Assessing the Role of Tax Incentives in Nigeria's Fossil Fuel Industry: Implications for Energy Transition, Policy Directions, and the Path to a Sustainable Future

A Publication of
Civil Society Legislative Advocacy Centre (CISLAC)
with support from
Tax Justice Network Africa (TJNA)

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ABOUT CISLAC

CIVIL SOCIETY LEGISLATIVE ADVOCACY CENTRE

CISLAC is a non-governmental, non-profit, advocacy, information sharing, research, and capacity building organisation. Its mission is to strengthen the link between civil society and the legislature through advocacy and capacity building for civil society groups and policy makers on legislative processes and governance issues. CISLAC was integrated as a corporate body (CAC/IT/NO22738) with the Nigeria's Corporate Affairs Commission (CAC) on the 28th December 2006. Prior to this incorporation, however, CISLAC had actively been engaged in legislative advocacy work since 2005. The organisation is also compliant with the Anti-Money Laundering Act 2007. The organisation reports to SCUML, any transaction that is above One thousand dollars, detailing the payee, purpose and the other KYC (KnowYour Customer) requirements. This is done on a weekly or monthly basis depending on the volume of transactions and to ensure appropriate compliance with anti-money laundering laws.

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Abbreviations

1. ATAF - African Tax Administration Forum
2. BPD - Barrels Per Day
3. BCF - Billion Cubic Feet
4. CBN - Central Bank of Nigeria
5. CISLAC - Civil Society Legislative Advocacy Centre
6. CNG - Compressed Natural Gas
7. CSR - Corporate Social Responsibility
8. DRM - Domestic Resource Mobilization
9. ECN - Energy Commission of Nigeria
10. ETP - Energy Transition Plan
11. EPZs - Export Processing Zones
12. FIRS - Federal Inland Revenue Service
13. FME - Federal Ministry of Environment
14. FMFBNP - Federal Ministry of Finance, Budget and National Planning
15. FTZs - Free Trade Zones
16. GDP – Gross Domestic Product
17. GHG – Green House Gas
18. HCL - Hydrocarbon Liquids
19. IEA - International Energy Agency
20. IMF - International Monetary Fund
21. ITAS - Integrated Tax Administration System.
22. JET-IP - Just Energy Transition Investment Plan
23. LNG - Liquefied Natural Gas
24. LT-LEDS - Long-Term Low Emissions Development Strategy
25. NCCPRS - National Climate Change Policy and Response Strategy
26. NDC - Nationally Determined Contribution
27. NDP - National Development Plan
28. NEP - National Energy Policy
29. NEPZA
30. NESG – Nigerian Economic Summit Group
31. NERC - Nigerian Electricity Regulatory Commission
32. NEP - Nigeria Electrification Project
33. NIPC - Nigerian Investment Promotion Commission
34. NNPC - Nigerian National Petroleum Corporation
35. NMDPRA - Nigerian Midstream and Downstream Petroleum Regulatory Authority
36. NNPCL - Nigerian National Petroleum Company Limited
37. NPDC - Nigerian Petroleum Development Company
38. NUPRA - Nigerian Upstream Petroleum Regulatory Agency
39. NAG - Non-Associated Gas
40. OECD - Organization for Economic Co-operation and Development
41. PIA - Petroleum Industry Act
42. PPT - Petroleum Profit Tax
43. PPTA - Petroleum Profits Tax Act
44. PPPs - Public-Private Partnerships

45. QCE - Qualifying Capital Expenditures
46. REEEP - Renewable Energy and Energy Efficiency Policy
47. REA - Rural Electrification Agency
48. SEC - Securities and Exchange Commission
49. SMEs - Small and Medium-Sized Enterprises
50. TCFD - Task Force on Climate-related Financial Disclosures
51. TJNA - Tax Justice Network Africa
52. UN - United Nations
53. VAT - Value-Added Tax

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Auwal Ibrahim Musa (Rafsanjani)
Executive Director, CISLAC

Executive Summary

This study critically examines the role of tax incentives in Nigeria's fossil fuel industry and their implications for the country's energy transition, policy alignment, and sustainable development goals. As Nigeria navigates growing global and domestic pressures to decarbonize, this research highlights how fiscal policies especially tax-based incentives continue to support a carbon-intensive economy, raising critical questions about policy coherence and long-term viability.

The report begins by setting the global and national context, showing how countries worldwide are scaling back fossil fuel subsidies in favor of renewable energy investments. Nigeria, however, remains heavily reliant on oil and gas, both as a revenue source and as a key driver of foreign investment. Despite its commitment to achieving net-zero emissions by 2060, the government still offers extensive fiscal incentives to fossil fuel companies, creating a significant misalignment between climate ambitions and current fiscal regimes.

The central research objectives include mapping existing tax incentives, assessing their compatibility with climate targets, estimating their fiscal and environmental costs, and recommending policy options for reform. The corresponding research questions explore the nature, beneficiaries, and impacts of these incentives, as well as the prospects for fiscal realignment without compromising economic stability.

The scope of the study is focused on upstream and midstream fossil fuel operations and federal-level incentives. Limitations include restricted access to confidential contract data and incomplete public reporting on tax expenditures. Methodologically, the research employs a desk review of legislative frameworks, fiscal instruments, and international policy literature.

The report provides a detailed overview of Nigeria's fossil fuel sector, its historical evolution, current production and investment patterns, and the array of government support mechanisms that sustain it. A mapping of tax incentives reveals a wide range of fiscal benefits including tax holidays, investment allowances, and capital depreciation schemes, many of which are entrenched in the Petroleum Industry Act (PIA) 2021 and related tax laws.

A cost-benefit analysis explores the fiscal cost of these incentives, the economic and environmental trade-offs, and how Nigeria compares with global best practices. Findings indicate significant revenue losses for the government and missed opportunities for redirecting funds toward clean energy investment and social spending. The study also shows that while the renewable energy sector receives far fewer fiscal benefits, it holds greater long-term potential for sustainable development and energy access.

In evaluating Nigeria's energy transition efforts, the study finds a widening gap between stated policy intentions such as those articulated in the Energy Transition Plan (ETP) and ongoing support for fossil fuel expansion. This contradiction undermines Nigeria's credibility in international climate negotiations and its ability to attract climate finance.

The report advocates for a recalibration of fiscal policy as a tool for promoting a just and inclusive energy transition. It outlines pathways for phasing out fossil fuel incentives, enhancing domestic resource mobilization, and building stronger institutions for tax expenditure reporting and

accountability. It also emphasizes the importance of international cooperation, particularly in mobilizing climate finance and technical assistance for fossil fuel-dependent economies.

Finally, the study offers a comprehensive set of policy recommendations, including short- and long-term fiscal reforms, increased transparency in tax incentive administration, support for renewable energy investments, and alignment of fiscal tools with Nigeria's broader development and climate goals.

1. Introduction

1.1 Background and Context

The global energy landscape is undergoing a significant transformation as countries strive to limit greenhouse gas emissions and mitigate the impacts of climate change. With growing international concerns, exemplified by the Paris Agreement and increasing national commitments to net-zero targets, there is mounting pressure on both developed and developing economies to transition from carbon-intensive energy sources to cleaner, renewable alternatives. In contrast, there are recent changes in the international consensus affected by the Trump administration. The administration prioritizes the fossil fuel industry, emphasizing energy independence and economic growth through the expansion of oil, natural gas, and coal production. This stance often contrasted with international climate agreements that advocated for reducing fossil fuel reliance. Nonetheless, with in the context for ensuring transition from carbon-intensive energy sources to cleaner sources, fiscal incentives can play a critical role, the literature is currently mixed and it may come down to which incentives and how they are used.

The roots of Nigeria's fossil fuel industry can be traced back to the early 20th century. In 1908, the British company Niger Company, which later became Shell, began exploring the possibility of finding oil in Nigeria. However, significant discoveries were not made until 1956, when oil was found in commercial quantities at the Oloibiri field in the Niger Delta. This discovery marked the beginning of Nigeria's modern oil industry, setting the stage for an era of rapid growth and transformation[1]. Nigeria, Africa's largest oil producer, remains deeply dependent on fossil fuels, which contribute approximately 90% of export earnings and over 50% of government revenue. The country's hydrocarbon sector especially the upstream (exploration and production) and midstream (transport and processing) segments forms the cornerstone of its economic structure. Despite the global push for decarbonization, Nigeria continues to offer generous tax-based incentives to fossil fuel companies, including tax holidays, capital allowances, investment tax credits, and accelerated depreciation schemes. Specifically, pioneer status incentive, investment tax credits, royalty relief, capital allowances, profit sharing, stability agreements and tax exemption are measures fostering investment in exploration and production in the Nigeria fossil fuel industry.

While these incentives are traditionally justified as mechanisms to attract foreign direct investment and stimulate economic growth, they also raise serious concerns about policy coherence and weak institutional framework. On one hand, Nigeria has pledged to achieve net-zero emissions by 2060 and has articulated ambitious goals in its Energy Transition Plan (ETP). On the other hand, its fiscal regime remains tilted in favor of carbon-intensive development, undermining both domestic and international climate commitments. This contradiction calls for a deeper examination of the structure, rationale, and outcomes of tax incentives in Nigeria's fossil fuel industry. Specifically, there is a need to assess whether current fiscal policies are enabling a sustainable energy future or entrenching dependence on oil and gas.

[1] Eke, C. (2019). The role of oil revenue in the Nigerian economy: a critical analysis. *Nigerian Economic Review*, 34(1), 50-73.

Countries across the globe are rapidly scaling down fossil fuel subsidies and redirecting fiscal resources to support renewable energy, energy efficiency, and technological innovation. Institutions like the International Energy Agency (IEA) and the International Monetary Fund (IMF) have repeatedly called for the rationalization of fossil fuel incentives. There is a growing body of evidence showing that misaligned fiscal policies can delay energy transition and exacerbate environmental degradation.

Nigeria's economic model is intricately linked to oil and gas revenues. Over-reliance on this sector has created structural vulnerabilities, including fiscal instability, foreign exchange fluctuations, and exposure to global oil price shocks. Moreover, the focus on fossil fuel development has come at the expense of investment in cleaner and more inclusive energy systems. Tax incentives have long been used in Nigeria to attract investment in oil exploration and infrastructure. However, the continued provision of these incentives in a carbon-constrained world may act as a disincentive for energy transition. There is an urgent need to evaluate how these incentives align or conflict with sustainable development objectives.

1.2 Problem Statement

Despite its climate commitments and ongoing participation in international climate accords, Nigeria continues to provide substantial fiscal incentives to fossil fuel companies. These incentives are embedded in laws such as the Petroleum Industry Act (PIA) 2021 and other sector-specific tax regulations. While aimed at spurring investment and maintaining the competitiveness of the oil and gas sector, these policies are increasingly at odds with global efforts to combat climate change and national strategies for green transition.

The crux of the dilemma is that such incentives may perpetuate fossil fuel dependency, thereby slowing the shift toward a low-carbon economy. This misalignment raises questions about the opportunity cost of these fiscal benefits, the environmental implications of incentivizing carbon-heavy investments, and the long-term sustainability of Nigeria's fiscal structure. A critical reassessment is thus needed to determine whether existing tax incentives are serving the country's broader development goals or undermining them.

1.3 Research Objectives and Research Questions

Table 1: Research Objectives and Corresponding Questions

S/N	Research Objectives	Corresponding Research Questions
1	To map and categorize the current tax incentives supporting fossil fuel investments in Nigeria.	What tax incentives currently support fossil fuel development in Nigeria?
2	To assess the compatibility of these incentives with national and international climate targets.	How compatible are these incentives with Nigeria's climate goals and global transition commitments?
3	To evaluate the fiscal cost of these incentives.	What is the fiscal and environmental cost of maintaining these incentives?

4	To propose policy options that align fiscal policy with a just energy transition.	How can fiscal policy be restructured to support clean energy transition without destabilizing economic growth?

1.4 Scope and Limitations

The scope of the study is delineated as follows:

Focus: The primary focus will be on upstream and midstream fossil fuel operations in Nigeria, particularly the incentives provided under federal tax laws and sectoral regulations such as the Petroleum Industry Act and Companies Income Tax Act.

Geographic Scope: The research will center on federal-level policy instruments. While subnational incentives and downstream activities (e.g., refining, retail) may be referenced, they are not the main focus.

Limitations: The study may face challenges related to data access, especially concerning confidential fiscal arrangements and production-sharing contracts. Additionally, there may be limitations in obtaining up-to-date and disaggregated data on tax expenditure, as Nigeria does not routinely publish a comprehensive tax expenditure report.

1.5 Methodology Overview

This study adopts a qualitative and exploratory research design, relying primarily on secondary data. The methodology includes:

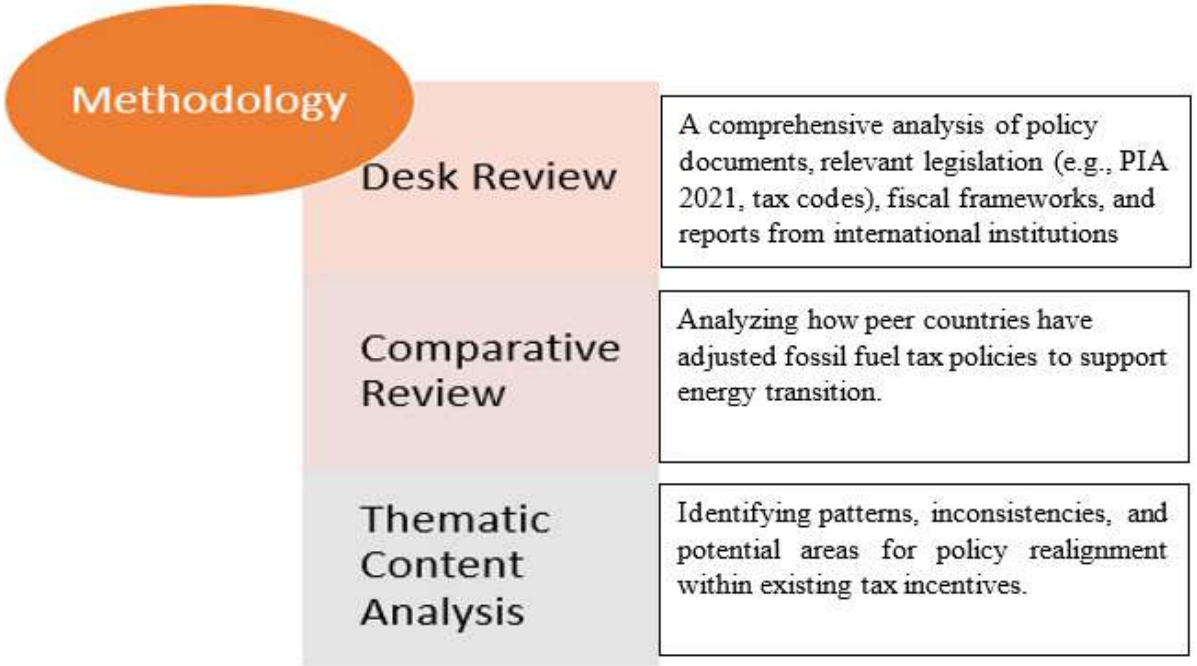

Figure 1: Methodology of the Study

2. Overview of Nigeria's Fossil Fuel Industry

2.1 Sectoral Overview and Historical Context

2.1.1 Historical Perspective of Nigeria's Fossil Fuel Industry

In the 1960s and 1970s, oil exploration and production ramped up as global demand for oil surged. By the mid-1970s, Nigeria was producing over 2 million barrels of oil per day, which aligned with the global oil boom triggered by the 1973 Arab oil embargo. This period saw Nigeria emerge as a major player on the global oil stage, and the country's oil sector became a central pillar of its economy. Oil revenues allowed the government to embark on large-scale infrastructure projects, promote industrialization, and improve public services, catapulting the country into an era of economic prosperity. However, the rapid growth of the oil sector also exposed the country's over-reliance on oil, setting the stage for challenges that would emerge in the years to come[2].

The 1970s also marked the beginning of the Nigerian government's efforts to take greater control over its oil resources. In 1971, the Nigerian National Oil Corporation was established to manage the country's oil and gas reserves. Over the next few decades, Nigeria nationalized its oil industry, acquiring stakes in major foreign oil companies and asserting control over the sector. This period saw the growth of state-owned oil entities and further expansion of Nigeria's production capabilities. Yet, despite the increase in revenues, the oil boom was accompanied by increasing concerns over mismanagement, corruption, and the socio-environmental consequences of oil extraction[3].

The 1980s were characterized by fluctuating oil prices and economic instability. A sharp decline in global oil prices during this decade brought economic hardship to the country, highlighting Nigeria's vulnerability due to its over-reliance on oil. The government sought to address this dependency by implementing Structural Adjustment Programs with the guidance of international financial institutions like the International Monetary Fund and World Bank. While these programs aimed to diversify the economy, they also exacerbated socio-economic inequalities and further entrenched Nigeria's dependence on oil revenues.

In the 1990s and early 2000s, Nigeria began to open up its oil industry to foreign investment and began privatizing certain state assets in an effort to modernize the sector. However, the years following the return to civilian rule in 1999 were marked by continued corruption, mismanagement, and inefficiencies within the oil industry. The Nigerian government, seeking to reform the sector, proposed the Petroleum Industry Bill in 2000, which aimed to modernize the industry's legal and regulatory framework. Unfortunately, the bill faced delays and political opposition, preventing meaningful reform for many years[4].

A significant turning point came in 2021, when the Petroleum Industry Act was finally passed after more than two decades of delays. The Petroleum Industry Act seeks to overhaul the oil and gas

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[2] Adeniji, A. (2020). Nigeria's Oil and Gas Sector: An Overview. *Journal of Petroleum Economics*, 58(2), 120-145

[3] Ogunbiyi, O. (2021). The Nigerian Oil Sector: A Socio-Economic Analysis. *Energy Policy*, 49(5), 332-350.

[4] Iledare, O. (2017). Nigeria's Oil and Gas Industry: A Decade of Reforms and Challenges. *African Journal of Energy Economics*, 19(3), 65-78.

sector, making it more transparent, competitive, and investor-friendly. The PIA introduces tax incentives such as annual capital allowances on quality capital expenditure incurred exclusively in petroleum operations over five years, a 25% allowance on quality plant and equipment expenditure in midstream projects, among others. The act also places an increased focus on natural gas, positioning it as a cleaner alternative for domestic energy production and global export. While the PIA holds promise for revitalizing the industry, challenges related to infrastructure, environmental concerns, and political stability remain substantial[5].

In terms of natural gas, Nigeria is endowed with some of the largest reserves in Africa. However, until recently, natural gas has been underutilized, with large quantities flared, contributing to environmental degradation. The country has made efforts to reduce gas flaring and develop the necessary infrastructure for gas utilization, including power generation and industrial use. These initiatives align with global trends toward cleaner energy and are central to Nigeria's aspirations to diversify its energy mix [6].

Despite the strides made in reforms and the diversification of the energy sector, the fossil fuel industry continues to face numerous challenges. Environmental degradation, particularly in the Niger Delta, remains a persistent issue, with oil spills, gas flaring, and ecosystem damage affecting local communities. The social unrest in the region, driven by perceived inequities in oil revenue distribution, remains a key challenge. Additionally, Nigeria's dependence on oil revenues leaves it vulnerable to fluctuations in global oil prices, which can destabilize the economy and undermine growth[7].

Looking ahead, Nigeria's fossil fuel industry is at a crossroads. While oil and gas remain the dominant sources of revenue and energy, the government is increasingly focusing on transitioning to cleaner energy sources. However, achieving this transition is fraught with challenges, given the country's continued reliance on fossil fuels. The government has set ambitious goals to reduce carbon emissions and expand the use of renewable energy, but these efforts will require substantial investment in infrastructure, technology, and policy reforms. Nigeria's success in navigating these challenges will depend on balancing its reliance on fossil fuels with the need for sustainable development and environmental stewardship.

2.1.2 Sectoral Overview of Nigeria's Fossil Fuel Industry

The sector can be divided into three main areas: upstream, midstream, and downstream, with each facing distinct challenges and opportunities.

[5] Adeniji, A. (2020). Nigeria's Oil and Gas Sector: An Overview. *Journal of Petroleum Economics*, 58(2), 120-145.
[6] World Bank. (2021). *Nigeria's Energy Sector: Challenges and Opportunities*. World Bank Publications
[7] Ogunbiyi, O. (2021). The Nigerian Oil Sector: A Socio-Economic Analysis. *Energy Policy*, 49(5), 332-350.

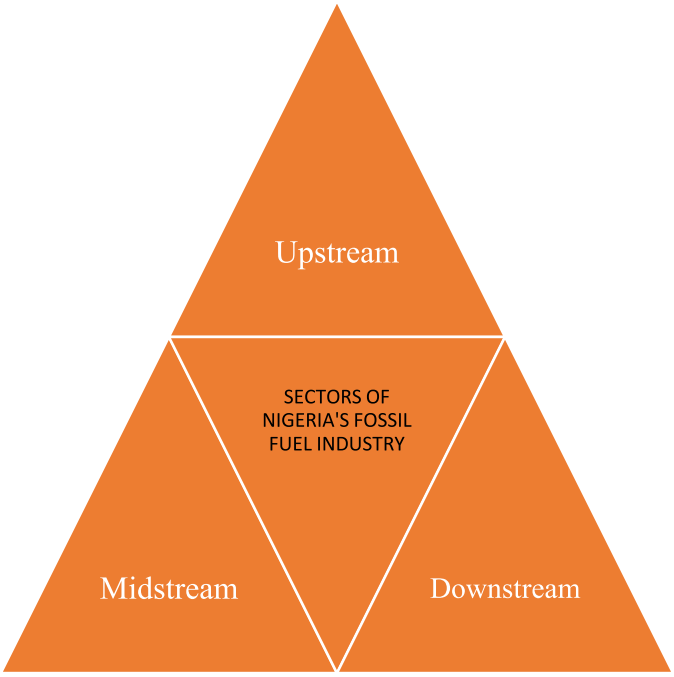

Figure 2: Sectoral Overview of Nigeria's Fossil Fuel Industry

Table 2: Sectoral Overview of Nigeria's Fossil Fuel Industry with Corresponding Tax Incentive

	Sectors	Incentives	Details
1	Upstream Sector	Capital Allowances on Qualifying Capital Expenditures (QCE)	20% annually for first 4 years, 19% in year 5, 1% retention.
		Hydrocarbon Tax	Tax on crude oil production, replacing Petroleum Profit Tax (PPT) for upstream activities.
		Allowable Deductions	Royalties, administrative expenses, environmental remediation, etc.
		Cost Efficiency Tax Credit (2025 Order)	If upstream operators reduce costs below benchmark, they receive tax credit equal to 50% of savings (max 20% of tax liability).
		Gas Tax Credits for Non-Associated Gas Projects (2024 Order)	USD 0.50–1.00/mcf for greenfield gas developments with low hydrocarbon liquids (HCL) content.
2	Midstream	Gas Utilization Investment Allowance (2024 Order)	25% tax allowance on capital costs for plant and equipment used in gas processing, liquefaction, or transportation.

		Incentives for Gas Infrastructure	Investments in gas pipelines, terminals, LNG plants, and floating storage are eligible for accelerated allowances.
		Tax Deductibility of Infrastructure Contributions	Contributions to infrastructure funds or host community development are deductible.
3	Downstream Sector	Investment Tax Allowance	While not as explicit under the PIA, downstream investments (e.g., modular refineries, depots) can qualify for investment allowances under broader fiscal regimes.
		Pioneer Status Incentive (through NEPZA or NIPC)	Eligible downstream projects (e.g., refineries, petrochemical plants) may enjoy tax holidays for 3–5 years under the Industrial Development Act.
		Import Duty Waivers	Granted for equipment and machinery used in refinery projects.

2.2 Investment in Nigeria's Fossil Fuel Industry

Investment in Nigeria's oil and gas sector is essential for its continued growth and sustainability. Historically, multinational corporations like Shell, ExxonMobil, and Chevron have dominated Nigeria's oil production. However, these companies have recently begun divesting from onshore assets, in part due to the challenging operating environment marked by insecurity and a lack of infrastructural development[8].

In response to this divestment, domestic firms have increased their involvement in Nigeria's oil and gas sector. One of the most significant investments in recent years is by the Dangote Group, led by Aliko Dangote. The Dangote Refinery, located in the Lekki Free Trade Zone, is now operational and stands as one of the largest integrated refineries in the world. With a capacity to process 650,000 barrels per day (bpd), the refinery is a monumental addition to Nigeria's energy infrastructure[9].

The refinery is expected to reduce Nigeria's reliance on imported refined petroleum products, as it will meet most of the country's domestic demand. Additionally, the refinery is anticipated to

[8] Osaghae, E. E. (2021). Corporate divestment and the future of Nigeria's oil industry. Journal of African Business, 22(3), 398-415. https://doi.org/10.1080/15228916.2021.1872128

[9] Dangote Industries. (2022). Dangote refinery: Transforming Nigeria's energy landscape. Dangote Group Annual Report. Retrieved from https://www.dangote.com

increase Nigeria's exports of refined products, bolstering its position as an energy hub in Africa[10]. The project represents a $19 billion investment, which is one of the largest private-sector investments in Nigeria's oil and gas industry[11]. This investment highlights the growing role of Nigerian firms in the sector and could significantly boost the country's energy security and industrial capacity.

The introduction of the PIA in 2021 has also been a step toward improving the investment climate by streamlining regulatory processes and offering more competitive fiscal terms[12]. The PIA introduces more competitive fiscal terms to attract investment into Nigeria's oil and gas sector. The act replaces the previous tax regime with lower hydrocarbon tax rates; 15% for onshore and shallow water operations, 30% for deep offshore, alongside a 30% company income tax. These reforms are designed to encourage both foreign and domestic investment by improving transparency and providing clearer revenue-sharing arrangements, which are expected to stabilize and boost Nigeria's oil and gas production over time[13].

2.3 Export Patterns of Nigeria's Fossil Fuel Industry

Nigeria's fossil fuel industry plays a pivotal role in the nation's economy, with exports contributing significantly to its revenue. Table 2 provides a comprehensive overview of the key aspects of Nigeria's fossil fuel export patterns, highlighting the dominance of crude oil, the growing diversification into LNG, and the challenges posed by refining capacity. It also examines the country's vulnerability to global oil price fluctuations and the potential impact of upcoming infrastructure projects like the Dangote Refinery. This landscape illustrates both the opportunities and risks that shape Nigeria's position in the global energy market.

Table 3: Overview of Nigeria's Fossil Fuel Export Landscape

Aspect	Details
Contribution to Economy	Fossil fuel exports account for over 80% of Nigeria's export revenue.
Major Export Product	Crude Oil
Top Export Destinations	Based on Q2 2024: United States (11.1%), China (0.14%), India (7.6%)
Export Diversification	Expansion into Asian markets, especially China.
Economic Vulnerability	Highly susceptible to global oil price volatility
Additional Exports	Liquefied Natural Gas (LNG)
LNG Infrastructure	Development of Bonny Island LNG terminal has boosted exports

[10] Omoniyi, O. S., & Olutunbi, T. O. (2024). The evolving role of Nigerian oil companies in the energy transition. Energy Transition Journal, 9(3), 34-47. https://doi.org/10.1007/s43310-024-00092-5

[11] Dangote Industries. (2022). Dangote refinery: Transforming Nigeria's energy landscape. Dangote Group Annual Report. Retrieved from https://www.dangote.com

[12] Junaid, O. F., & Adewale, A. T. (2022). The petroleum industry act: a new dawn for Nigeria's oil and gas sector. Energy Policy Studies, 6(2), 78-85. https://doi.org/10.2139/ssrn.3353405

[13] Duru, A. C. (2022). The petroleum industry act and its implications for Nigeria's oil sector. International Journal of Energy Economics and Policy, 12(1), 45-53. https://doi.org/10.32479/ijeep.10447

Global Standing in LNG	One of the top LNG exporters globally.
Refining Challenges	Limited domestic refining capacity; dependent on imports
Future Outlook	The Dangote Refinery is expected to reduce imports and improve local refining capacity.

2.4 Government Support for the Sector

The Nigerian government has historically provided substantial support to the fossil fuel sector, recognizing its critical role in the country's economy. One of the most notable forms of this support was the provision of fuel subsidies (a government policy where the state pays part of the cost of petroleum products such as kerosene, diesel and petrol to ensure that the consumer pay less than the market price)), which helped to keep domestic fuel prices low. Fuel subsidy in Nigeria began in the 1970s, following the oil boom of 1973-74[14]. It was introduced as a way to keep fuel prices low for domestic consumers, making petroleum products affordable despite rising global oil prices. Implying that, subsidies, which applied to petrol, diesel, and kerosene, were intended to reduce the financial burden on consumers and shield the domestic market from fluctuations in global oil prices. However, these subsidies placed a heavy strain on government finances, contributing to fiscal challenges and budget deficits[15]. Moreover, fuel subsidies have cost trillions of naira annually, often exceeding budget allocations for key sector. In response, the Nigerian government decided to remove the subsidies in May 2023, redirecting funds to other sectors of the economy while also encouraging a market-driven approach to pricing[16].

Despite the removal of fuel subsidies, government support for the fossil fuel sector remains significant. One of the key ways the government continues to support the sector is through tax incentives and reliefs. Tax incentives are powerful form of government support designed to influence economic behavior and promote specific policy objectives. Rater than directly spending money, government use the tax system to encourage individuals and businesses to act in ways that align with national priorities such as investing in infrastructure, creating job, adopting clean energy among others. Tax incentives and what they mean in practice is presented on Table 4.

[14] Bugit Nigeria (2023). A breakdown of fuel subsidy in Nigeria.
[15] Ogbu, I. (2020). The Economic Implications of Fuel Subsidy in Nigeria: An In-Depth Analysis. *Nigerian Economic Journal*, 7(1), 32-48.
[16] Adegbite, E., & Ayoola, S. (2023). Fiscal Reforms and Economic Stability in Nigeria: A Study on the Impact of Fuel Subsidy Removal. Journal of African Economic Policy, 15(1), 56-70.

Table 4: Different Types of Tax Incentives

Tax Credit	• Direct reductions in the amount of tax owed. This to reduce the actual tax bill.
Tax Exemptions	• Specific income of entities excluded from taxation. This is to encourage specific economic sectors or nonprofit work.
Tax Deductions	• Reductions in taxable income. Lower the amount that is subject to tax. This is to lower the amount of income that is subject to tax.
Tax Deferrals	• Delaying tax payment to a future period. This is to improve cash flow or incentive reinvestment.
Reduced Tax Rates	• Lower tax rates for specific groups or industries. This is to encourage investment or economic activity in targeted areas.
Tax Holidays	• Extra deductions allowed for investment in certain assets. This helps to incentivise capital investment.

The government offers various benefits to attract both local and foreign investment in the oil and gas industry. These include tax holidays, exemptions from import duties on oil and gas equipment, and accelerated depreciation allowances for companies involved in exploration, production, and distribution[17]. Through the Petroleum Profits Tax Act (PPTA) (originally enacted in 1959 and restructured in 2021) and other fiscal incentives, the government ensures that the sector remains attractive to multinational oil companies and investors. Arguably, by implementing tax breaks, reforming regulations, and creating stable investment environment, the government actively works to ensure that the petroleum sector remains attractive to multinational oil companies and investors.

Additionally, the Nigerian government continues to hold a significant stake in the oil and gas industry through state-owned enterprises, such as the Nigerian National Petroleum Corporation

[17] Okolie, U. (2021). Tax Reliefs and Incentives for Oil Companies: Nigeria's Fiscal Strategy in the Petroleum Sector. *International Journal of Oil and Gas Law*, 13(2), 145-160.

(NNPC) and its subsidiary, the Nigerian Petroleum Development Company (NPDC). These state-run organizations are involved in joint ventures with multinational oil companies, ensuring that the government retains control over a portion of the country's oil and gas resources. The government's continued involvement in these joint ventures enables it to benefit directly from the revenues generated by oil and gas exploration and production[18].

Another important element of government support for the sector is the legislative and regulatory reforms introduced through the Petroleum Industry Act (PIA) of 2021. The PIA was a significant overhaul of the country's oil and gas regulations, aiming to improve efficiency, transparency, and governance within the sector. The Act introduced new regulatory bodies to oversee both upstream and downstream operations and introduced reforms designed to make Nigeria's oil and gas industry more competitive[19]. This legal framework provides investors with greater clarity and stability, encouraging further investment in the sector.

The Nigerian government also continues to invest heavily in the infrastructure required to support the oil and gas industry. This includes investments in refining capacity (about $1.5 billion in 2021), pipelines, and natural gas processing facilities in the midstream and downstream sector (about ₦122 billion in 2021). Although Nigeria's refining sector has faced challenges, such as outdated infrastructure and poor performance, the government remains committed to modernizing and expanding these facilities[20]. Investments in Liquefied Natural Gas (LNG) infrastructure is also crucial to boosting Nigeria's capacity to export natural gas, a sector that the government has increasingly prioritized as a cleaner alternative to crude oil[21].

In addition to its focus on oil, the Nigerian government has placed increasing emphasis on natural gas as a key part of its energy strategy. Through policies like the Nigerian Gas Master Plan and the Nigerian Gas Policy, the government aims to develop the infrastructure necessary to increase domestic gas utilization and expand gas exports[22]. By positioning natural gas as a key component of the country's energy mix, the government seeks to reduce dependence on crude oil and contribute to global energy transitions.

The government also continues to play a role in the distribution of oil and gas exploration rights. Through agencies like the Nigerian Upstream Petroleum Regulatory Agency (NUPRA) and the Ministry of Petroleum Resources, the government issues licenses for oil exploration and

[18]Ogunleye, T., & Oladeji, M. (2022). The Role of NNPC in Nigeria's Oil Sector: A Historical and Future Perspective. Journal of Petroleum and Gas Studies, 16(2), 99-114.
[19] Gbadamosi, B. (2022). The Petroleum Industry Act of 2021: A Game Changer for Nigeria's Oil and Gas Sector? Nigerian Law Review, 8(1), 50-67.
[20]Akinyele, F. (2021). Infrastructure Challenges in Nigeria's Oil Sector: The Role of Government Investment. Petroleum Economics Review, 29(4), 224-240.
[21] Okafor, C., & Nwachukwu, R. (2022). Investing in Natural Gas: Nigeria's Strategic Shift to Cleaner Energy. *Journal of Global Energy Markets*, 4(3), 210-226.
[22]Akinyele, F. (2021). Infrastructure Challenges in Nigeria's Oil Sector: The Role of Government Investment. Petroleum Economics Review, 29(4), 224-240.

production. This process allows the government to maintain control over the country's oil reserves and ensure that it continues to benefit from the revenue generated by the sector[23].

Even without subsidies, the Nigerian government provides financial support to the sector through mechanisms such as loan guarantees and government-backed financing for specific projects. This helps oil and gas companies manage the high capital costs associated with exploration and production, ensuring that operations remain viable despite fluctuating global oil prices[24].

Finally, the government has introduced policies aimed at ensuring that the oil and gas industry operates responsibly, particularly in relation to the environment and local communities. Since its enactment in 2021, the PIA has strengthened regulations regarding environmental protection and corporate social responsibility (CSR). Oil companies are now required to invest in the development of local communities and mitigate the environmental impact of their operations, particularly in the Niger Delta region, where oil extraction has caused significant ecological damage[25].

2.5 International Benchmarks and Best Practices

Across the globe, countries employ tax incentives as tools to attract investment, stimulate sectoral development, and encourage innovation. However, the effectiveness of such incentives often depends on the degree to which they are well-targeted, transparently managed, and aligned with national development goals. For Nigeria, where tax incentives have historically been broad and often costly, international benchmarks and best practices offer valuable lessons on how to improve policy design, minimize fiscal leakage, and promote sustainable development.

A fundamental best practice is the institutionalization of transparency through regular tax expenditure reporting. Countries like South Africa, Indonesia, and the Philippines have established strong traditions of publishing annual reports that quantify the value of tax incentives, evaluate their outcomes, and identify their beneficiaries[26]. These reports help build public trust and provide a basis for assessing whether the incentives are achieving their intended goals. Nigeria has recently made progress in this area with the release of its first Tax Expenditure Statement in 2021, which revealed that the government lost approximately ₦6.8 trillion to tax incentives between 2019 and 2021[27]. However, the current reports lack comprehensive sectoral detail and performance metrics, making it difficult to evaluate which incentives are effective and which are not.

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[23]Ajayi, O. (2020). The Role of Government in Oil Exploration Rights Distribution in Nigeria. Journal of African Natural Resources, 12(1), 42-59.

[24] Ezeani, E., & Nwosu, R. (2021). Financial support mechanisms for the oil sector: Nigerian government strategies in a post-subsidy era. *Finance and Development Review*, 11(2), 180-194.

[25] Ademola, A. (2022). Corporate Social Responsibility in the Nigerian Oil Sector: Environmental and Community Impact. *Nigerian Journal of Energy Policy*, 10(2), 123-135.

[26] OECD. (2023). Revenue Statistics in Africa: Nigeria Country Note. Retrieved from https://www.oecd.org

[27] Federal Ministry of Finance, Budget and National Planning (FMoFBNP). (2021). *2021 Tax Expenditure Statement*. Abuja, Nigeria.

Another common international practice is the incorporation of sunset clauses clear time limits that automatically end an incentive unless explicitly renewed after a review. This mechanism is widely used in countries such as Brazil and Thailand to prevent the indefinite extension of tax reliefs without accountability[28]. In contrast, Nigeria's incentive regimes, such as the Pioneer Status Incentive, are frequently renewed without formal evaluations of their effectiveness. The absence of sunset clauses has led to prolonged tax expenditures that may no longer serve developmental priorities.

In addition to temporal boundaries, many countries have shifted toward performance-based incentives. These link tax benefits to measurable development outcomes such as job creation, local content development, and environmental compliance. For instance, in Malaysia and Rwanda, companies are required to demonstrate specific performance indicators such as employing a certain number of local workers or transferring technology in order to qualify for or retain fiscal benefits[29]. Nigeria has not yet institutionalized such an approach across its tax system. Doing so would help ensure that the incentives it provides generate tangible economic or environmental value.

The global policy community also advises against harmful tax competition, where countries offer excessive incentives to attract foreign direct investment, often to the detriment of public revenues. The Organization for Economic Co-operation and Development (OECD) and the United Nations (UN) have repeatedly warned that this practice undermines fiscal stability and encourages a "race to the bottom"[30]. Nigeria has engaged in similar forms of competition, especially in its extractive sector, where generous tax holidays and profit-sharing arrangements have been granted even when investment would likely have occurred without such incentives. Reining in such practices by aligning Nigeria's incentive offerings with regional and international norms such as those promoted by the African Tax Administration Forum (ATAF) would help reduce waste and improve efficiency.

Targeting is another area where international practices diverge from Nigeria's current approach. Countries like Vietnam, Chile, and Morocco have used their tax codes to channel investment into sectors aligned with national development strategies such as renewable energy, digital infrastructure, and sustainable agriculture[31]. In Nigeria, however, a significant portion of tax incentives continues to favor the oil and gas industry, a mature sector that arguably no longer needs such extensive fiscal support. Meanwhile, nascent and high-impact sectors like renewable energy receive far less attention in the design and allocation of tax reliefs. Realigning Nigeria's tax incentives with its long-term goals such as those outlined in the National Development Plan

[28] World Bank. (2018). *Attracting Investment Using Tax Incentives*. Washington, D.C.: World Bank Group
[29] International Monetary Fund (2021). *Nigeria: Selected Issues*. IMF Country Report No. 21/033.
[30] United Nations (UN). (2020). *Tax Incentives and Sustainable Investment: Evidence and Policy Guidance*. UN Committee of Experts on International Cooperation in Tax Matters.
[31] World Bank. (2020). *Global Investment Competitiveness Report: Rebuilding Investor Confidence in Times of Uncertainty*. Washington, D.C.: World Bank Group

(2021–2025) and the Energy Transition Plan would allow the country to direct investment toward sectors with greater potential for inclusive and sustainable growth.

3. Inventory of Tax Incentives and Fiscal Policies

The fiscal landscape in Nigeria's fossil fuel sector is shaped by a series of tax incentives and policies designed to attract investment, boost production, and position the country to meet its long-term energy goals. In recent years, the Nigerian government has introduced various fiscal measures targeting both upstream and midstream sectors of the oil and gas industry, aiming to sustain growth and align with the global shift toward cleaner energy.

Figure 3: Tax Incentive in Nigeria's Fossil Fuel Industry

Table 5: Inventory of Tax Incentives and Fiscal Policies in Nigeria's Fossil Fuel Sector

Category	Policy/Measure	Details	Objective/Impact
Gas Utilization Projects	Tax Reliefs	Tax-free period of up to 5 years; additional 5 years for gas pipeline projects.	Encourage investment in gas production, utilization, and infrastructure.
	Investment Allowance	25% investment allowance on qualifying capital expenditures. [32]	Boost capital investment in gas sector projects.
	Tax-Free Dividends	Dividends exempted from tax during tax-free periods.	Enhance financial attractiveness of gas investments.
Deep Offshore Oil & Gas	Favorable Tax Measures	Special fiscal regime to incentivize high-risk deepwater exploration.	Secure long-term oil reserves and attract deep offshore investment.
	Gas Tax Credit	Incentive for greenfield developments.	Promote NAG production and industrial growth.

[32] PwC. (2024). Nigeria Corporate - Tax credits and incentives. Retrieved from https://taxsummaries.pwc.com/nigeria/corporate/tax-credits-and-incentives

Non-Associated Gas (NAG)	Investment Allowance	25% on midstream gas infrastructure capital expenditures[33].	Support infrastructure expansion in domestic gas industry.
Research & Development (R&D)	Tax Credit	15% R&D tax credit for product development and innovation.	Encourage technological advancement and innovation.
	Mandatory Contribution	Operators contribute part of taxable profits to Nigerian Content R&D Fund.	Build local capacity and continuous innovation.
Tax Exemptions	VAT Exemption	LPG, CNG, and clean cooking equipment exempted from VAT.	Promote cleaner energy and reduce reliance on traditional fossil fuels.
Fiscal Amendments	Removal of Machinery Tax Credit	Finance Act removed tax credit for downstream/midstream companies replacing obsolete machinery.	Reduce fiscal burden on government but may discourage modernization.
	VAT on Remote Services	VAT now applicable to services rendered by foreign companies remotely.	Expand tax revenue base, but increases compliance costs for international firms.

Looking ahead, Nigeria's policy landscape is focused on achieving ambitious production targets, with the government aiming to increase oil production to 4 million barrels per day (bpd) and gas production to 10 billion cubic feet (bcf) per day by 2030. In pursuit of these targets, the Nigerian government is also focusing on attracting significant foreign investments. For example, ExxonMobil recently announced plans to invest $10 billion in Nigeria's offshore oil operations, signaling strong investor confidence despite global market uncertainties.

3.1 Beneficiaries of Fiscal Incentives

The primary beneficiaries of these fiscal incentives are companies engaged in different phases of the oil and gas industry. Upstream oil and gas companies, involved in the exploration and production of crude oil, are major recipients of tax reliefs, such as tax-free periods lasting up to five years. These tax holidays are designed to reduce the financial burden on companies in this capital-intensive sector and encourage further exploration and investment in new oil fields. During these tax-free periods, companies are also permitted to distribute tax-free dividends, enhancing their profitability and making projects more attractive to investors. Despite the identified benefits of fiscal incentives, profit shifting and base erosion among multinationals has

[33] Reuters. (2024). *Exxon plans $10 billion oil investment in Nigeria, presidency says*. Retrieved from https://www.reuters.com/business/energy/exxon-plans-10-billion-oil-investment-nigeria-presidency-says-2024-09-26/

been evident in Nigeria.[34] Nigeria loses an estimated $15–18 billion annually to profit-shifting and other aggressive tax avoidance practices by multinational companies operating across sectors including oil and gas[35].

Nonetheless, companies focused on gas utilization and processing benefit significantly. The Nigerian government has introduced various tax incentives for companies involved in the development of gas infrastructure, such as pipelines and processing plants. These include tax holidays of up to five years for gas production companies and a 25% investment allowance on capital expenditures for infrastructure projects. These incentives are part of Nigeria's long-term strategy to develop its domestic gas sector and improve energy security.

Midstream and downstream sectors, which handle the transportation, refining, and distribution of oil and gas products, are also key recipients of fiscal incentives. Companies in these sectors benefit from exemptions on VAT for certain products, such as liquefied petroleum gas (LPG) and compressed natural gas (CNG). These exemptions are part of Nigeria's broader efforts to promote cleaner energy alternatives and reduce dependence on traditional fossil fuels. Midstream infrastructure projects, such as LNG terminals and gas pipelines, also benefit from tax reliefs that help reduce the costs of developing and maintaining these vital facilities. Moreover, Research and development (R&D) entities, including academic institutions and private companies engaged in technological innovation, are also beneficiaries. The Nigerian government offers tax credits of up to 15% for R&D activities that lead to the development of new or improved products or technologies. This initiative is designed to foster innovation in the oil and gas sector and encourage the adoption of advanced technologies that improve production efficiency and reduce environmental impacts.

Foreign investors, particularly multinational corporations with substantial capital and technical expertise, are another key group of beneficiaries. Nigeria's oil and gas sector offers attractive fiscal incentives, such as tax holidays, investment allowances, and exemptions on dividends, making it an appealing destination for large-scale projects. These incentives have played a significant role in drawing foreign investment to Nigeria, particularly in deep-water exploration and the development of gas infrastructure. Companies such as ExxonMobil have made substantial investments in Nigeria's offshore oil operations, which are supported by these fiscal incentives[36].

Finally, small and medium-sized enterprises (SMEs) involved in energy transition projects, such as renewable energy initiatives, also benefit from fiscal incentives. These SMEs, which play a critical role in diversifying Nigeria's energy mix, benefit from exemptions on taxes for renewable energy

[34] UNDP (2025). Transforming Nigeria's tax landscape: tackling transfer pricing in the oil & gas Sector. https://sdgfinance.undp.org/news-events/transforming-nigerias-tax-landscape-tackling-transfer-pricing-oil-gas-sector

[35] UNDP (2025). Transforming Nigeria's tax landscape: tackling transfer pricing in the oil & gas Sector. https://sdgfinance.undp.org/news-events/transforming-nigerias-tax-landscape-tackling-transfer-pricing-oil-gas-sector

[36] Reuters. (2024). *Exxon plans $10 billion oil investment in Nigeria, presidency says*. Retrieved from https://www.reuters.com/business/energy/exxon-plans-10-billion-oil-investment-nigeria-presidency-says-2024-09-26/

infrastructure. This is part of the government's broader goal of supporting cleaner energy alternatives and reducing carbon emissions, in line with global sustainability trends.

3.2 Scope of Fiscal Incentives

The scope of fiscal incentives in Nigeria's fossil fuel sector is vast and includes a range of tax reliefs and exemptions intended to stimulate growth in the oil and gas industry. One of the most important incentives is the tax holiday, which provides up to five years of tax exemptions for companies engaged in upstream exploration and production activities. This policy is designed to encourage investment in new oil fields and the development of gas infrastructure. In terms of gas infrastructure, progress has been made in promoting compressed natural gas (CNG) adoption and expanding liquefied natural gas (LNG) capacity. Over 100,000 vehicles have already been converted to CNG use, supported by a $200 million government program and the construction of six new CNG service plants[37]. Furthermore, the Nigeria LNG Train 7 expansion project, valued at $6.5 billion, is expected to increase LNG processing capacity by 35 percent, raising it from 22 Mtpa to 30 Mtpa, and generate up to 52,000 jobs[38]. Gas sector companies also benefit from similar tax holidays, which offset the high initial capital costs associated with gas projects.

Another key incentive is the investment allowance, which allows companies to deduct up to 25% of their capital expenditure on qualifying infrastructure projects from taxable income. This is particularly important for companies in the midstream and downstream sectors, where infrastructure projects such as pipelines, LNG terminals, and refineries require significant upfront investment. By reducing the tax burden on these projects, the government makes them more financially viable and encourages further investment in infrastructure development.

The gas sector benefits from a range of additional incentives aimed at increasing domestic gas production and utilization. These include gas tax credits that incentivize the development of Greenfield gas projects and further tax reliefs for capital expenditures related to midstream gas infrastructure. These incentives aim to reduce Nigeria's reliance on imported fuels and improve energy security, while also fostering industrial development. For instance, the government's removal of petrol subsidies combined with tax incentives for compressed natural gas (CNG) equipment led to conversions of over 100,000 vehicles, backed by investment of about $200 million which is to shift Nigerians toward domestically sourced gas, supporting energy security[39]. However, implementation has been constrained by limited infrastructure conversion workshops are scarce, stations exist in only 13 of 36 states, and public hesitancy and misinformation persist among vehicle owners. As a result, despite the incentives, a broader reduction in fuel imports through mass CNG adoption has yet to materialize.[40]

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[37] Reuters. (2024). Nigeria's NNPC plans to expand natural gas stations for domestic use. Retrieved from https://www.reuters.com

[38] Associated Press. (2024). Nigeria turns to natural gas as transport prices soar after petrol subsidies were removed. Retrieved from https://apnews.com

[39] Reddit (2024). Nigeria turns to natural gas as transport prices soar after petrol subsidies were removed. https://www.reddit.com/r/AfricaVoice/comments/1gyjbiq

[40] Federal Ministry of Finance (2024). *FG Introduces New Fiscal Incentives to Boost Nigeria's Oil and Gas Sector*. Retrieved from https://finance.gov.ng/fg-introduces-new-fiscal-incentives-to-boost-nigerias-oil-and-gas-sector/

Finally, companies that meet local content requirements such as employing Nigerian labor and procuring locally manufactured goods are eligible for additional incentives, including tax credits. These policies are aimed at building local capacity, creating jobs, and reducing the country's reliance on foreign expertise and products, in line with Nigeria's broader efforts to develop a self-sustaining energy industry.

4. Cost-Benefit Analysis of Fiscal Incentives and Tax Expenditures

4.1 Cost-Benefit Analysis of Fiscal Incentives

According to IMF[41], tax incentives in low-income countries present a mixed balance of costs and benefits. On the positive side, when they are well-designed, they can attract new investment, particularly in export-oriented sectors and industries reliant on mobile capital. Instruments such as investment tax credits and accelerated depreciation have proven to be relatively efficient, as they generate more investment per unit of revenue forgone compared to the more commonly used tax holidays and exemptions. Properly structured incentives may also help foster economic diversification, stimulate industrial development, and enhance international competitiveness. Moreover, regional coordination of tax incentives has the potential to reduce harmful tax competition while promoting collective benefits for participating countries.

However, the costs of tax incentives are often substantial. They can impose a high fiscal burden on governments, reducing the resources available for critical spending on infrastructure, public services, and social support. In many cases, incentives are redundant, as the investments they seek to attract would have occurred even without them. Poorly targeted incentives, such as those focused on domestic market-oriented sectors or extractive industries, tend to yield little developmental impact. The opportunity costs are significant since foregone revenue could otherwise be allocated to urgent national priorities. Additionally, weak governance and lack of transparency in the administration of tax incentives create opportunities for rent seeking, corruption, and inefficiency. The prevalence of international tax competition further compounds the problem, fueling a "race to the bottom" that undermines fiscal stability across countries. Importantly, the effectiveness of tax incentives in low-income countries is often constrained by enabling conditions such as weak infrastructure, inadequate rule of law, and the absence of robust data and analytical tools needed to assess their performance.

4.2 Tax Expenditure Reporting in Nigeria: Challenges and Gaps

Tax expenditures, which refer to the revenue forgone by governments due to special provisions like exemptions, deductions, or preferential tax rates, are commonly used as tools to influence economic behavior or support specific sectors. In Nigeria, tax expenditures have become a prominent part of the fiscal toolkit, especially in strategic areas such as oil and gas, agriculture, and manufacturing. However, despite their widespread use, the system for reporting and monitoring tax expenditures in the country remains inadequate and fragmented, leading to

[41] IMF (2015). Options for Low Income Countries Effective and Efficient Use of Tax Incentives for Investment. https://www.imf.org/external/np/g20/pdf/101515.pdf

numerous challenges that affect fiscal transparency and the effectiveness of public financial management.

One of the most significant issues is the lack of a formal legal framework that mandates tax expenditure reporting. Unlike many other countries that integrate tax expenditure statements into their annual budget processes, Nigeria does not have a structured requirement for such disclosures. This institutional gap means that decisions about tax incentives are often made without a clear understanding of their costs or long-term implications for public revenue.

Compounding this problem is the limited availability of reliable data. Multiple agencies including the Federal Inland Revenue Service (FIRS), the Nigerian Investment Promotion Commission (NIPC), and the Ministry of Finance are involved in granting and managing tax incentives, yet there is no unified reporting mechanism that consolidates this information. As a result, data on tax expenditures tends to be scattered, incomplete, and inconsistent. This lack of coordination not only complicates oversight but also leads to overlapping or duplicative incentives that undermine fiscal efficiency.

Adding to the challenge is the absence of a standardized methodology for estimating and evaluating tax expenditures. Without clear guidelines or consistent approaches, government agencies often struggle to accurately quantify the fiscal cost of tax relief measures. This makes it difficult to conduct meaningful cost-benefit analyses or determine whether the incentives are delivering their intended economic or social outcomes. Many of these tax expenditures continue unchecked, with little or no evidence of their effectiveness.

Transparency and accountability are also major concerns. In many cases, information about who benefits from tax incentives, how much they receive, and for what purpose is not publicly disclosed. This lack of openness fuels suspicion about rent-seeking, misuse, and the potential capture of tax policy by powerful interests[42]. In the absence of regular reviews or independent audits, these incentives persist with little scrutiny, creating opportunities for inefficiency and revenue leakage.

Political economy dynamics further complicate reform efforts. Tax incentives are often deeply embedded in political negotiations and vested interests, particularly in influential sectors like fossil fuels. Attempts to streamline or eliminate ineffective incentives can meet stiff resistance from beneficiaries who benefit from the status quo. This political resistance has made tax expenditure reform a complex and sensitive endeavor, despite growing recognition of its importance.

Moreover, the mechanisms for monitoring and evaluating the actual impact of tax expenditures remain weak or entirely absent. Most incentives are not subject to rigorous post-implementation reviews, and very few are evaluated for their socioeconomic returns. Without such assessments, there is no clear way to determine whether tax incentives represent value for money or if alternative policy tools might be more effective.

[42]Blackwoodstone. (2024). The Nigerian Oil and Gas Companies Tax Incentives, Exemption, Remission, etc. Order 2024. Retrieved from https://wtsblackwoodstone.com/the-nigerian-oil-and-gas-companies-tax-incentives-exemption-remission-etcorder-2024/

While international development partners have supported efforts to improve tax expenditure analysis in Nigeria, much of the initiative remains externally driven. This reliance on donor funding and expertise raises concerns about the sustainability of reform efforts, especially when domestic political commitment and institutional capacity are lacking.

4.3 Financial Costs to Government

Tax incentives have long been employed in Nigeria as strategic tools to attract investment, stimulate economic activity, and promote sectoral development, particularly in agriculture, manufacturing, and oil and gas. However, while these incentives are designed to spur growth, they come at a significant financial cost to the government. The revenue forgone through various tax relief mechanisms collectively known as tax expenditures has raised concerns about fiscal sustainability, transparency, and the overall efficiency of Nigeria's tax system. This has sparked further discussions because tax revenue's contribution to GDP has remained erratic over time, while tax expenditures have been rising.

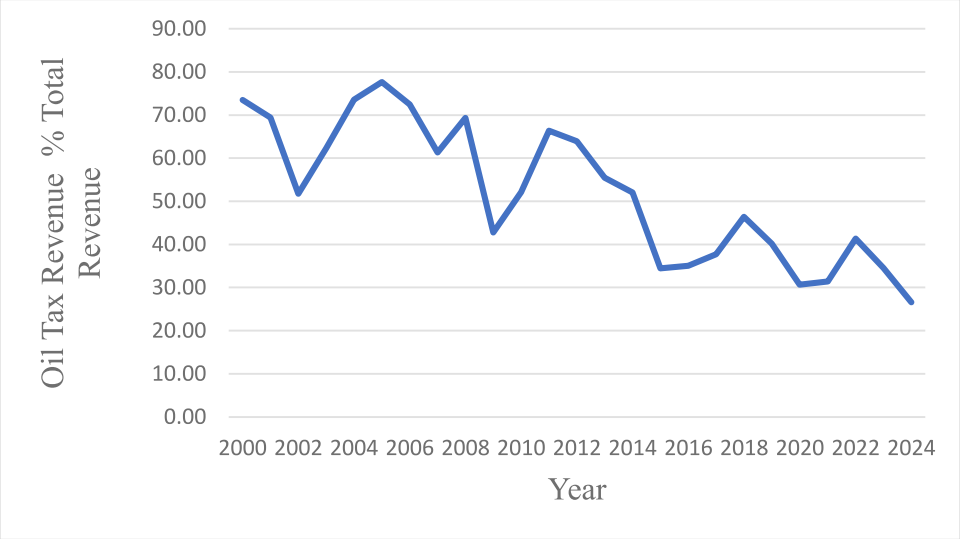

Figure 4: Oil Tax Revenue as Percentage of Total Revenue

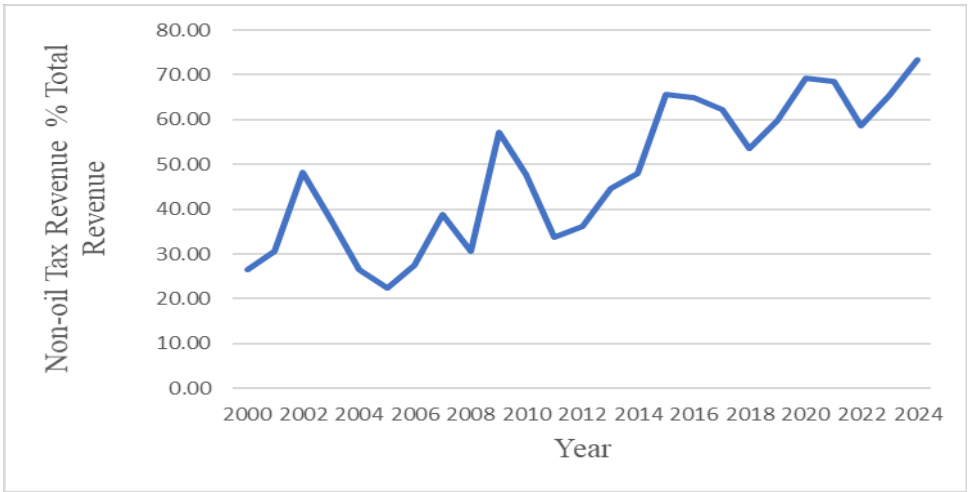

Figure 5: Non-Oil Tax Revenue as Percentage of Total Revenue

The observation that "tax revenue's contribution to GDP has remained erratic over time, while tax expenditures have been rising" highlights a critical tension in Nigeria's fiscal framework, particularly in relation to the use of tax incentives. Tax incentives, such as exemptions, deductions, and holidays granted to firms in the fossil fuel industry, represent a form of tax expenditure, that is, revenue forgone by the government in pursuit of policy objectives. While these incentives are intended to stimulate investment, foster industrial growth, and reduce dependence on imported fuels, their rapid expansion has often not been matched by commensurate increases in tax revenue contribution to GDP.

This disconnect suggests that the fiscal cost of incentives is mounting, yet the expected benefits in terms of broad-based economic growth and revenue stability are not materializing. The erratic nature of tax revenue as a share of GDP indicates that incentives may not be generating sustainable, long-term revenue streams. Instead, they may be narrowing the tax base, creating volatility in government income, and constraining fiscal space for critical expenditures on infrastructure, social services, and the energy transition agenda.

In the context of tax incentives for the fossil fuel industry, the rising cost of such measures underscores a possible misalignment between policy intent and outcomes. If incentives are poorly targeted, redundant, or disproportionately benefiting established players rather than encouraging new investments, they simply erode revenue without fostering significant economic diversification or energy security. Moreover, the lack of transparency and systematic evaluation of these incentives fuels debates about their efficiency, as stakeholders increasingly question whether Nigeria is sacrificing much-needed fiscal resources in exchange for limited developmental impact. In essence, the figure illustrates a structural imbalance: while tax incentives have grown in fiscal significance, their contribution to strengthening revenue performance and supporting sustainable development remains questionable. This has sparked renewed calls for reform, greater transparency in reporting tax expenditures, and a shift towards more efficient incentive designs that genuinely complement Nigeria's economic and energy transition goals.

A major challenge in assessing the full financial impact of tax incentives in Nigeria is the absence of a centralized and transparent tax expenditure reporting framework. Nonetheless, available estimates reveal substantial revenue losses. For instance, a joint report by the Nigerian Economic Summit Group, the Federal Ministry of Finance, and the Budget Office of the Federation estimated that Nigeria loses over ₦1 trillion annually to tax waivers, exemptions, and incentives[43]. This figure is equivalent to a significant proportion of government revenue and, in some years, exceeds the federal budget allocation to sectors such as health and education.

The oil and gas sector provide a striking example of the scale of tax revenue forgone. Prior to the enactment of the Petroleum Industry Act in 2021, multinational oil companies benefitted from generous fiscal incentives, including investment tax credits, capital allowances, and pioneer status, which significantly lowered their effective tax rates[44]. According to the Nigeria Extractive Industries Transparency Initiative, tax holidays and other incentives in the sector contributed to major shortfalls in petroleum profit tax collections. In its 2019 report, the transparency initiative noted that revenue losses due to unclaimed or poorly administered incentives amounted to over $2.5 billion between 2015 and 2018[45].

In Nigeria's oil and gas sector, tax incentives have been widely used as a policy tool to stimulate investment and promote industrial development. However, the outcomes have been mixed, raising important questions about their fiscal justification. According to the IMF[46], companies operating within Nigeria's Free Trade Zones (FTZs) and Export Processing Zones (EPZs) many of which include oil and gas service firms enjoy extensive tax relief, such as exemptions from company income tax, VAT, and customs duties. These incentives were intended to boost industrialization and exports, yet empirical evidence indicates that they have not delivered commensurate benefits. For instance, employment generation and technology transfer within these zones remain limited, suggesting that the government is foregoing substantial revenue without achieving the intended developmental outcomes[47].

Furthermore, import duty waivers and value-added tax exemptions granted under various executive orders and sector-specific policies result in substantial revenue losses. The International Monetary Fund warned that such discretionary exemptions have contributed to Nigeria's low tax-to-gross domestic product ratio, which remains below 10%, far below the African average of 16%[48]. These incentives, while intended to support local industries and lower production costs, often lack clear sunset clauses and performance benchmarks.

The cumulative financial impact of these incentives constrains the federal government's ability to fund critical public investments. As public resources are diverted through tax expenditures, there

[43] Nigerian Economic Summit Group (2020). *Tax Expenditures in Nigeria: Estimating Revenue Losses and the Need for Reform*. Policy Brief.
[44] ActionAid (2019). Sweet Nothings: The Human Cost of a Broken Tax System. ActionAid International.
[45] Nigeria Extractive Industries Transparency Initiative (NEITI). (2019). Oil and Gas Audit Report 2017. Abuja: NEITI
[46] International Monetary Fund (IMF). (2021). *Tax Policy for Inclusive Growth Post-COVID-19*. IMF Policy Paper.
[47] Centre for Fiscal Transparency and Integrity Watch (2022). *Fiscal Transparency in Nigeria: A Baseline Assessment Report*. Abuja, Nigeria.
[48] International Monetary Fund (IMF). (2021). *Tax Policy for Inclusive Growth Post-COVID-19*. IMF Policy Paper.

is less fiscal space for spending on infrastructure, education, healthcare, and social safety nets. In addition, poorly targeted incentives distort the tax system, shifting the burden to compliant taxpayers and reducing tax fairness and efficiency.

4.4 Economic and Environmental Externalities

From an economic perspective, one of the major externalities of tax incentives in Nigeria is the distortion of market efficiency. Incentives often favor certain sectors or firms particularly large multinational corporations over others. In the oil and gas sector, for example, companies have benefitted from various tax reliefs, including investment tax credits, capital allowances, and pioneer status incentives, which have significantly reduced their tax obligations. This has skewed investment toward extractive activities, reinforcing Nigeria's dependence on oil while discouraging diversification into sectors such as renewable energy and digital industries[49,50].

Another economic consequence is the creation of an uneven playing field. While multinational corporations operating in Free Trade Zones or Export Processing Zones enjoy tax holidays and other benefits, domestic small and medium scale enterprises often with less political leverage are subject to standard tax regimes. This unequal treatment discourages local entrepreneurship and deepens structural imbalances within the economy[51].

Additionally, the opacity and weak governance of tax incentive regimes have encouraged rent-seeking behavior and abuse. In some cases, companies lobby for incentives without demonstrating genuine need or projected economic impact. The absence of a comprehensive legal and institutional framework for evaluating and reporting tax expenditures allows such practices to persist, undermining accountability and eroding public trust in the tax system[52]. Beyond economic impacts, tax incentives in Nigeria have also produced significant environmental externalities, particularly due to their application in the oil and gas sector. Fiscal incentives have, for decades, supported activities that contribute to environmental degradation. A notable example is gas flaring, which persists despite legal prohibitions, partly because companies face few economic disincentives. Tax provisions that permit capital allowances for flaring infrastructure or fail to impose meaningful penalties make it cheaper for companies to pollute than to invest in cleaner technologies[53].

The environmental costs of such practices are extensive. Gas flaring and oil spills contribute to air and water pollution, biodiversity loss, and health problems such as respiratory illness and cancer in oil-producing communities. These impacts impose long-term costs on local populations, many of which are never internalized by the firms that benefit from tax incentives.

Furthermore, most tax incentives in Nigeria lack environmental conditionality. Companies are rarely required to meet sustainability or emission reduction targets as a condition for receiving

[49] Nigeria Extractive Industries Transparency Initiative (NEITI). (2019). *Oil and Gas Audit Report 2017*. Abuja: NEITI
[50] International Monetary Fund (IMF). (2021). *Tax Policy for Inclusive Growth Post-COVID-19*. IMF Policy Paper.
[51] ActionAid (2019). Sweet Nothings: The Human Cost of a Broken Tax System. ActionAid International.
[52] Centre for Fiscal Transparency and Integrity Watch (2022). *Fiscal Transparency in Nigeria: A Baseline Assessment Report*. Abuja, Nigeria.
[53] Nigeria Extractive Industries Transparency Initiative (NEITI). (2019). *Oil and Gas Audit Report 2017*. Abuja: NEITI

tax relief. As a result, economic incentives continue to support carbon-intensive industries at the expense of the environment and Nigeria's broader climate goals. This contradicts Nigeria's commitments under the Paris Agreement and its Nationally Determined Contributions, which call for a reduction in greenhouse gas emissions and a transition to a low-carbon economy[54].

The continued subsidization through tax relief of environmentally harmful activities hinders progress toward environmental sustainability. Moreover, it sends a contradictory signal to investors and development partners at a time when global momentum is shifting toward green finance and sustainable investment.

4.5 Comparative Analysis of Tax Incentives in Nigeria: Fossil Fuel Sector vs. Non-Fossil Fuel Sector

Nigeria's fiscal policy framework has long been skewed in favor of the fossil fuel sector through a variety of generous tax incentives, such as capital allowances, investment tax credits, and tax holidays under the Industrial Development (Income Tax Relief) Act. These incentives were designed to stimulate investment and generate revenue but have also entrenched economic inefficiencies and environmental harm. Nigeria is currently grappling with a profound energy crisis, marked by chronic electricity shortages, unreliable power supply, and an overdependence on expensive and environmentally damaging fossil fuels. With over 40% of the population lacking access to reliable electricity, the energy deficit not only constrains economic growth but also undermines social development and poverty reduction efforts. In this context, renewable energy offers a viable and sustainable solution: it can expand energy access to underserved communities, reduce dependence on costly fuel imports, and help Nigeria meet its international climate commitments. Yet, in sharp contrast to the extensive tax incentives granted to fossil fuel companies, the renewable energy sector receives relatively limited and poorly coordinated fiscal support. This imbalance underscores a critical misalignment in Nigeria's economic and environmental policy objectives, where short-term revenue concerns and legacy interests in fossil fuels are prioritized over long-term energy security and sustainability.

Table 6: Comparative Assessment of Fiscal Incentives in Nigeria's Fossil Fuel and Non-Fossil Fuel Sectors

	Dimension	Fossil Fuel Sector	Non-Fossil Fuel (Renewable Energy) Sector
I	Tax Incentives & Allowances	- Investment tax allowance up to 95% for new investments- 20% annual capital allowance- 1% investment allowance under Petroleum Profits Tax Act- Previously favorable terms under Deep Offshore Act.	- Eligible for pioneer status- Customs duty waivers on technologies (e.g., solar panels, inverters)- Incentives inconsistently applied and limited

[54] International Monetary Fund (IMF). (2021). *Tax Policy for Inclusive Growth Post-COVID-19*. IMF Policy Paper.

		LPG equipment exempted from VAT.	
2	Government Revenue Impact	Over ₦1 trillion in tax waivers and exemptions annually, majority to fossil fuel sector (NESG, 2020)	Minimal fiscal burden due to limited incentives; sector underutilized for fiscal de-risking
3	Policy Framework	Well-developed tax laws supporting the sector	Lacks coherent tax policy for renewables- Bureaucratic inefficiencies hinder access to existing incentives
4	Infrastructure & Support Systems	Backed by decades of infrastructure and regulatory systems	Inadequate infrastructure and weak institutional support for scaling clean energy projects
5	Energy Access & Equity	Benefits urban and industrial areas; contributes minimally to expanding energy access	Critical for rural electrification (e.g., mini-grids)- Limited fiscal support hampers scalability
6	Job Creation Potential	Capital-intensive; fewer direct jobs	Higher job creation potential per dollar invested- Missed opportunities due to poor incentives
7	Environmental Impact	Major GHG emissions from gas flaring and oil spills- Tax rules do not penalize emissions	Clean, low-emission energy- Under-incentivized despite environmental advantages
8	International Comparison	Policies subsidize environmental damage without incentives for clean transition	Countries like South Africa and Morocco use tax codes to drive green investment and reduce project costs
9	Alignment with Sustainability Goals	Poor alignment; continues to favor environmentally harmful practices	Weak alignment due to lack of fiscal commitment and policy prioritization

Globally, other countries are using their tax codes to encourage green growth. For example, South Africa offers accelerated depreciation for renewable energy assets, allowing investors to

write off the cost of solar and wind installations more quickly. Similarly, Morocco exempts renewable energy equipment from VAT and import duties, helping to reduce project costs and attract investment[55]. These policy choices demonstrate a growing international consensus on the importance of aligning fiscal incentives with sustainability goals something Nigeria is yet to fully embrace.

5. Energy Transition in Nigeria: Commitments vs. Reality

5.1 Nigeria's Energy Transition Plan

Nigeria, Africa's most populous nation and its largest economy, has long relied heavily on fossil fuels, particularly oil and gas, which account for over 90% of export earnings and a significant share of government revenues. However, the nation also grapples with severe energy poverty, with over 90 million people lacking access to electricity and millions more relying on biomass (wood and charcoal) for cooking, which leads to health issues and environmental degradation. In response to global climate change imperatives and domestic development challenges, Nigeria launched its Energy Transition Plan (ETP) in August 2022[56]. The ETP aims to chart a pragmatic and inclusive path toward carbon neutrality by 2060, while simultaneously improving energy access, diversifying the economy, and fostering sustainable development[57].

At the core of the ETP is Nigeria's ambition to achieve net-zero greenhouse gas emissions by 2060. This target is shaped by the dual reality Nigeria faces: on the one hand, the urgent need to join the global fight against climate change, and on the other, the pressing demand to lift millions of Nigerians out of energy poverty. Over 90 million citizens still lack access to electricity, and a significant portion of the population relies on harmful traditional biomass for cooking, exposing them to serious health risks and environmental degradation[58]. Therefore, the energy transition is not only an environmental imperative but a socio-economic necessity for Nigeria.

The Nigeria Energy Transition Plan (ETP) targets five key sectors power, household, oil and gas, transportation, and industry that are both major emitters and vital to national development. It outlines a gradual shift from diesel and petrol to solar and renewable energy in the power sector, with natural gas serving as a transitional fuel. The clean cooking initiative promotes alternatives like LPG, biogas, and electric stoves to reduce deforestation and indoor pollution[59]. In oil and gas, the focus is on decarbonization rather than elimination, using technologies like carbon capture and enforcing low-carbon operational standards. The transport sector is transitioning toward electric vehicles and mass transit, while the industrial sector is aiming for greater energy efficiency

[55] International Renewable Energy Agency (IRENA). (2022). *Renewable Energy Finance: Nigeria Country Profile*. Abu Dhabi: IRENA

[56] Energy Commission of Nigeria. (2022). National Energy Policy and Strategic Documents. Retrieved from https://energy.gov.ng

[57] Federal Government of Nigeria. (2022). Nigeria Energy Transition Plan. Retrieved from https://www.energytransition.gov.ng

[58] Dioha, M. O. (2022). Making Nigeria's Energy Transition Plan a Reality. Energy for Growth Hub. Retrieved from https://energyforgrowth.org/wp-content/uploads/2022/11/Making-Nigerias-energy-transition-plan-a-reality.pdf

[59] Clean Technology Hub. (2023). Nigeria's Energy Transition Plan Review Series: Power Sector. Retrieved from https://cleantechnologyhub.com/wp-content/uploads/2023/05/CTH-ETP-Review-Series-Power-Sector-new.pdf

and renewable integration. The ETP requires $1.9 trillion in investment by 2060, with $410 billion needed by 2030. Partnerships with global institutions are essential, and initial funding includes a $200 million World Bank deal for rural mini-grids[60]. Implementation is led by the Vice President's Office with an emphasis on capacity building in renewable technologies. However, the plan faces challenges including limited financing, weak institutional capacity, and the need for inclusive stakeholder engagement. Nigeria also stresses the importance of climate justice, urging developed nations to honor climate finance commitments.

5.2 Review of Related Policies and Frameworks Supporting Nigeria's Energy Transition Plan (ETP)

Nigeria's Energy Transition Plan (ETP) is supported by existing policy and institutional frameworks, and tax incentives form a key financial lever within this system. Historically, such incentives in the fossil fuel sector encouraged oil and gas expansion, but for the ETP to succeed, they must be realigned toward renewable energy, green industries, and efficiency investments. By repurposing tax incentives through tools like performance-based credits, renewable energy reliefs, and carbon pricing they can serve as part of the financial scaffolding that enables Nigeria's just and sustainable energy transition.

Table 7: Key Policies and Frameworks Supporting Nigeria's Energy Transition Plan (ETP)

Policy/Framework	Year	Lead Institution	Core Focus/Targets	Alignment with ETP
Nationally Determined Contributions (NDCs)	2021	Federal Ministry of Environment (FME)	- GHG emissions reduction: 20% (unconditional), 47% (conditional by 2030)	Foundation for ETP net-zero goal by 2060
National Energy Policy (NEP)	2013	Energy Commission of Nigeria (ECN)	- Energy diversification- Efficiency- Rural electrification	Lays groundwork for ETP strategies
Renewable Energy and Energy Efficiency Policy (REEEP)	2015	Federal Ministry of Power	- 30% renewable share in electricity by 2030	ETP scales targets and provides implementation path
Nigeria Electrification Project (NEP)	Ongoing	Rural Electrification Agency (REA)	- Off-grid solar deployment- Universal access by 2030	Directly supports ETP's access and equity goals
National Climate Change Policy and Response Strategy (NCCPRS)	2021–2030	FME	- Cross-sector climate mitigation- Adaptation planning	Integrates climate resilience into ETP energy targets

[60] Federal Government of Nigeria. (2022). Nigeria Energy Transition Plan. Retrieved from https://www.energytransition.gov.ng

Petroleum Industry Act (PIA)	2021	Federal Government of Nigeria	- Sector reform- Gas as transition fuel- Sustainability emphasis	ETP uses PIA to boost low-carbon gas adoption
Electricity Act	2023	NERC	- Decentralized power governance- State-level autonomy	Enables sub-national ETP implementation and renewables expansion
Long-Term Low Emissions Development Strategy (LT-LEDS)	2022	FME	- Net-zero by 2060- Multi-sector decarbonization	ETP is energy-focused execution plan of LT-LEDS
National Development Plan (NDP)	2021–2025	FMFBNP	- Economic diversification- Infrastructure- Energy access	ETP operationalizes energy as a growth enabler
Decade of Gas Initiative	2021	Ministry of Petroleum Resources	- Expand domestic gas use- Support for industry and transport	Bridges near-term energy needs with long-term renewables

5.3 Misalignments between Fossil Fuel Support and Energy Transition Goals

Nigeria's commitment to achieving net-zero emissions by 2060, as outlined in its ETP, signals a significant step toward a sustainable and low-carbon future. However, this ambition is challenged by persistent structural and policy misalignments particularly the continued fiscal support for fossil fuels, which contradicts the country's climate and energy transition goals. These contradictions manifest through subsidies, tax incentives, and regulatory frameworks that still heavily favor the oil and gas sector.

One of the most glaring misalignments is the continued provision of tax incentives and fiscal concessions to fossil fuel companies, even after the removal of fuel subsidies. While subsidy reform was seen as a progressive step, generous tax holidays, duty waivers, and profit repatriation rights under the Petroleum Industry Act (PIA) of 2021 continue to attract and sustain investments in upstream petroleum activities[61]. These incentives reduce the fiscal burden on fossil fuel companies but simultaneously disincentivize investments in renewable energy technologies, which often lack comparable fiscal support.

Moreover, tax expenditure reports in Nigeria have shown that a significant portion of forgone government revenue is attributable to the oil and gas sector, particularly through company

[61] BudgIT. (2022). *Petroleum Industry Act: Overview and Analysis*. Lagos: BudgIT Foundation.

income tax exemptions and capital allowance schemes[62]. These forms of implicit subsidies create a distortion in the energy market, where fossil fuels are made more economically attractive than renewable alternatives. As a result, they hinder the competitiveness of clean energy projects, which are essential to meeting Nigeria's carbon reduction targets.

The Petroleum Industry Act, while improving governance in the oil sector, has been criticized for failing to adequately integrate climate considerations or create a clear pathway for divestment from fossil fuels. Instead of setting sunset clauses for fossil fuel incentives or redirecting benefits toward energy diversification, the PIA institutionalizes long-term support for hydrocarbon development[63]. This legislative focus conflicts with the policy directions embedded in Nigeria's Nationally Determined Contribution (NDC) and the broader ETP.

Additionally, investment patterns reflect this misalignment. As of recent years, public and private capital flows have continued to disproportionately favor fossil fuel infrastructure such as pipelines, refineries, and gas-processing plants while renewable energy projects face financing gaps and limited access to concessional funding[64]. Without an intentional policy shift, this capital imbalance risks locking Nigeria into a carbon-intensive development pathway, making the energy transition slower and costlier.

Institutional fragmentation also contributes to the misalignment. While the Energy Transition Plan is overseen by the Energy Transition Office under the Vice President, other influential ministries such as the Ministry of Petroleum Resources and the Nigerian National Petroleum Company Limited (NNPCL) continue to prioritize oil and gas development without integrating climate risk assessments or aligning with national decarbonization targets. This disjointed policy environment undermines cross-sectoral coordination and weakens the coherence of Nigeria's green development strategy.

Ultimately, for Nigeria to realize its energy transition ambitions, it must restructure its fiscal incentive system to phase out fossil fuel support and channel public finance toward clean energy innovation, green infrastructure, and climate-resilient development. This will require not only legislative reform but also institutional realignment, enhanced transparency in tax expenditure reporting, and a robust monitoring framework that links fiscal policies with environmental outcomes.

6. Taxation as a Tool for Just Energy Transition

6.1 Fiscal Policy Instruments for Transitioning

Fiscal policy plays a critical role in facilitating Nigeria's shift from a fossil fuel-dependent economy to a low-carbon energy system. As the government seeks to operationalize the ETP, a suite of

[62] Federal Ministry of Finance, Budget and National Planning. (2021). *National Development Plan (NDP) 2021–2025*. Abuja.
[63] Ejiogu, A. (2022). Petroleum industry act and the climate paradox in Nigeria. Energy Policy Review, 45(2), 112–128.
[64] International Renewable Energy Agency (IRENA). (2022). *Renewable Energy Market Analysis: Africa and Its Regions*. Abu Dhabi: IRENA.

fiscal instruments will be essential for influencing investment patterns, reshaping market incentives, and reallocating public resources toward cleaner technologies.

One of the most vital instruments is carbon pricing, including the potential implementation of carbon taxes or emissions trading schemes. Though Nigeria has yet to fully implement such mechanisms, there is a growing policy interest in leveraging carbon taxation to discourage high-emission practices, particularly in the oil and gas sector. The removal of fossil fuel subsidies in 2023 marked a bold fiscal pivot, ending decades of unsustainable expenditure on petroleum products and freeing up fiscal space for pro-renewable investments[65].

Tax incentives are another critical tool. Tax credits and exemptions for renewable energy investments such as zero-rated import duties on solar equipment or accelerated depreciation for green projects can lower the financial barriers faced by private investors. These incentives, if effectively managed and transparently executed, could stimulate growth in solar, wind, and bioenergy sectors[66]. Additionally, green bonds and climate-linked fiscal instruments which Nigeria pioneered with its sovereign green bond issuance in 2017 and 2019 present scalable models for raising capital toward environmentally beneficial infrastructure[67].

Furthermore, the integration of climate criteria into public procurement, budgeting, and fiscal planning can mainstream energy transition objectives across government spending. These measures must be accompanied by robust institutional reforms to improve transparency, reduce corruption, and build public trust in the redistribution of fiscal benefits.

6.2 Potential for Domestic Resource Mobilization

A successful energy transition in Nigeria cannot rely solely on external aid or international climate finance; domestic resource mobilization (DRM) is indispensable. Nigeria's tax-to-GDP ratio remains one of the lowest in sub-Saharan Africa, estimated at just under 8% (OECD, 2023), reflecting widespread inefficiencies and a narrow tax base. Addressing this structural weakness is key to mobilizing internal resources for green investments.

In addition, state governments can strengthen revenue mobilization by optimizing land use taxes, environmental charges, and utility levies to support local energy projects. For example, funds derived from environmental impact assessments or mining licenses could be redirected toward energy infrastructure development. Expanding the tax base by bringing informal sector activities into the formal economy would also boost revenue. Key strategies include enhancing tax compliance, streamlining existing incentives, and leveraging digital platforms such as the Integrated

[65]World Bank. (2023). Nigeria Development Update: Seizing the Opportunity. Retrieved from https://www.worldbank.org/en/country/nigeria/publication/nigeria-development-update

[66] Olumide Oke Akinkugbe, A. (2020). A review of tax incentives for renewable energy projects in Nigeria. (In the section discussing Nigeria's green bond issuance). Journal of Sustainable Development Law & Policy, 11(1), 167–168.

[67]Daiyabu, Y. A., Manaf, N. A. A., & Hsbollah, H. M. (2023). Extending the theory of planned behaviour with application to renewable energy investment: the moderating effect of tax incentives. International Journal of Energy Sector Management, 17(2), 333–351. https://doi.org/10.1108/IJESM-11-2021-0011

Tax Administration System (ITAS). Within the energy sector, better administration of royalties and tax revenues from petroleum operations under the PIA presents further opportunities to channel resources into clean energy initiatives.

The development of domestic capital markets, particularly the promotion of green finance products, presents another viable DRM strategy. The Central Bank of Nigeria (CBN) and Securities and Exchange Commission (SEC) can catalyze this shift by providing regulatory clarity for sustainable finance, enabling pension funds, insurance companies, and institutional investors to allocate capital toward clean energy ventures.

Finally, public-private partnerships (PPPs) are instrumental in leveraging domestic private sector capital and know-how. Transparent risk-sharing frameworks and government guarantees can further incentivize domestic investment in renewable infrastructure.

6.3 Pathways to Ending the Fossil Fuel Regime in Nigeria

The transition away from Nigeria's entrenched fossil fuel regime requires a multifaceted and phased approach, balancing economic stability, energy access, and climate ambition. Fossil fuels particularly crude oil and natural gas have historically formed the backbone of Nigeria's economy, accounting for over 80% of export revenue and a significant portion of government earnings. Dismantling this system demands careful planning, strategic foresight, and fiscal realignment.

The first pathway involves advancing the decarbonization of Nigeria's energy mix, with renewable energy positioned at the center of the transition. In the immediate term, natural gas may serve as a limited bridging fuel, offering lower emissions compared to more carbon-intensive options like coal or diesel and helping to provide short-term system reliability as renewables are scaled up. To accelerate this shift, climate-aligned fiscal measures such as accelerated depreciation for renewable energy investments, tax credits that prioritize clean energy deployment, and zero-rated import duties on solar and wind technologies can reduce financial barriers and attract private capital. Crucially, any fiscal incentives linked to gas must be transitional, explicitly designed to phase down support for hydrocarbons while scaling up investment in renewables, ensuring Nigeria's pathway remains consistent with global climate goals and a just energy transition.

Second, regulatory and institutional reforms are needed to shift from a fossil fuel-centric policy environment. This includes ending regulatory bias toward hydrocarbons, phasing out fossil-related subsidies (already initiated), and restructuring fiscal frameworks to prioritize clean energy. Tax rationalization, including the removal of redundant incentives for oil and gas multinationals, coupled with the introduction of carbon pricing or environmental levies, would create fiscal space for clean energy investments. Institutions such as the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) and the Federal Inland Revenue Service (FIRS) must coordinate to ensure fiscal tools reinforce decarbonization.

Third, diversification of the economy is paramount. The fossil fuel regime has hindered industrialization and stifled innovation in other sectors. Agriculture, manufacturing, and digital services must be scaled up to provide alternative employment and revenue streams. Here, fiscal policy can play a catalytic role through sector-specific tax reliefs, concessional financing supported

by tax expenditures, and state-level revenue mobilization via land use taxes, environmental fees, and improved royalty collection under the PIA. Such measures would not only broaden Nigeria's tax base but also create new fiscal flows to fund renewable energy expansion. According to the Energy Transition Plan, Nigeria's move toward a cleaner energy future could generate up to 840,000 jobs by 2060, with significant growth in solar power, electric vehicles, and clean cooking industries[68]. These new opportunities can serve as sustainable alternatives to the employment that will gradually decline as fossil fuels are phased out, supporting a just and inclusive transition.

Fourth, public awareness and behavioral change initiatives must accompany structural reforms. Millions of Nigerians rely on petrol generators for electricity, making fossil fuel dependency both economic and social. Tax and fiscal tools can ease this transition: for instance, targeted VAT exemptions for solar kits, subsidies for clean cooking solutions financed through energy levies, and fiscal rebates for households and SMEs that adopt renewable alternatives. These mechanisms can help lower upfront costs while encouraging widespread adoption of clean technologies.

Finally, Nigeria must integrate itself more actively into global decarbonization markets, from carbon credits to green hydrogen exports, ensuring it captures value in the emerging green economy. Here, fiscal mechanisms such as sovereign green bonds (already pioneered in 2017 and 2019), carbon taxation, and stabilization funds to smooth oil revenue volatility will be critical. Strategic fiscal planning can both mitigate the decline in oil revenues and channel new resources into climate-smart infrastructure, positioning Nigeria competitively in the global energy transition.

7. Conclusion, Policy Directions and Recommendations

7.1 Conclusion

The role of tax incentives in Nigeria's fossil fuel industry is a pivotal factor in shaping the country's energy landscape and influencing its journey toward sustainability. As global and domestic pressures mount to combat climate change and diversify energy sources, the structure and objectives of these incentives must be reevaluated. The continued support for fossil fuel production through favorable tax regimes poses significant challenges to Nigeria's energy transition agenda. It undermines efforts to decarbonize the economy, diverts resources from renewable energy development, and perpetuates environmental degradation. A reorientation of fiscal policy is therefore essential one that aligns with climate commitments, promotes clean energy investment, and ensures a just transition for affected sectors and communities. Finally, while tax incentives have historically supported the growth of Nigeria's fossil fuel industry, their role must evolve in light of the urgent need for energy transition. Reforming these incentives offers a critical opportunity to support sustainable development, strengthen energy security, and position Nigeria as a leader in Africa's clean energy future.

[68] Federal Ministry of Environment (FME). (2022). Nigeria's Energy Transition Plan (ETP). Retrieved from https://climatechange.gov.ng

7.2 Policy Directions and Recommendations

7.2.1 Short- and Long-term Policy Reforms

Short-term (1–3 years):

1. Fully operationalize the Energy Transition Plan (ETP) with budgetary backing and measurable annual milestones, especially in power sector reform, rural electrification, and solar deployment.
2. Strengthen energy governance at the subnational level, empowering state governments to drive mini-grid and renewable energy projects under the Electricity Act, 2023.
3. Eliminate residual fossil fuel subsidies while cushioning vulnerable populations through targeted cash transfers and subsidies for clean cooking and transport alternatives.
4. Mandate green budgeting practices in federal ministries and agencies, integrating climate indicators in all public investment programs.

Long-term (4–20 years):

1. Strengthen Climate Accountability through Legislative Alignment: Building on the existing Climate Change Act (2021), Nigeria should enact a Climate Change Financing and Accountability Law that integrates emission-reduction targets into fiscal and energy policies. This law should mandate sector-specific carbon budgets, ensure fiscal responsibility in energy investments, and require private-sector disclosure of climate-related financial risks, thereby enhancing accountability and transparency.
2. Decarbonize High-Emitting Sectors with Clear Targets: Decarbonization efforts should focus on the industrial sector, which are among the highest emitters. In line with Nigeria's Energy Transition Plan (ETP), the government should set measurable medium-term targets for example, achieving 30% penetration of electric vehicles by 2030 and mandating a 25% reduction in industrial sector emissions by 2035 through energy-efficient manufacturing processes, carbon capture technologies, and incentives for low-carbon fuels. Specific policies could include fiscal incentives for EV adoption, green logistics corridors, and mandatory energy-efficiency benchmarks for industries.
3. Advance a National Hydrogen and Bioenergy Strategy: To complement existing ETP goals, Nigeria should develop a National Hydrogen and Bioenergy Strategy that positions the country as a future exporter of clean energy. This strategy should identify priority regions for green hydrogen production (such as leveraging solar-rich northern states) and establish bioenergy corridors from agricultural zones in the middle-belt. Export-readiness targets such as achieving pilot hydrogen exports by 2035 should be incorporated into the national industrialization agenda.

7.2.2 Tax Incentive Reforms and Transparency Measures

1. Government-led Rationalization of Tax Incentives: The Federal Government, through the Ministry of Finance and the Federal Inland Revenue Service (FIRS), should conduct a comprehensive audit of all existing energy-related tax incentives. This can draw inspiration from South Africa's Tax Expenditure Review framework and Kenya's recent audit of

energy sector tax reliefs. The audit should identify redundant or regressive incentives (e.g., those disproportionately benefiting fossil fuel operators) and re-align new incentives with Nigeria's Energy Transition Plan (ETP 2022) and the Climate Change Act 2021.

2. Introduce a Climate Performance-Based Tax Credit System: To incentivize decarbonization, the government should adopt a performance-based tax credit scheme, modeled after Canada's Clean Technology Investment Tax Credit. Firms meeting verifiable emission reduction benchmarks, adopting energy-efficient technologies, or investing in renewable generation (e.g., solar mini-grids for industrial clusters) would qualify. Nigeria could pilot this in cement and steel industries, which are among the highest carbon emitters.
3. Create a Centralized Public Tax Expenditure Registry: The Federal Ministry of Finance should establish a digital, publicly accessible registry disclosing all fiscal incentives in the energy sector, including beneficiaries, fiscal costs, and expected climate outcomes. This could be built into the existing Open Treasury Portal, ensuring transparency and accountability while deterring misuse of incentives.
4. Digitize Renewable Energy Tax Reliefs for SMEs: In collaboration with FIRS, the government should digitize and simplify applications for renewable energy tax reliefs through the TaxPro-Max platform. Targeting SMEs and local manufacturers, this reform could mirror Rwanda's online renewable energy subsidy portal, ensuring small businesses can easily access and apply for incentives that lower the cost of adopting solar and clean technologies.
5. Pilot Environmental Tax Measures with Climate Earmarking: The Federal Government should pilot pollution taxes and carbon pricing mechanisms in high-emitting sectors (e.g., oil and gas flaring, cement, and transport). Revenues should be earmarked for climate resilience, renewable energy development, and just transition funds. Nigeria can leverage the World Bank's Partnership for Market Implementation (PMI) program, which is already providing technical support for carbon pricing pilots in emerging economies.

7.2.3 Institutional Strengthening and Data Disclosure

1. Build capacity in key regulatory bodies such as the Nigerian Electricity Regulatory Commission (NERC), Rural Electrification Agency (REA), and Energy Commission of Nigeria (ECN) to manage clean energy policy design, monitoring, and enforcement.
2. Establish a National Energy Transition Monitoring Unit within the Office of the Presidency to coordinate, track, and publish quarterly implementation reports across ministries and agencies.
3. Develop a centralized energy transition data platform, hosting real-time data on emissions, energy generation mix, subsidy disbursement, and project-level investments.
4. Mandate ESG (Environmental, Social, Governance) disclosures for all energy companies listed on the Nigerian Stock Exchange, aligning with international frameworks like the Task Force on Climate-related Financial Disclosures (TCFD).
5. Enhance coordination between climate, energy, and economic planning bodies, ensuring harmonization of datasets and policy targets.

7.2.4 Supporting a Just and Inclusive Energy Transition

1. Integrate a Just Transition Social Protection Framework into the Energy Transition Plan (ETP): The Nigerian government should ensure that the ETP explicitly incorporates a Just Transition Social Protection Framework, focusing on reskilling programs, employment guarantees, and social insurance for workers and low-income communities who may be displaced in the post-fossil fuel era. This could be modeled after South Africa's Just Energy Transition Investment Plan (JET-IP), ensuring Nigeria's transition is equitable and inclusive.
2. Prioritize Gender-Responsive Energy Policies: Energy policies should be designed with a gender lens, particularly targeting clean cooking solutions, decentralized renewable energy for rural households, and agricultural mechanization. Embedding gender considerations into the ETP would help address the disproportionate energy burden on women and enhance rural development outcomes.
3. Institutionalize Community Participation in Energy Planning: The Federal Government should institutionalize mechanisms for community engagement in energy infrastructure planning and benefit-sharing, especially in oil-producing and historically energy-poor regions. This could take the form of mandatory community consultations and climate trust funds linked to renewable energy projects under the ETP framework.
4. Support Local Manufacturing and Job Creation: To maximize domestic economic benefits, the government should provide incentives for local manufacturing and assembly of solar panels, batteries, and electric mobility components. This aligns with the ETP's industrialization pillar and will boost employment while reducing dependence on imported clean energy technologies.
5. Ensure Affordable and Equitable Energy Access: Affordable energy access should remain central to the transition agenda. The ETP should set clear targets for reducing energy poverty, expanding rural electrification, and financing tariff subsidies for the poorest households. This ensures that the energy transition does not deepen inequality but rather serves as a tool for inclusive development.

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