

Nigeria can 'Permanently' End its Recurring Fuel Crisis

As Nigeria continues to experience shortage of petroleum products, especially Premium Motor Spirit (PMS, Petrol), the usual long queues are commonplace at most filling stations across the country, with the incidence higher in some areas than others. Just as it is expected of any commodity with supply less than demand, there are situations of selling above the regulated price of N145/litre, manipulation of fuel dispenser meter, emergence of black market and adulteration of fuel, among several others. Regulation and penalty against erring stations notwithstanding, the situation persists in many locations, leading to increase in transportation and input costs to households and businesses; thereby lowering welfare and profitability.

The pump price of petrol in Nigeria has increased several folds during this democratic regime. Petrol price rose from N20/litre in 1999 to N65 in 2009; N86 in 2015; N145 in May, 2016; and an average price of N172 during the recent shortage. The government's justification for price increase has usually been the need to remove fuel subsidy and channel such expenditure into more productive use for the benefit of citizens. These, as well as the argument that some unscrupulous persons were exploiting the subsidy system, were also put forward by the current government when the price was raised from N86 to N145 in May, 2016.

But now that the landing cost of petrol is N171, it has become unprofitable for oil importers to sell at the regulated price of N145. Therefore, Nigerian National Petroleum Corporation (NNPC) remains the sole importer of fuel and it is making efforts to supply the marketers, amidst several other logistical challenges it faces. Also, guided by the information of the mis-match between regulated price and landing cost, incentives for hoarding, diversion, panic buying and speculation naturally arose among marketers and consumers.

The N26 difference between the landing cost and regulated pump price is subsidy, but subsidy was earlier removed and it was not provided for in the budget. This point has been raised in many discussions in the country. However, because NNPC has been the major importer of refined fuel, it means that it has been covering the cost difference, that is, paying the 'subsidy', but not from the federal government budget. This can then explain part of the losses that the Corporation has recorded in the past.

Subsidy cannot be totally removed when the regulated price of fuel is fixed. Since the imported price of fuel is not constant and prices tend to rise over time, due to certain factors, the domestic pump price of fuel will be changing. But if the government decides to fix it at a particular price, it must be ready to bear the cost difference anytime the imported price rises above the regulated pump price. This is called subsidy. In the present case, the price was fixed at N145/litre in May, 2016 when the international oil price was \$46.85pb and the exchange rate was N197/\$ and later N284/\$ in June, 2016. However, crude oil price has touched \$70pb and exchange rate at the Interbank Foreign Exchange Market (IFEM) is at N306 and N365 at the Investors' and Exporters' FX Window (I&EFW). Thus, both the crude oil price and exchange rate have changed, the current petrol price template is therefore no longer applicable.

With the current arrangement, government will either pay subsidy explicitly to marketers or NNPC pay implicitly by selling below costs. There are other proposals to address this problem as given by the Minister of State for Petroleum. These include asking the Central Bank of Nigeria (CBN) to allocate foreign exchange to fuel importers at a rate far below the current IFEM rate or adopting a differential pricing regime where by NNPC sell at N145 per litre in all its outlets across the country while marketer are permitted to sell at market-determined prices. These solutions are still subsidy variants. But the suggestion from the Minister that 18 months be given to fix the refineries and other facilities to increase domestic refining capacity appears good provided it is properly followed through and with appropriate stopgap measures to moderate the effect of shortages in the interim.



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Meanwhile, several arguments have been put forward justifying the need for government to continue paying subsidy on fuel in Nigeria, including:

- Nigeria is a major producer of oil; therefore citizens should not pay a high (market) price for what their country produces.
- Fuel is an important variable in production, higher price implies higher cost of production, increased prices and less competitiveness for the country.
- The country's poverty level is very high and wages are low, it will be difficult to pay a market price without unnecessarily impoverishing the citizens further.
- Nigeria lacks adequate power/electricity supply and the citizens use fuel to generate their own power which is already expensive for business and household activities.
- Since the country cannot produce/refine its own fuel, citizens should not be made to pay for the inefficiencies coming from inability to fix domestic refineries and establish new ones.

Despite their merits, proponents of these arguments also recognise that subsidy payments arrangement in Nigeria is bedeviled with various corrupt practices. It is therefore not unusual to hear people arguing against price increase and subsidy payment simultaneously. This seems inconsistent as the move against price increase is to further support subsidy payment. One solution therefore will be to argue for the continuous payment of subsidy and at the same time ask the government to ensure that exploitation of the subsidy schemes is discouraged and violators are duly brought to book. Otherwise, everybody should be ready to pay the market price which can sometimes be high.

There are benefits to complete removal of subsidy and paying market price though, which include:

- Money has alternative uses. The amount used in paying subsidy can be used to provide other amenities which Nigeria needs to improve the welfare of the citizens.
- The rich often consume more fuel; thus, subsidy implies that the nation's money is used to subsidize the consumption of the rich as against the poor who need more assistance.
- Whatever is subsidized will be cheaper, hence, over-consumed and this can encourage inefficiencies in the utilization of scarce resources and distort the workings of the market system.
- There must be a guaranteed source of financing subsidy, otherwise it will be unsustainable and drastic measures may be taken when government's source of finance is threatened leading to withdrawal of subsidy and unpredictability in government policies.
- As evident in Nigeria, the system can easily be exploited by corrupt government officials and private players who see opportunities to make quick money through over-invoicing of imports, diversion of imported fuel, among others.

When the two views are juxtaposed, arguments for not paying subsidy may be stronger. This is because of the difficulties in monitoring compliance and the needs to put subsidy payments to more productive use. However, the success of complete subsidy removal premises on certain assumptions and actions such as:

- Significant government expenditure to be made in visible projects and programmes that the citizens trust and feel are enhancing their welfare.
- Efforts must be made to increase the standard of living of the populace and raise their purchasing power
- Electricity supply must be significantly improved to lower fuel demand and use in power generating sets.
- Market price can sometimes be volatile, thus, appropriate measures to moderate such movements without falling into the trap of long-term price fixing.
- Local refining of fuel, which does not necessarily mean overhauling the existing refineries. More important is the attraction of private investment in the sector and ensuring that the market is not dominated by a single individual or entity.

Achieving all these may be a tall order for Nigeria, especially given the experience over the years. But the country needs to make significant achievements in many of these areas to move forward and '**Permanently**' **End the Recurring Fuel Crisis**. Otherwise, we would be in and out of subsidy payments and fuel crisis, leading to policy inconsistencies.



FGN shared N609.96bn in December 2017

With positive global economic growth and supply restrictions by OPEC, oil price has been on the increase and above the Nigerian budget benchmark of \$45. This has led to increase in amount disbursed by the Federation Account Allocation Committee (FAAC) in the month of December in which the sum of N609.96bn was disbursed to the three tiers of government from the revenue generated in November 2017. The amount increased by 14.5% when compared to N532.76bn disbursed in November 2017. The breakdown showed that statutory revenue accounted for N529.5trn, and value added tax (VAT) for N80.43bn.

Analysis of the distribution among the three tiers of government showed that the Federal government received the sum of N259.81bn, States received N164.51bn and Local government received N124.09bn while the sum of N43.21bn was shared among the oil producing states as 13% derivation fund. Further breakdown of the revenue allocation distributed to the Federal government showed that the sum of N223.56bn was shared to the FGN consolidated revenue account; N4.71bn disbursed as share of derivation and ecology; N2.36bn as stabilization fund; N7.92bn for the development of natural resources and N5.45bn to the Federal Capital Territory (FCT) Abuja.

The trend of the Federal Account Allocation Committee (FAAC) disbursement shows that the amount shared increased across the months in the year 2017 to peak at N637.7bn in September, 2017. More over, government generated revenue has been on a gradual increase because of the improvement in oil revenue in recent months in terms of both output and export price.

However, government should continue to improve the non-oil revenue and the efficiency in tax collection in order to enhance further improvement in amount disbursed in the year 2018. Also, more support should be rendered to the private sectors particularly the small scale and medium enterprises (SMEs) as this would enhance job creation, youth employment and widen Nigeria’s revenue base.

Inflation Rate slowed down to 15.37% in December 2017

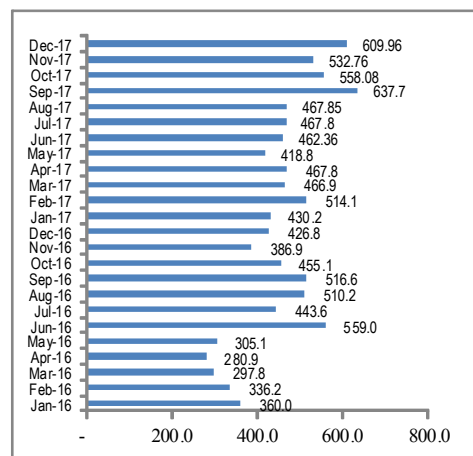
The National Bureau of Statistics (NBS) recorded a drop in the Inflation rate to 15.37% year on year in December 2017. This represents a decline of 0.53% and is the eleventh consecutive month of a decline since the beginning of the year.

However, the headline inflation increased by 0.59% in December which is 0.19% higher than the rate of 0.78% recorded in November. Similarly, the food index increased to 19.42% (year-on-year) in December, down by 0.89% from the rate recorded in November. The rise in food index continued at a slower pace year on year due to increases in prices of bread and cereal; potatoes, yam and other tubes; coffee tea and cocoa; milk cheese and eggs; fish, oil and fats . In addition, the core inflation stood at 12.09% falling from the rate recorded in November 2017 of 12.21%. The Urban and Rural Index stood at 15.78% and 15.02% respectively.

On state by state basis, all items inflation is highest in Bauchi, Kebbi and Nasarawa which is at 21.92%, 18.67% and 18.16% respectively while Kogi and Delta recorded the slowest rise in headline inflation at 10.03% and 12.61%.

Since inflation has only dropped marginally by few percent, the Monetary Policy Committee (MPC) may likely maintain the benchmark monetary policy rate in order to ensure that macroeconomic stability is maintained. However, there should be no delay in the confirmation of the MPC nominees to avoid sending the wrong signal and uncertainty; thereby having adverse effects on the economy as a whole. However, it is expected that the rate of inflation would likely increase in January 2018 due to the already low base year effect as well as delayed effects of increase in fuel price and transport cost starting 2 months ago.

Monthly Trend of FAAC Disbursement



Source: National Bureau of Statistics, 2018; ADSR Research

More over, government generated revenue have gradually been on the increase because of the improvement in oil revenue in recent months in terms of both output and export price.

Trend of Inflation Rate in Nigeria

	2016 Dec	2017 Oct	2017 Nov	2017 Dec
Headline	18.55	15.91	15.90	15.37
Core	18.10	12.14	12.21	12.09
Food	17.39	20.31	20.31	19.42
Urban	20.12	16.19	16.27	15.78
Rural	17.2	15.67	15.59	15.02

Source: National Bureau of Statistics, 2018; ADSR Research

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Nigerian Capital Market Rebounds in 2017

The All Share Index of the Nigerian Stock Exchange closed the year 2017 at 38,243.19 gaining 42.79% year-on-year. The equities market capitalisation at the end of the year 2017 stood at N13.609trn, having gained 47.68% year-on-year. Also, Foreign Portfolios Investment (FPIs) increased by 72.6% from N278.5bn recorded in November to N480.80bn in December 2017. Total domestic transactions rose by 113.7% from N128.39bn recorded in November 2017 to N274.32bn in December 2017. In the domestic market, retail and institutional transactions stood at N32.92bn and N241.40bn respectively.

In the Unlisted Securities Market, the index finished the month of December 2017 at 604.88 points, gaining 0.82% month-on-month and losing 2.64% year-on-year. Consequently, Market Capitalization for the Unlisted Securities Market ended the year at N409.34bn, having lost 3.43% year on year.

In addition, monthly average FMDQ rate showed that the Open Buy Back (OBB) and Overnight (O/N) rate stood at 3.83% and 4.50% respectively by the end of December 2017.

The improvements in key economic indicators and increase in companies' earnings significantly impacted the Nigerian capital market in 2017. For instance, the Nigerian Stock Exchange (NSE) recorded the milestone of the third best performing market globally in 2017. We expect the market to continue to soar in 2018. However, political activities ahead of 2019 election may likely affect market growth but this could be short lived. Therefore, capital market operators and regulators must continue to ensure effective and efficient performance of the nation's bourse so as to boost the confidence of investors in the market.

Nigeria's External Reserves hits \$38.77bn in 2017

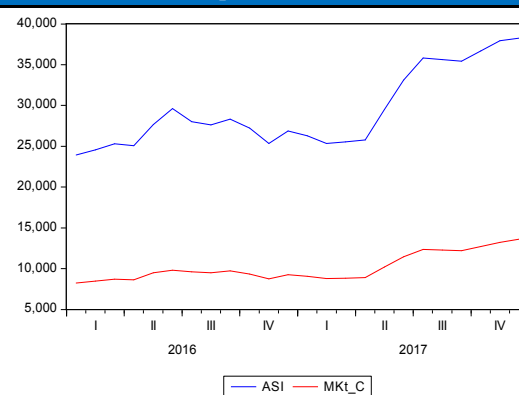
The Nigeria's external reserves level increased to \$38.77 billion as at the end of the December 2017, appreciating by 50.04% from previous year's \$25.8bn.

The rise in the external reserves can be traced to the improvements in foreign exchange supply attributable to the success of Eurobond issued by the federal government during the year, higher oil prices and increased foreign inflows on the back of CBN I&E forex window.

The Nigerian currency stood at an average of N306.33/US\$ at the interbank market and N362.85/US\$ at the parallel market by December 2017. Meanwhile, the average value of Naira at the interbank market depreciated by 0.14% but depreciated by 0.12% in the parallel market at the same period. The stabilization of the Nigeria currency is as a result of the continued intervention of the Central bank in the foreign exchange market coming from accretion in reserves.

The increased in foreign exchange reserves from about \$23bn in October 2016 to \$40.33bn on 25th January, 2018 have influenced strong investors confidence in Nigeria. It is expected that the country's reserves will continue to increase if government should persistently manage the foreign exchange allocation and ensure increased foreign portfolio -inflow.

Trend of All Share Index and Equity Market Capitalisation



Source: National Bureau of Statistics, 2018;
ADSR Research

However, political activities ahead of 2019 election may likely affect market growth but this could be short lived.

Nigeria's Exchange Rate and External Reserves

	Oct	Nov	Dec
Interbank EXR	305.62	305.90	306.33
Parallel EXR (AVR)	362.21	362.41	362.85
Ext. Res.(\$' Billion)	33.83	34.95	38.77

Source: National Bureau of Statistics, 2018;
ADSR Research

The increased in foreign exchange reserves from about \$23bn in October 2016 to \$40.33bn on 25th January, 2018 reflects strong investors confidence in Nigeria.

Do Nigerian companies need more foreigners as their board members?

Corporate boards can benefit from the knowledge of foreign members because of their global management practices which can help improve firms’ performance. The foreign board members may also help assure foreign minority investors that the company is managed professionally in their best interests. It is important to examine the extent to which Nigerian corporates have foreigners on their boards.

We examined the presence of foreign board members among listed Nigerian firms from the period of 1980 to 2016. This comprise the percentage of Nigerian companies that have foreigners on their board and percentage of foreigners on the board of these companies.

The result shows that on the average, 60.4% of the listed companies have foreign board members but this has decreased from 88.9% between the period of 1980 - 1989 to 45.6% between the period of 2010 - 2016. Another insight from the available data indicates that foreigners represent an average of 35.9% on the companies board which is still appropriate for them to bring expertise and also enhance the diversity capability.

The decreasing trend of foreign board members among Nigerian companies can be justified by the fact that Nigerians are increasingly taking charge of the companies as they possess what is required to direct them.

Trend of Companies Foreign Board Members				
Period	Number of Companies	Number of companies Board with Foreigners	Percent of firms with foreign Board members (%)	Average Percent of foreigners on Board
1980-1989	352	313	88.9	40.8
1990-1999	1,207	824	68.3	35.1
2000-2009	1,213	665	54.8	36.2
2010-2016	868	396	45.6	32.9
All Period	3,640	2,198	60.4	35.9

Source: Anostat Platform, 2018; ADSR Research

The decreasing trend of foreign board members among Nigerian companies, can be justified by the fact that Nigerians are increasingly taking charge of the economy, as they possess what is required to direct them. .

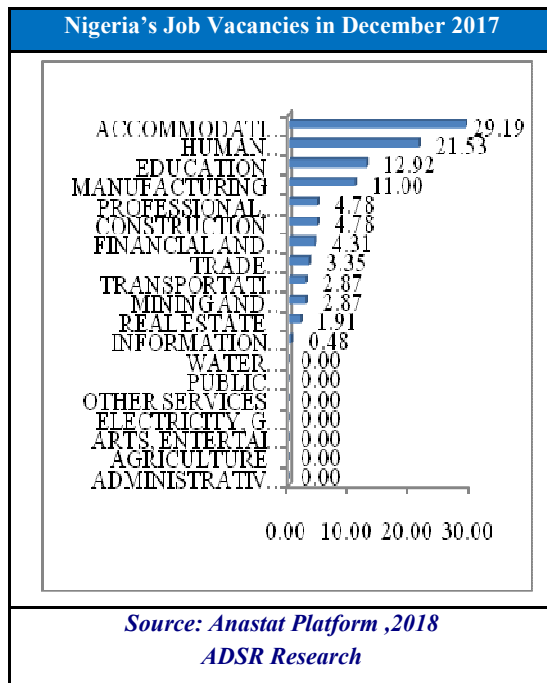
Job Vacancy in Nigeria suffers 47.89% decline

The Anostat databank recorded a decrease of 47.89% in the number of job vacancy advertisement in Nigeria newspapers in the month of December 2017. The survey of the result shows the trend, type and pattern of jobs advertised during this period. The total number of job openings decreased from 384 in November to 209 in December 2017. In addition, it fell from 322 in December, 2016, indicating a decrease of 35.1%.

Accommodation and food services sector tops the list of the first three (3) sectors with about 29.2% of the total number of job advertisement placed and this is followed by Human health and social services sector with 21.53%. During the month, education sector takes the third highest rank with about 12.92% of the total job advertised. Explicitly, Accommodation and food services sector experiences a decline of about 41.86% and 29.78% month on month and year on year respectively while Human Health and Social Sector recorded a decrease of about 38.36% month on month and an increase of about 4.65% year on year respectively during the month of this report. In addition, it is observed that the education sector witnessed an increase of 50% month on month and a decrease of 61.79% year on year. The sector with the least number of job advertisement is from Information and Communication sector representing only 0.32% of job advertised in December. However, no job vacancy was available in administrative and support services, agriculture, art entertainment and recreation, electricity, public administration and water supply / waste management.

Furthermore, the skill most sort for by companies in December 2017 was the professionals. This accounts for 46.93% of the job advertisement for the month under review . Other skills with significant increase in the month include managers and technicians & associate professionals accounting for 13.92% and 12.94% of the job advertisement. Analysis of data shows that job advertisements in Nigeria have dramatically reduced which is also evidence with the country’s already high unemployment rate.

A major implication of this is that unemployment will still remain a major challenge in Nigeria and the rate is unlikely to fall in the next two quarters.



The total number advertisements for job openings decreased from 593 in November to 309 in December 2017

Petrol prices hit highest in December 2017

According to the data released by the National Bureau of Statistics (NBS), the Premium Motor Spirit (PMS) price rose from N145.6 in November to an all time high of N171.8 in December 2017. This represents an increase of 17.1% month on month and increase of 17.98% year-on-year. On a state by state basis, the highest average prices of petrol were recorded in Abia, Kebbi and Anambra which stood at N220.4, N210.08 and N210 respectively. In the same vein, lowest average price of petrol were reported in Ekiti, Abuja and Lagos which stood at N146, N146.53 and N149.83 respectively.

However, average price paid by consumers for diesel increased by 3.29% month-on-month and increased by 4.87% year-on-year from N199.26 in November to N205.81 in December. In addition, average price per litre paid by consumers for Kerosene increased by 6.32% month-on-month and 22.5% year-on-year from N267.14 in November to N284.03 in December. Similarly, average price paid by consumers for the refilling of a 5kg cylinder for Cooking Gas decreased by 4.84% month-on-month and increased by 13.02% year-on-year from N2,377.81 in November to N2,262.79 in December 2017.

These show that there has been increases in the average prices of petrol, kerosene and diesel, raising the expenditure of households and cost of production of firms in each economic sector. The recommendations of the leading article in this publication will be quite useful in addressing these price movements and their implications.

Average Prices of Petroleum Products (₦)			
	Oct	Nov	Dec
PMS (Petrol)	145.99	145.60	171.79
AGO (Diesel)	201.96	199.26	205.81
HHK (kerosene) Per litre	273.44	267.14	284.03
HHK (kerosene) Per gallon	1,035.12	1,052.33	1,048.97
Cooking gas 5kg	1,990.71	1911.44	2,374.07
Cooking gas 12.5kg	4,561.14	4,542.30	4,452.83

Source: National Bureau of Statistics, 2018; ADSR Research

Government also should set the fuel price to avoid the increasing price in other sectors of strategic commodities.

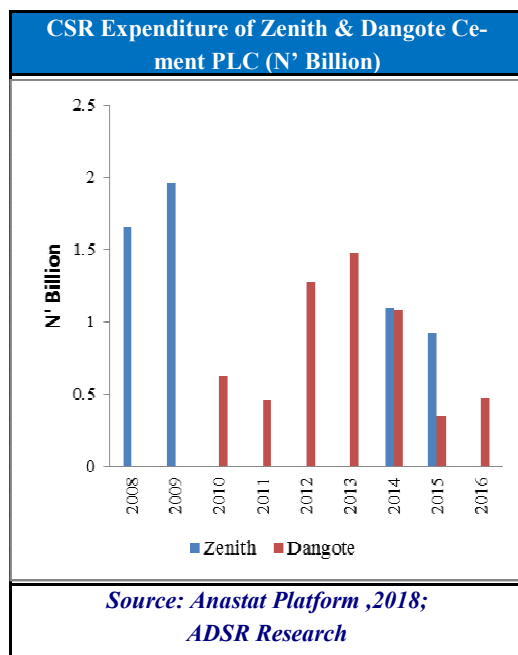
Zenith Bank and Dangote Cement make utmost CSR expenditure

Firms uses social practices as tools to establish close relationship with their community, thereby fostering stable environment and business performance. Firms in Nigeria already do this and are committed to the provision of philanthropic activities referred to as corporate social responsibility.

In order to gain further insights into the commitment of Nigerian firms to corporate social responsibility (CSR), we analyzed the expenditures on CSR for all listed firms on the Nigerian Stock Exchange. It is observed than about 50% of the firms are committed to these philanthropic activities. Two firms stand out as the highest spender in history. They are Zenith Bank Plc. and Dangote Cement Plc. Zenith Bank Plc is found to incur the highest expenditure on CSR in 2008 and 2009 amounting to N1.66bn and N1.96bn respectively. Similarly, Dangote Cement Plc. is found to incur the highest expenditure on CSR in 2012 and 2013 amounting to N1.27bn and N1.49bn respectively.

The philanthropic activities include the provision of yearly scholarship, construction of school, hospitals and concrete roads, provision of job opportunities, ICT centres, empowerment programmes among others.

Since CSR is the soul of today's corporate practice as the donations from businesses serves as a means of alleviating poverty, thus all firms are encouraged to be committed to these projects and further enhance the development of their stakeholders, especially host communities.



It is observed that about 50% of the firms are committed to these philanthropic activities.

Wise Quotes

"Every day do something that will inch you closer to a better tomorrow"

- Doug Firebaugh

"Don't be afraid to give up the good and go for the great."

- Twitter

I'd rather regret the things that I have done than things that I have not done.

- Lucille Ball

"The greatest glory in living lies not in never falling, but in rising every time we fall"

-Nelson Mandela

"The greatest day in your life and mine is when we take total responsibility for our attitudes. That's the day we truly grow up."

- John C. Maxwell

"In the end, it's not the years in your life that count. It's the life in your years."

- Abraham Lincoln

"Life isn't about finding yourself. Life is about creating yourself."

-George Bernard Shaw

"The biggest adventure you can take is to live the life of your dreams."

- Oprah Winfrey



Jokes

A rich man was trying to find his daughter a birthday gift when he saw a poor man with a beautiful white horse. He told the man that he would give him \$500 for the horse.

The poor man replied, "I don't know mister, it doesn't look so good," and walked away.

The next day the rich man came back and offered the poor man \$1000 for the horse.

The poor man said, "I don't know mister, it doesn't look so good."

On the third day the rich man offered the poor man \$2000 for the horse, and said he wouldn't take no for an answer. The poor man agreed, and the rich man took the horse home.

The rich man's daughter loved her present. She climbed onto the horse, then galloped right into a tree.

The rich man rushed back over to the poor man's house, demanding an explanation for the horse's blindness.

The poor man replied, "I told you. It doesn't look so good."

Analysts

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