



Insight

Removal of Fuel Subsidies : Africa

Summary

Massive demonstrations are taking place in prominent oil-producing nations such as Nigeria and Angola as they remove fuel subsidies. The strategic decision to gradually remove fuel subsidies by 2025 reflects a broader shift towards market-driven pricing and reducing fiscal burdens, amid challenges.

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16 Jun 2023



What is happening in Angola

- The withdrawal of subsidies, which according to Nunes Junior was necessary to make public spending sustainable, came into effect on 05 Jun and led to a sharp increase in fuel prices throughout the country.
- In Huambo, a city in Angola, clashes between law enforcement and protesters resulted in five fatalities and eight injuries on 12 Jun, 2023.
- Nationwide protests against high fuel prices and demonstrations are scheduled from 10 to 17 Jun
- On 14 June, a protest was organized by motorcycle taxi drivers leading to violence in Angola's northern Namibe province and 86 protestors were arrested.
- Protests have been scheduled for 17 June in the provinces of Benguela, Bengo, Cuando-Cubango, Cunene, Huambo, Huila, Luanda, Lunda Sul, Lunda Norte, Moxico, Malanje, Namibe, and Zaire
- The protests that followed have gained significant traction and are expected to continue throughout Jun, indicating a prolonged period of civil unrest and resultant disruptions in the country.
- The protests have expanded beyond the issue of fuel prices to encompass various grievances, including poverty, media censorship, and police violence. This indicates a broader discontent with the government and its policies in Angola.



What is happening In Nigeria

- Nigeria's Organised Civil Society, consisting of civil society leaders and pro-democracy activists, held a nationwide protest scheduled on 12 Jun.
- The protest aims to address the issues of petrol subsidy fraud and the recent hike in fuel prices.
- Civil Society believes that the real problem with Nigeria's economy lies in the cost of governance and privileges enjoyed by a select group of elites.
- The protestors demand the reversal of the fuel price hike, consultations with key stakeholders, and the removal of all corrupt subsidies.
- The coalition also seeks transparency regarding the savings from subsidy removal, the utilization of funds, and the impact on capital projects and infrastructural development.
- They express concerns about the \$800 million World Bank subsidy loan, the supply side of refined petroleum products, and the role of the Nigerian National Petroleum Corporation (NNPC).
- The coalition questions the implementation and funding of government agreements with labor unions, particularly for the informal/private sector.
- The protest intends to mobilize citizens, youth, and the masses to challenge the government's subsidy removal policy and its economic and political consequences

Reasons

- The decision by Nigeria's newly elected President, Bola Tinubu, to end the long-standing fuel subsidy has generated significant economic challenges for the country. This move, aimed at addressing the substantial drain on revenue caused by subsidizing consumer petrol prices, has led to a spike in fuel, transportation, and food prices, impacting the daily lives of Nigerians.
- Angola has recently initiated a gradual removal of fuel subsidies with the aim of cutting off state subsidies on petrol and diesel by 2025. The Finance Minister, Vera Daves de Sousa, announced this decision, highlighting that by the end of 2025, petrol and diesel will be sold at their real market prices without any state subsidies. The partial cut in subsidies is expected to save the government 400 billion kwanzas this year, which accounts for 40 percent of fuel subsidies. However, the removal of subsidies does not include butane, cooking gas, or kerosene.



Impact

Oil and Gas Industry:

- Nigeria and Angola are major oil producing countries, and rise in price of fuel has triggered civil unrest which will impact on the oil and gas sector as well. The protests will disrupt oil transportation, lead to increase in criminal activities of oil theft, arson and, vandalism of fuel stations further adding to disruptions in output and supply. This would add to the higher oil prices globally and impact industries that rely on petroleum products, such as transportation, manufacturing, and power generation.

Transportation and Logistics:

- Higher fuel prices will significantly affect the transportation industry, including road transport, aviation, and shipping industry. Increased fuel costs can lead to higher operating expenses for companies, which will translate into higher fares for commuters and increased costs for shipping goods. If the protests disrupt transportation infrastructure or result in road blockades, it will further impede the movement of people and goods, affecting supply chains and transit delays.

in %



Impact

Hospitality and Tourism:

- Protests and civil unrest will negatively impact the hospitality and tourism industry. Travel advisories and safety concerns is likely to discourage tourists from visiting both countries, leading to a decline in tourist arrivals and hotel bookings. Reduced tourism activity will further result in lower revenues for hotels, restaurants, tour operators, and other businesses in the hospitality sector.

Manufacturing and Industrial Sectors:

- Manufacturing industries often rely on petroleum products as inputs, such as fuel for machinery and raw materials for plastics and chemicals. With increased fuel prices, manufacturing costs will rise, potentially leading to higher prices for consumer goods. Industries that heavily rely on fuel, such as construction, mining, and agriculture, will also experience increased operational costs and reduced profitability.

Energy sector:

- The stock prices of energy companies, especially those operating in Nigeria and Angola, is likely to be affected. Uncertainty and instability in the oil market is likely to lead to^{in %} increased volatility and potential declines in stock values.



Impact

Retail and Consumer Goods:

- Increased fuel prices has a likelihood of have a cascading effect on consumer goods prices. Higher transportation costs can lead to increased prices for goods in stores, affecting consumer purchasing power and potentially reducing overall consumer spending. This will adversely impact particularly those goods that require extensive transportation, such as perishable goods and imported products.

Financial Sector:

- Economic instability caused by protests will affect the financial sector. Uncertainty and unrest may lead to a decline in investor confidence, resulting in capital flight and reduced foreign direct investment. Banks and financial institutions may face challenges in loan repayment as businesses struggle with increased costs and lower revenues. Stock markets may experience volatility, impacting the value of shares and investments.

in %



Challenges

Political instability:

The firing of a minister in Angola and the demands for change in Nigeria's governance reflect broader political issues. Civil unrest can destabilize governments, erode public trust in leadership, and create a climate of uncertainty. This can lead to further political turmoil, calls for wider reforms, and even potential regime change

Foreign Investments:

If the protests and demonstrations escalate or lead to political instability, it may discourage foreign investments in these countries. Investors may become concerned about the security of their assets and the overall business environment, leading to a potential outflow of capital and decreased economic growth.



Challenges

Business Operations

Companies operating in Nigeria and Angola may face challenges in conducting their day-to-day operations due to protests, strikes, or disruptions caused by the unrest.

This can result in financial losses, supply chain disruptions, and difficulties in serving customers



Assessment

- The decision to withdraw fuel subsidies is a significant strategic move for both Nigeria and Angola. The country has been heavily reliant on subsidies to maintain affordable fuel prices for its citizens. The gradual removal of these subsidies indicates a shift towards a more market-oriented approach, where fuel prices will be determined by supply and demand dynamics. This move aligns with broader global trends of reducing or eliminating fuel subsidies, as they can strain national budgets and distort market forces.
- The protests highlight the unsustainable nature of subsidies, their contribution to corruption and economic stagnation, and their negative impact on the environment and inequality. The new administration under President Bola Ahmed Tinubu is determined to end the subsidy system, but concerns about rising fuel and transport costs and their impact on the working poor are raised. The money saved from subsidy removal could be invested in education, technology, infrastructure, and agricultural subsidies, providing a greater return for the country. It emphasizes the need for a national awareness campaign, transparency, and accountability in managing the funds saved, as well as collaboration with stakeholders such as labor unions and civil society organizations. Hence the removal of fuel subsidies is crucial for Nigeria's economic sustainability and prosperity and presents an opportunity for a brighter future under President Tinubu's leadership.

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Prepared at the Risk Assessment and Analysis Centre, Bangalore

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