



In collaboration with



Why Invest in Nigeria's Energy Future?

Opportunities and Challenges in Nigeria

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Intro

In an era characterized by dynamic energy transitions and the pursuit of sustainable solutions, Africa stands at the forefront of transformative opportunities in the global energy landscape.

This country, brimming with untapped potential, is set to reshape its energy future in a manner that not only fuels economic growth but also champions environmental stewardship. Within this realm, Nigeria emerges as emblematic representations of promise, each with its unique attributes and distinctive narratives.

In this whitepaper, we delve into the intricacies of this country exploring the nuances of its energy sectors, the policy landscapes shaping their trajectories, and the investment opportunities it presents.

Through an in-depth analysis, our aim is to shed light on the diverse facets of investing in Nigeria's energy future, highlighting the potential rewards and the challenges that demand thoughtful consideration.





Why Nigeria

Nigeria, an economic giant on the African continent, grapples with the duality of challenges and opportunities. Its dynamic energy sector, rife with untapped renewable resources, aspires to overcome infrastructure deficits and energy poverty. Nigeria's vision for an electrified and green future exemplifies its commitment to harnessing the potential of its youthful population.

Doing Business In Nigeria

According to the World Bank Group's Doing Business 2020 Report, which measures ease of business in a specific country, Nigeria ranks 131 out of 190 countries, moving up 15 places since 2019. The report names Nigeria, for the second time in a row, as one of the top 10 countries with the most notable advancements during the review period. Nigeria improved significantly in "starting a business, dealing with construction permits, getting electricity, registering property, trading across borders and enforcing contracts" indices.

Taxation in Nigeria

Three tiers of government collect tax in Nigeria. The federal government, through the Federal Inland Revenue Service (FIRS), collects companies' income tax, withholding tax on companies, petroleum profit tax, value-added tax (VAT), and personal income tax for armed forces and police personnel, the residents of the FCT, and non-residents among others. The State Boards of Internal Revenue collect personal income tax, individual withholding tax, capital gains tax, and road taxes. The lowest tier, the Local Governments, are responsible for collecting small taxes and levies such as shop and kiosks rates, tenement rates, on and off liquor licences, and marriage, birth and death registration fees, among others.

Taxation Of Corporate Bodies Other Than Oil Exploring & Production Companies

Companies Income Tax (CIT) is collected on the profits of a company not involved in oil exploration and

production. The CIT rate is 30% for companies with a gross annual turnover of over NGN 100 million. For companies with a turnover of NGN 25 million to NGN 100 million, the CIT rate is 20%.

Taxation of Oil Exploring & Production Companies

Petroleum Profit Tax (PPT) is applied to companies engaged in upstream petroleum operations during the accounting period. The PPT rate varies. For petroleum operations under production sharing contracts (PSCs) with the Nigerian National Petroleum Corporation (NNPC), it is 50%. For non-PSC operations, it is 65.75% for the first five years and 85% afterwards.

Value added tax

VAT is charged at a rate of 7.5% on all goods and services in Nigeria, including imported goods.

The Finance Act 2020

Nigeria's tax collection rates have remained historically low. In 2020, the country's tax-to-GDP ratio was 5.5%, way lower than the average of 31 African countries (15%)¹. The Finance Act of 2020 made over 80 amendments to the existing tax and regulatory legislation. They include an increase in VAT from 5% to 7.5%, a higher fine for late filing of CIT returns, and the mandatory requirement of a Tax Identification Number for companies. The main objective of the act is to increase revenue and control tax evasion.

Energy Sector Outlook

With almost 85 million people without access to electricity, Nigeria faces challenges such as inadequate infrastructure, frequent power outages and unreliable grid connectivity that act as a barrier to universal electricity access in the country.

Currently in Nigeria, installed capacity hovers between 12 and 13GW, and actual generation is between 3,000 and 5,000MW.

¹ OECD, Revenue Statistics in Africa 2022 - Nigeria, <https://www.oecd.org/tax/tax-policy/revenue-statistics-africa-nigeria.pdf>

The renewable energy sector will play a fundamental role in Nigeria's energy future. Tapping into green energy sources such as solar, wind, hydro and bioenergy offers an opportunity to provide clean, reliable energy to millions. Abundant sunlight and technological advancements have improved the cost-effectiveness of solar systems, with solar technologies experiencing the highest decline in cost, with a reduction of 77% since 2010 worldwide.

Nigeria's energy policy

Nigeria has developed several policies aimed at improving energy access. The Renewable Energy Master Plan (REMP) [2013] seeks to increase renewable electricity supply to 36% of total electricity generation by 2030. The National Renewable Energy and Energy Efficiency Policy (NREEEP) [2015] aims to improve hydropower (small and large) capacity by about 12GW and solar capacity by 6GW by 2030. The Energy Transition Plan (ETP) [2022], which provides a roadmap to decarbonizing the power sector, envisions 197GW of solar by 2050.

These policies address diverse aspects of the industry, such as research and development, energy pricing and financing, legislation, energy efficiency, and the environment. In planning for a low-carbon energy future, the Nigerian government acknowledges the role renewable energy will play in the future and how gas can fuel its energy transition.

Devolution of powers

The Fifth Alteration (No.17) to the Constitution of the Federal Republic of Nigeria was signed into law in March 2023 by former President Muhammadu Buhari. The constitutional amendment gives Nigeria's 36 states the power to generate, distribute and transmit electricity in areas already covered by the national grid. This expands upon the states' previous powers, which were limited to the off-grid electricity sector.

The devolution of powers was a constitutional amendment. While the law has been amended, states are yet to start entirely creating electricity markets. Only two states – Lagos and Enugu – have passed their electricity laws, and so far there is little movement on

that front. Nevertheless, the Act is expected to have far reaching impact in both grid and off-grid sectors.

Key objectives

Some key objectives of Nigeria's energy policies include:

- Supporting the establishment of local manufacturing industries for solar energy conversion technologies and applications;
- Developing a skilled workforce for the provision of basic engineering infrastructure for the production and operations of wind power systems;
- Promoting private sector participation in the electricity subsector while ensuring the participation of local investors;
- The development of small, mini and micro hydropower schemes to grow the rural economy.

These objectives highlight the government's approach to improving energy access and accelerating clean energy development. However, there has been a lack of coordination in implementing policies.

Nigeria's Solar Power Strategy

The Nigerian Federal government has embraced solar for rural electrification. The falling costs of solar have made it a cost-effective option for electrifying remote areas where grid connection would not be feasible. Since 2015, the Rural Electrification Agency has supported over 2 million new off-grid solar connections under the Nigeria Electrification Project.

The Electricity Act 2023 was signed by President Bola Tinubu in June 2023.

As one of its provisions, the new law aims to accelerate the development and integration of renewable energy sources, including solar to the grid. The law mandates the regulator to create an enabling environment to attract clean energy investments. Some of the measures expected of the regulator include the provision of embedded renewable energy regulations, the introduction of feed-in tariffs, the simplification of concessions awards for the generation and distribution of less than 10MW, and the issue of guidelines on net-metering for rooftop solar PV systems.

Nigeria's Renewable Energy Potential

Solar	Nigeria has incredible solar energy potential, with average sunshine hours of 6h/day. The potential for concentrated solar power and photovoltaic generation is around 427,000 MW
Wind	The wind energy potential in Nigeria is moderate, with average speeds of about 2.0 m/s at the coastal region and 30m in the far northern region of the country.
Hydropower	Nigeria is endowed with large rivers and natural falls, which have an exploitable potential of 11,500 MW

Government Initiatives

Nigeria Electrification Project

The Rural Electrification Agency leads the Nigeria Electrification Project, a government initiative aiming to increase electricity access to households, MSMEs, universities, and hospitals.

The World Bank has provided a \$350 million facility, and the African Development Bank a \$250 million facility to the Nigerian government to aid off-grid development. These investments are expected to leverage over \$81 billion in additional funding from the private sector – and in the wake of COVID-19, they will become even more important to help speed progress.

Solar Power Naija

In 2020, the government launched the Solar Power Naija initiative to support economic recovery following the pandemic. This programme targets deploying 5 million new solar connections for off-grid communities. This initiative plans to create 250,000 new jobs and impact up to 25 million people by installing 5 million solar home systems and mini-grids. The plan also supports the development of the upstream value chain by promoting the assembly of solar components in Nigeria.

Power Sector Recovery Program

The Power Sector Recovery Operation (PSRO) aims to improve the reliability of electricity supply, achieve financial and fiscal sustainability, and enhance accountability. The PSRO includes a set of measures to ensure that at least 4,500 MWh/hour of electricity is supplied to the distribution grid from 2022.

Recent Projects

While the new enabling environment regulations – Electricity Act 2023 and the constitutional amendment – are expected to catalyze renewable energy project development, several projects are already being implemented.

In January, the Nigeria Sovereign Investment Authority (NSIA) completed developing a 10MW solar project in the Challawa Industrial Area in Kumbotso Local Government Area of Kano State. The project was the country's first grid-tied solar plant.

The REA has commenced the second phase of the Energizing Education Programme (EEP). This programme aims to provide reliable, clean power to thirty-seven Federal Universities and seven Teaching Hospitals within Nigeria. In the second phase – costing \$105 million – seven Federal Universities and two University Teaching Hospitals will receive solar hybrid systems.

The Kashimbila Multipurpose Dam in Taraba State is expected to generate 40 MW of electricity and supply water for 40,000 people and irrigation.

Solar home systems provider Lumos is deploying \$35 million from the US-based Development Finance Corporation, as part of its plans to distribute 160,000 solar home systems to households and small and medium-sized enterprises across Nigeria.

Conclusion

The unfolding narrative of Nigeria's energy landscape is one of innovation, sustainable growth, and regional collaboration. It embodies the continent's determination to rewrite the story of energy poverty and environmental impact.

Despite facing infrastructure challenges, Nigeria aims to tap into its substantial renewable potential to provide clean, dependable energy to its burgeoning population.

As the world witnesses Nigeria's energy transformation, abundant opportunities summon for investors and stakeholders to actively participate in this journey. It is a journey defined not only by economic prospects but also by the promise of a sustainable and equitable future for millions across the continent.

In Nigeria, and beyond, the energy revolution is not merely a vision; it is a tangible force shaping the destinies of the nation. As we contemplate the unique landscape this country, we recognise that its energy future is a mosaic of potential, resilience, and optimism. The time to invest in this future is now, for the rewards of sustainable development await those bold enough to embark on this transformative journey.



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