POLICY BRIEF – OCTOBER 2026

Subsidy removal, carbon pricing and sustainable development in Nigeria

KEY MESSAGES

Emission reductions: Carbon pricing can be an effective tool to bring down emissions and to limit future emissions growth.

Distributional effects: Carbon pricing can impact different groups unevenly, requiring careful analysis of factors like fuel use or vehicle ownership to design equitable policies and compensation schemes.

Domestic resource mobilisation: Well-designed carbon pricing can generate revenue, broaden the tax base and help fund Nigeria's development priorities.

Building public support: It is vital to build public understanding of the benefits of the policy. Relief measures must be visible and immediate to avoid large-scale protest.

Avoiding sudden price increases: A phased, sector-specific approach, tested through pilots, would reduce political risk and give institutions time to build capacity.

Integrating with sustainable development: For a successful implementation of carbon pricing a targeted transfer scheme is necessary to avoid critical development trade-offs, such as increased air pollution or reduced food consumption.

Status quo

In May 2023, Nigeria abolished its long-standing petrol subsidy, and pump prices more than doubled overnight. The subsidy had cost amounting to roughly a quarter of the federal budget in 2022, and diverted critical funds from infrastructure, healthcare or education. Its removal was meant to ease rising public debt and attract foreign investment, but has left many Nigerians struggling to afford food and fuel.

At the same time, Nigeria's Climate Change Act (2021) requires the government to introduce a carbon tax and an emissions trading system. So far, carbon pricing only applies to the oil and gas sector through a gas flaring penalty under the Petroleum Industry Act (2021), which charges US$3.50 per thousand standard cubic feet of non-routine flaring or venting.

Opportunity for resource mobilisation

Carbon pricing presents a promising avenue for mobilising domestic resources. Mechanisms can generate revenue that can be reinvested in critical sectors such as healthcare, education or climate adaptation. These funds can also drive the transition to a low-carbon economy through investments in renewable energy and energy efficiency.

Reducing reliance on foreign aid, carbon pricing can offer a sustainable and predictable source of domestic revenue that strengthens fiscal resilience and enables Nigeria to pursue development priorities aligned with global climate goals. However, it requires careful consideration of a number of factors.

Implementation challenges

Carbon pricing in Nigeria must fit the country's fiscal constraints and institutional realities. Rising fuel prices have repeatedly sparked large-scale protests, and abrupt, economy-wide price changes are likely to provoke public backlash. A phased, sector-specific approach, tested through pilots, would reduce political risk and give institutions time to build capacity. Relief measures must also be visible and immediate. Compensation that is not made salient does little to sustain public support. Cash transfers, clean-cooking subsidies and investment in public transport need to be delivered credibly and on time, not merely promised.

Above all, success depends on public trust. Widespread concerns about corruption and the use of public funds undermined the subsidy reform, and carbon revenues that disappear into general government spending would reinforce that distrust.

Earmarking revenues, subjecting them to independent audits and reporting publicly on how they are spent is therefore a political necessity.

Distributional effects

Carbon pricing can impose substantial costs on households. In Nigeria, a carbon price would be slightly progressive, i.e. richer households are relatively more affected (*see Figure 1*). But, income is not the only relevant factor that explains who will bear costs. Households that will be highly impacted by carbon pricing can be both relatively rich and relatively poor. In Nigeria, vehicle ownership, location and main cooking fuel are important predictors of how much a household would be impacted by carbon pricing.

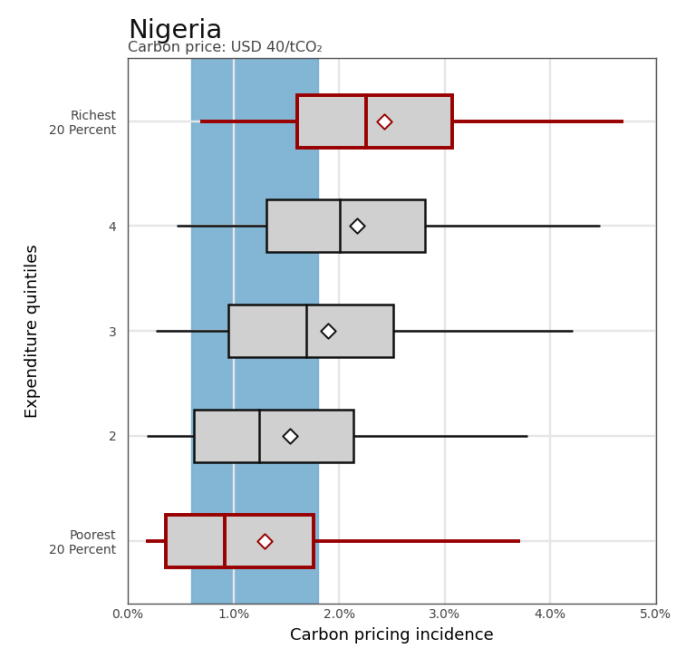


Figure 1: Carbon pricing incidence in Nigeria
This figure shows relative additional costs of carbon pricing in percent of total household expenditures (x-axis) over expenditure quintiles (y-axis). This analysis assumes a carbon price of NGN 53,000 per tCO_2 (approx. USD 40). Note that the analysis disregards potential demand responses.

An interactive online tool, the Carbon Pricing Incidence Calculator (CPIC), can help to understand which households are affected and how they could be compensated prior to policy implementation.

Find CPIC at
cpic-global.net

CPIC

Revenue recycling

Protecting vulnerable households from increasing energy prices is pivotal. To reduce transaction costs, existing cash transfers could be used if coverage and accuracy are sufficient. At least a share of revenues from carbon pricing should be recycled back to the population, e.g., through lump-sum transfers, targeted transfers or a reduction of VAT. For example, redistributing 50% of revenues from an NGN 53,000 carbon price as lump-sum transfers would fully overcompensate the poorer half of the population, relieving their burden and making the policy more progressive.

A 2025 survey found that Nigerian stakeholders prefer spending revenues on electricity improvements, renewable energy and public transport over cash transfers. These priorities must be balanced against households' immediate needs. A key challenge for Nigeria is ensuring that transfers reach people effectively and protect them from the unintended negative effects of carbon pricing.

Sustainable development trade-offs

Higher energy prices from carbon pricing could push Nigerian households back towards more traditional biomass fuels like firewood and charcoal. This would not only decelerate development aspirations, but could exacerbate deforestation and harm the climate. It also holds broader socioeconomic implications, such as worsening indoor air pollution and consequently negative impacts on health, reducing food consumption due to higher costs of living, or decreasing female labor force participation as women spend more time collecting firewood. An evaluation of the 2023 subsidy removal found that poor urban households suffered particularly severe impacts on food security.

Policy design must therefore take contextual factors into account, in particular for fuels used by the poorest parts of the population and consider additional policy measures, including food vouchers or reduced food taxes. Such complementary policies in conjunction with carbon pricing could ease adverse effects on other development goals.

Further reading

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