The costs of several energy intensive transport modes, such as air transport, are particularly susceptible to fluctuations in energy prices (Jean, Claude and Brian, 2006). According to Ezeh (2012), fuel in Nigeria is an inelastic product both at demand and supply sides, which means that it is very difficult for consumers to find alternatives to the use of it in their daily lives. Alternatives such as electric trains, solar heaters and cookers are non-existent in Nigeria and hydropower and dams are not dependable sources of power in Nigeria. In a nation with single means of fuelling transport vehicle, fuel subsidy is mostly preferable and will results into reduced transport costs and rates but in the case of fuel subsidy removal, transport costs and rates will increase. It is quite better that before subsidy removal, other sources of energy or fuel or other sources of energy powered vehicle such as hydrogen gas, electric, solar and others should be made readily available, for it will normalize the high effects on transport cost and overall production cost because of the available close substitutes which will

be influenced as a result of competition (Adeniran, 2016d);

5. Trade imbalances: Imbalances between imports and exports have impacts on transport costs. This is especially the case for container transportation since trade imbalances imply the repositioning of empty containers that have to be taken into account in the total transport costs. Consequently, if a trade balance is strongly negative (more imports than exports), transport costs for imports tend to be higher than for exports. The same condition applies at the national and local levels where freight flows are often unidirectional, implying empty movements (Jean, Claude and Brian, 2006). In Nigeria, transport import is more than export and this implies that number of cargo discharged is more than the number of cargo loaded, therefore there is no balance between filled containers and empty containers. If fuel is subsidized, the import costs will be minimized but if fuel subsidy is removed, import cost will be very high and this will significantly increase the cost of the products and consumables. If Nigeria will rely on importation, then there is need for fuel subsidy. The present shifting in the diversification of the economy should also results into shifting from fuel subsidy to fuel subsidy removal. This will also improve the development of Nigeria economy (Adeniran, 2016d);
6. Infrastructures: The efficiency and capacity of transport modes and terminals has a direct impact on transport costs. Poor infrastructures imply higher transport costs, delays and negative economic consequences. More developed transport systems tend to have lower transport costs since they are more reliable and can handle more movements (Jean, Claude and Brian, 2006). Efficient transport infrastructures results into low fuel consumption and the better if fuel subsidy removed. Also, poor transport infrastructures results into high fuel consumption and fuel subsidy is needed. Hence, fuel subsidy removal should be better considered if the government must have provided a smooth transport network for easy accessibility (Adeniran, 2016d).

Mobility can be predisposed to be influenced by transport costs, meanwhile transport costs tend to be influenced by fuel subsidy and fuel subsidy removal. Analytical facts revealed that the use of passenger vehicle highlights the relationship between annual vehicle mileage and fuel costs. In the case of fuel subsidy, it implies lower fuel costs and hence, the higher the mileage. Also, in the case of fuel subsidy removal, it implies higher fuel costs and hence, the lower the mileage (Adeniran, 2016d). This is in accordance with the view of to Jean, Claude and Brian, (2006) "the more affordable mobility is, the more frequent the movements and the more likely they will take place over longer distances".

Everybody appreciates the fact that when motorists pay more for fuel, the transport fare increases. This has been the case even when the increase is only marginal. In the particular case where the cost of fuel is expected to double, the increase in transport fare will be astronomical. This will in turn affect everything else – school fees, house rent, just name it (Stephen, 2015).

FUEL SUBSIDY AS POLICY

Fuel subsidy as a policy is an attempt by government to government to pay for the difference between the price of fuel in the pump and the actual cost of the product. So by paying the difference, the government enables fuel to be sold at a lower price so that it will help alleviate the burden on its people especially the lower income group..As issues arising in different sectors are being addressed resolved in its policy so also must issues surrounding subsidy be addressed and resolved in its policy.

According to Afolabi (1999), it has been shown in the past, that any significant increase in the fuel price often cause economic recession, such as witnessed in year 1973, year 1979 and year 2016. One way in which the government had made fuel sufficiently available and affordable to the low income earner is through subsidy. The introduction of subsidy indirectly promotes economic growth and development as a result of the affordability of the price of goods which provides an enabling point for the middle class citizen to contribute significantly to the economy. He also stated that lesson derived from China shows how subsidy had contributed significantly to economic growth and development. The success could be attributed to the affordability of energy and hence an increase in its demand.

Furthermore, in the perspective of Nwosu (2009), subsidy removal though will play significant role in nation building it is not the absolute resort to improve the economy. While it looks significantly important, there are other measures that could be adopted even without subsidy removal which would improve the economy significantly. And the presence of subsidy will play a pivotal role to the accomplishment of this measure as is being witnessed in china.

Moreover, in the perspective of Onwioduokitanda and Adenuga (2012), removing fuel subsidy at the same time devaluing Naira would result into increasing cost of production for the few companies that are still in existence. This would results into more job losses (as the companies would be forced to down-size in order to survive) in addition to the unavoidable increase in the cost of the companies' products is the increase in the cost of providing services.

Additionally, Ering and Akpan (2012) stated that increasing fuel costs as a result of fuel subsidy removal force people to rethink on their life style and mode of transportation as a strategy for surviving the hard times. For instance, people now ride on horse powered taxis, some choose cow-powered land cruisers and even do motorcycle powered tourist wagon, all in an attempt to avoid the use of petrol and its cost. Increases in transportation costs always have ripple effects on other social issues. The prices of food stuff also went up. The result of fuel price increase results into increase transportation costs, increase production cost and marketers had to factor in the increment in order to make marginal gain.

SUMMARY OF FINDINGS

These findings are in-line with the finding obtained by Adeniran (2016d). It states below;

1. Fuel subsidy reduces the overall transport costs and rates incurred on transport distance and accessibility, also, the removal of fuel subsidy increases the overall transport costs and rates incurred on transport distance and accessibility;
2. Fuel subsidy reduces the overall transport costs and rates incurred on product packaging, special handling, bulky or perishable products also, the removal of fuel subsidy increases the overall transport costs and rates incurred on product packaging, special handling, bulky or perishable products;
3. If goods are transported in large quantity, more fuel will be required; therefore, the advantage incurred on transporting large volumes of goods is a disadvantage to the amount of fuel to be consumed. If fuel is been subsidized, the cost of fuel to be consumed when transporting large volumes of goods will be minimized but in the case of subsidy removal, the cost of fuel to be consumed will be at a very high rate and transport service provider must be critical and analytical in taking decisions of cost;
4. In a nation that has no close substitutes to vehicle fuel or energy, fuel subsidy is mostly preferable and will results into reduced transport costs and rates but in the case of fuel subsidy removal, transport costs and rates will increase. It is quite better that before subsidy removal, other sources of energy or fuel to power a vehicle such as hydrogen gas, electric, solar and others should be made readily available, for it will normalize the high effects on transport cost and overall production cost;
5. If fuel is subsidized, the import costs will be minimized but if fuel subsidy is removed, import cost will be very high and this significantly increases the cost and purchasing power of products and consumables. If Nigeria will continue to rely on importation, there is need for fuel subsidy. The present shifting in the diversification of the economy should also results into shifting from fuel subsidy to fuel subsidy removal. This will also improve the development of Nigeria economy;
6. Efficient transport infrastructures results into low fuel consumption and the better if fuel subsidy removed. Also, poor transport infrastructures results into high fuel consumption and fuel subsidy is needed. Hence, fuel subsidy removal should be better considered if the government must have provided a smooth transport network for easy accessibility; and
7. In the case of fuel subsidy, it implies lower fuel costs and hence, the higher the mileage. Also, in the case of fuel subsidy removal, it implies higher fuel costs and hence, the lower the mileage.

RECOMMENDATIONS AND CONCLUSION

The efficiency of sound policy signifies that a policy is analytically based, economically sound, politically acceptable, socially credible, environmentally suitable and sustainable, for the betterment of the citizenry. This signifies that fuel subsidy is a means to better the lives of the citizens.

Among other indices of attaining a diversified economy is the diversification of transport infrastructures and energy sources. Hence, it is expedient for a country or nation to embark on developing diversified modes of transport infrastructures and fuel (energy) sources before such country will boast to have achieved a diversified economy and sustainable development.

The effect of fuel subsidy removal in the economy is the rising costs of transportation; rising costs of production; rising costs of procurement; households will be meticulous about spending to compensate extra spending on fuel; unnecessary trips will be cancelled and reduction in motorization. Although, fuel subsidy removal is a means to reducing indiscriminate fuel consumption and result to reduction in carbon emission.

To ensure sound policies, the following measures are recommended below;

a. In other to test the social credibility of formulated policies, the government should establish public institutes that will be solely responsible for collecting, recording, analyzing data relating to testing the social credibility of formulated policies and presenting the results before implementation. This will enable the policy makers to know if the formulated policy will pass through implementation stage and not using their own discretion.

b. Establishment of Think-Tank organizations that will be solely responsible for advising the government on several decisions to take on issues. This organization can be affiliated with the Nigerian Universities such that it will welcome the initiatives of students, lecturers are researchers. It will also be an avenue to collect relevant data and submit various recommendations after researches must have been carried out.

c. In other to efficiently recover more looted fund for constructing infrastructures, the concerned policy makers and stakeholders can adopt death sentence as a threat. For instance, stating a stipulated grace period for all looted funds to be returned before investigation. Immediately the stipulated time elapsed, there will be proper investigation and if it was later discovered that some individuals did not return the exact amount or even refuses to return any, they will face death penalty by crushing by heavy machinery and not by hanging. This will create enough fear.

d. Clearly stating the statutory responsibilities of law enforcement agencies and other concerned professionals to prevent misalignment of responsibilities when been discharged.

e. Corruption as a deadly disease in governance should be combated using strict and deadly punishments such as death sentence and life imprisonment.

f. Political office holders and leaders in governance should be retrained on policy making, and leadership to enhance high sense of mental magnitude in governance.

Finally, Nigeria's economy was officially declared to be in recession, following the figures released by the National Bureau of Statistics (NBS) officially confirmed, although, various government officials notably, the Central Bank of Nigeria (CBN) Governor, Godwin Emefiele and the Minister of Finance, Kemi Adeosun, said the economy was in a "technical" recession, their official confirmation came with the new figures released in August, 2016 meanwhile, fuel subsidy was totally removed by the present administration in May, 2016. This recession became noticed after almost three months when fuel subsidy was totally removed by the present administration. Various attempts by previous government administration to remove fuel subsidy have huge negative effects on the nations' economy.

For a developing country like Nigeria, fuel subsidy is considered as major tool to enhance citizens' welfare most especially the middle and low income earners, meanwhile, the disbursement of fuel subsidy must be properly monitored to guide against corruption as shown in the past administrations. Strict policies can be set aside as punishment (such as death sentence, life imprisonment and other costly punishments) for any corrupt political office holder.

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