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Nigeria has made ambitious climate commitments to transition key sectors of the economy to renewable energy including its power, industrial and transportation sectors. Currently, over 75% of Nigeria's grid electricity comes from natural gas fired plants while renewables account for barely 0.5% of total electricity generation. Due to the unreliability of the national grid, many businesses, especially small and medium scale enterprises, resort to diesel or petrol generators to power their businesses. A recent report finds that more than 70% of electricity consumed in Nigeria is generated by diesel and petrol generators.

From January 2026, the Nigerian Federal Government plans to introduce a 5% surcharge on fossil-fuel products, excluding compressed natural gas (CNG), household kerosene, and cooking gas. While this policy appears to align with Nigerian's energy transition plan, it risks aggravating existing inequalities and placing the burden of the costs of the energy transition on the poorest citizens.

With over 60% of Nigerians living in multi-dimensional poverty, this proposed surcharge could sharply increase the costs of electricity for millions of Nigeria if it is implemented without adequate social protections and safety nets for low-income households.

Lack of Public Consultation and Social Welfare Measures

The design process for the carbon surcharge was quite opaque. There was no public stakeholder engagement on the need for the surcharge or how the revenues would be spent. This lack of transparency fails to adhere to the principles of energy democracy which recognises that citizens have a right to participate in decisions that will shape their future energy spend and access.

There are also no clear measures to cushion low-income households and businesses from higher fuel and transport costs. The absence of targeted subsidies and rebates means the economic burden will fall on the most vulnerable members of society for whom energy already consumes a disproportionate share of income. It will also negatively impact the production costs of manufacturing firms who rely mostly on fossil fuels for power due to grid unreliability.

Unfortunately, this reflects a worrying trend in energy policymaking in Nigeria, where policies are adopted without stakeholder input or social welfare considerations. A recent example of this was in 2023, where the abrupt removal of fuel subsidies led to higher energy costs and adverse financial impacts on small households and small businesses, especially those not able to acquire small scale renewable energy solutions due to the high upfront costs.

Weak Fiscal Incentives for Renewable Energy

In the absence of large-scale grid connected renewables, the costs of production for manufacturing firms will only increase with the new surcharge. Yet, there are very limited incentives to promote the deployment of renewable energy by manufacturing firms. Although fully assembled solar panels and modules are exempt from import duties and value added tax, wind turbines, hydro-turbines and batteries are still subject to significant import duties. This raises the costs of scaling large-scale grid-connected renewable projects.

Local manufacturers face additional barriers. Many raw materials for solar production are not available domestically, leaving firms dependent on imports and vulnerable to high tariffs. Smaller manufacturers also struggle to qualify for economic development tax credits under the Nigeria Tax Act, which imposes high investment thresholds and complex application processes.

Lessons from Canada

Climate change is an urgent global challenge that requires decisive action. However, such action must be anchored in energy justice which requires inclusivity, and public participation in policy design and implementation and social welfare considerations.

Canada's experience with carbon taxation offers an important lesson. Despite good intentions, its carbon pricing system faced widespread backlash because citizens did not clearly understand how tax rebates were structured or distributed. The lack of transparency eroded trust, ultimately leading to the policy's reversal.

Carbon pricing, if properly designed, can be a powerful tool for emissions reduction and green industrial growth. But it must be transparent, equitable, and designed to support low-income households and businesses.

The Way Forward

Nigeria should adopt tax incentives for the development of large-scale renewable energy projects in Nigeria. Government should also support local manufacturing of renewable energy technologies through targeted fiscal incentives. Evidence from China and India reveals that well-designed tax incentives can accelerate renewable energy adoption and support green innovation.

In addition, the country could consider implementing an emissions trading scheme targeted at large emission intensive manufacturing firms. Evidence shows that emissions trading schemes are highly effective at driving renewable energy adoption in emission intensive industries without slowing economic growth.

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