



Energy innovations.  
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**Strategic Fiscal Incentives to  
Unlock the Off-Grid Clean  
Energy Sector in Nigeria:**  
Opportunities & Recommendations



# Contents

Executive  
Summary

1

Overview of the  
Current  
Regulatory  
Environment

2

Existing Fiscal  
Incentives

3

Proposed Fiscal  
Incentives

4

Regulatory  
Support

5

Implementation  
Proposal

6

Schedules

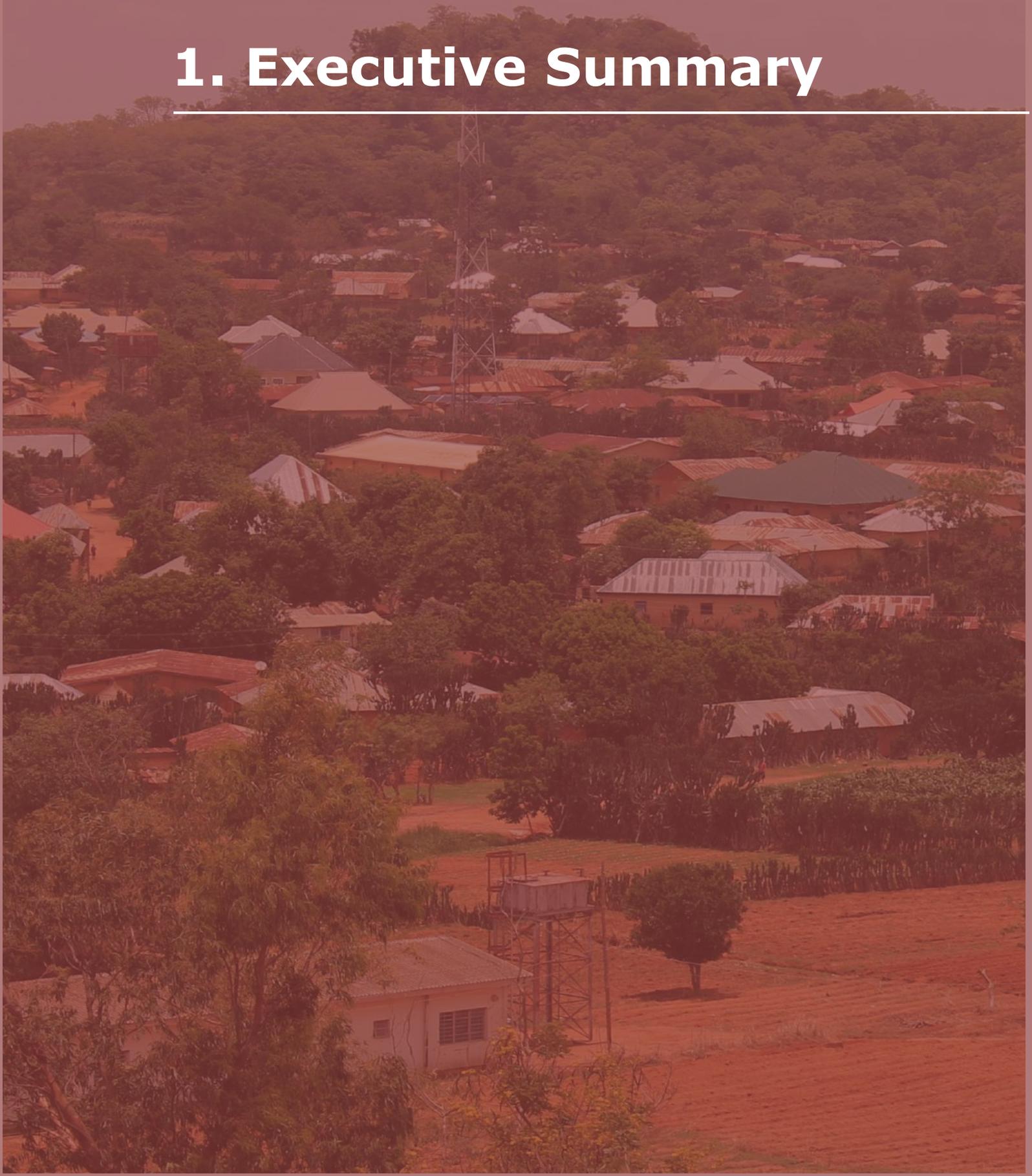
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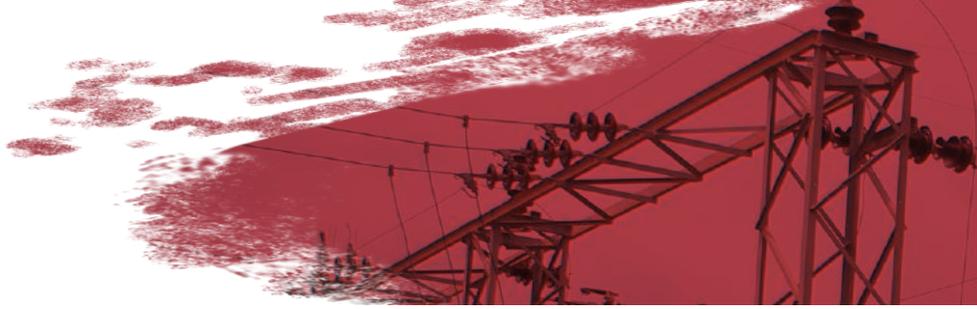
Report prepared by:



# 1. Executive Summary

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## Executive Summary (1/2)

### Introduction

One of the key priorities of the Federal Government of Nigeria as set out in the Economic Recovery and Growth Plan 2017 is ensuring energy sufficiency by:

- diversifying the energy mix;
- increasing rural electrification through the use of off-grid renewable solutions; among others

The purpose of this project is to stimulate the growth of the clean off-grid energy sector by designing strategic incentives to promote the sector.

We have carried out this project in 2 phases:

**Phase 1** - Review of existing policies, regulations and laws for the renewable and off-grid energy sector.

**Phase 2** - Design of a framework for fiscal incentives.

We reviewed the major energy related policies from 2001 till date including legislation and regulations

relevant to the industry. Through these policies, the government provided the framework for the supply of electricity to remote off-grid communities and the underserved population living in urban areas (using clean, affordable and sustainable methods).

In designing the strategic fiscal incentives framework set out in this report, we have considered some of the Federal government's strategies for promoting off-grid energy, identified the fiscal incentives currently available to the clean off-grid sector, proposed additional fiscal incentives for the sector as well as the implementation strategy.

This framework proposes incentives which are specific to the clean energy sector. Although clean energy covers the utilisation of gas, this report does not seek to provide incentives for the gas industry as there are specific laws and regulations which provide sufficient incentives for the gas industry. The purpose of this research is to empower stakeholders to take practical steps to use fiscal incentives to unlock the off-grid clean energy sector in Nigeria.





## Executive Summary (2/2)

### The Strategic Incentives Framework

In this report, we have introduced categories for the various developers of off-grid projects and users of clean energy in Nigeria. The three broad categories are:

- **Wholly commercial companies**

This refers to entities investing in off-grid clean energy generation for the single purpose of selling power to third parties. This category should receive the widest range of incentives because the capital investment and contribution to the Nigerian power solution are immense.

- **Dual purpose entities**

This refers to entities generating power for their own use and selling the remainder to third parties.

- **Self-generating energy producers**

This refers to entities/individuals generating power for their exclusive use only. Companies, religious organizations, residential estates, and individuals generating energy for their own consumption fall under this category.

This framework proposes fiscal incentives and also suggests modes of implementing the proposed incentives. Our report comprises of the following major parts:

- **Overview of the current regulatory environment**

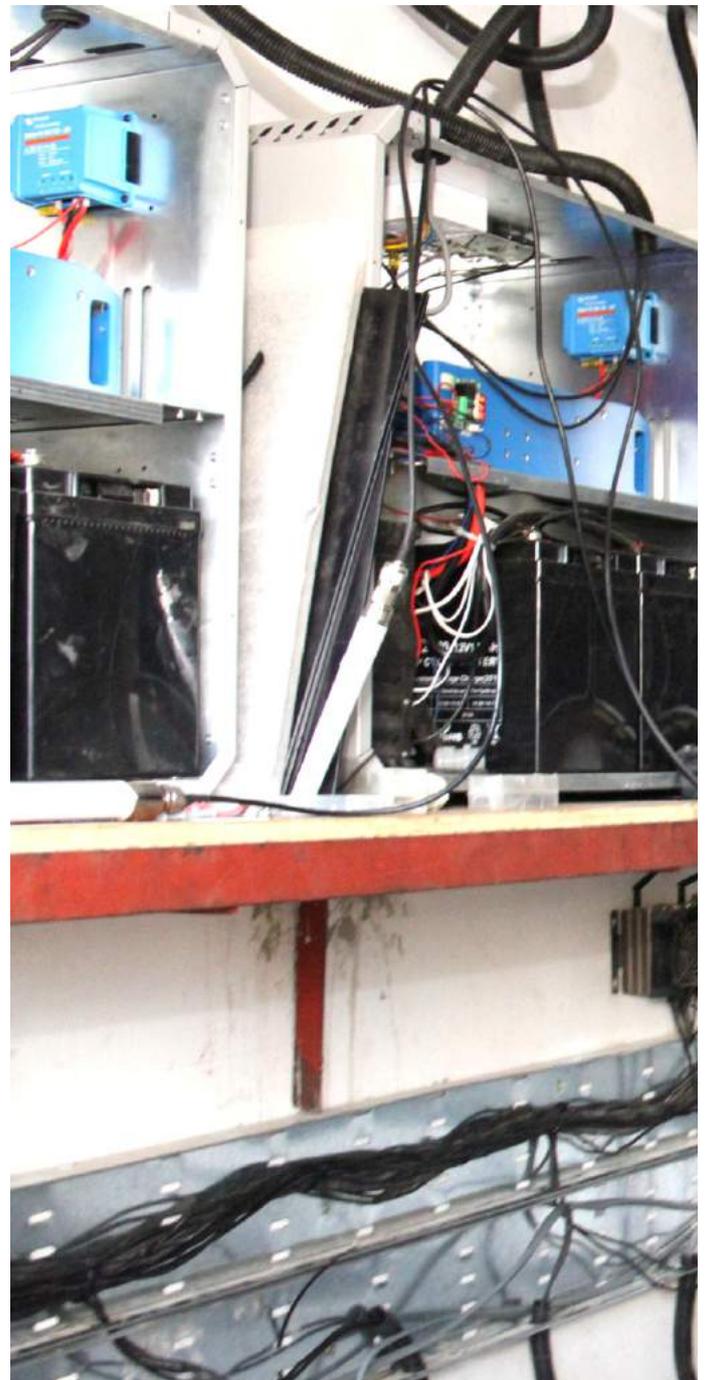
This provides a summary of the regulatory landscape and also highlights the key incentives currently available to the off-grid sector.

- **Proposed fiscal incentives**

These are incentives which are applicable to all developers of off-grid projects and users of clean energy in Nigeria.

- **Regulatory support**

This section recognizes that the right regulatory framework and government support is key to creating an enabling environment to promote the use of clean energy in Nigeria.





## Summary of proposed incentives

### 1 Value Added Tax Exemptions

- VAT exemptions on qualified goods and services deployed for generating off-grid energy
- The Minister of Finance can by a gazette, exempt certain items from VAT

### 2 Import Duty Exemptions

- Import duty exemption on machinery, equipment and parts for use in the generation of off grid power using clean energy sources
- The import duty exemption may be granted by an executive order of the President

### 3 Tax Holidays

- Extension of the duration of pioneer incentives for a period of 10-15 years
- This can be implemented by a legislative amendment

### 4 Capital Allowance

- 90% Capital Allowance should be claimable in the first year an asset is put to use, while the remaining 10% should be claimed in the second year
- This can be implemented by a legislative amendment

### 5 Investment Allowance

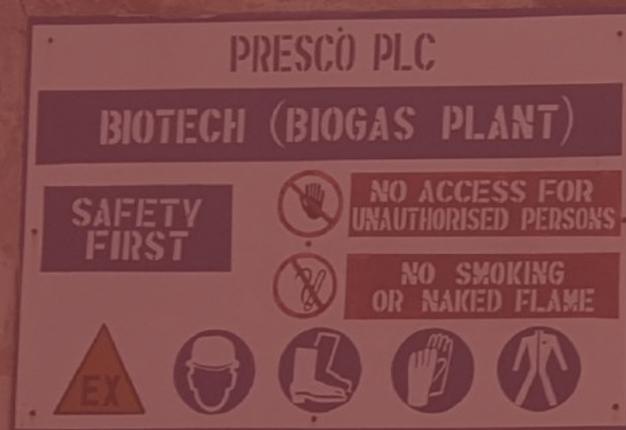
- Increase Investment Allowance from 10% to 25%
- This can be implemented by a legislative amendment

### 6 Increased Regulatory Support

- Increase the threshold for regulatory licencing through Nigerian Electric Regulatory Commission(NERC) Regulation
- Minimise risk of grid encroachment through defined policies for compensation through NERC regulation

## 2. Overview of the Current Regulatory Environment

Since 2001, the Nigerian government has released various policies, guidelines and laws to drive the development of the clean energy sector. We have summarised the key policy documents and Federal laws which relate to the Power Sector in Nigeria. This is with a view to gain an insight into the regulatory terrain and the incentives currently available to the energy sector in Nigeria.





## Summary of Government's Strategic Plans 2001 - 2030 (1/2)

	National Electric Power Policy (NEPP), 2001	National Energy Policy of 2003	National Economic Empowerment and Development Strategy (NEEDS), 2004	Nigerian Biofuel Policy and Incentives, 2007	Renewable Energy Master Plan, 2012
<b>Profile</b>	<ul style="list-style-type: none"> <li>It sets out the 3-step approach to reforming the power sector - privatisation of the National Electric Power Authority ("NEPA"), liberalisation of the electricity market, removal of subsidies and increased competition</li> </ul>	<ul style="list-style-type: none"> <li>By this policy, the government sought to ensure the optimal utilisation of the nation's energy resources for sustainable development</li> </ul>	<ul style="list-style-type: none"> <li>It was developed by the National Planning Commission with four key strategies: reorienting values, reducing poverty, creating wealth and generating employment</li> </ul>	<ul style="list-style-type: none"> <li>The policy was developed to improve the domestic fuel industry through the use of agriculturally produced raw materials</li> </ul>	<ul style="list-style-type: none"> <li>Developed by the Energy Commission of Nigeria.</li> <li>Sets out a roadmap for increasing the use of renewable energy</li> </ul>
<b>Specific impact on Renewable Energy</b>	<ul style="list-style-type: none"> <li>No direct impact on renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>The government proposed strategies for the development of the renewable energy sector, encouraged private sector participation and development of natural energy sources</li> </ul>	<ul style="list-style-type: none"> <li>Directed the government to increase the use of renewables in the national energy mix</li> </ul>	<ul style="list-style-type: none"> <li>No visible impact as quite a number of incentives were proposed which are yet to be implemented</li> </ul>	<ul style="list-style-type: none"> <li>No visible impact as quite a number of incentives were proposed but none has been implemented till date</li> </ul>
<b>Specific impact on off-grid</b>	<ul style="list-style-type: none"> <li>The policy called for the non-separation of business activities of generation, transmission, distribution, and sales (marketing) for off-grid systems. They were to continue operating vertically integrated systems</li> </ul>	<ul style="list-style-type: none"> <li>Called for the support of off-grid power generation, development of natural energy sources and the establishment of the Renewable Energy Fund (REF)</li> </ul>	<ul style="list-style-type: none"> <li>Encouraged the use of off-grid technologies to achieve rural access to electricity and the establishment of the REF</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Promoted the use of renewable energy sources in providing electricity to rural areas and proposed incentives to encourage this</li> </ul>



## Summary of Government's Strategic Plans 2001 - 2030 (2/2)

	National Energy Efficiency Action Plans (NEEAP) 2015 - 2030	National Renewable Energy Action Plan 2015 -2030 (NREAP)	National Renewable Energy and Energy Efficiency Policy 2015 (NREEP)	Rural Electrification Strategy and Implementation Plan (RESIP) 2016	Nigeria's Economic Recovery and Growth Plan (ERGP) 2017
Profile	<ul style="list-style-type: none"> <li>The policy contains an overview of key steps, regulations, laws, incentives and measures to be implemented by the country to achieve its energy targets</li> </ul>	<ul style="list-style-type: none"> <li>The plan seeks to promote the advancement of renewable energy and contains clear measures with which the national target of 23% and 31% renewable energy in 2020 and 2030 can be achieved</li> </ul>	<ul style="list-style-type: none"> <li>The government, by this policy, seeks the optimal utilization of the nation's energy resources for sustainable development</li> </ul>	<ul style="list-style-type: none"> <li>It outlines the government's objectives, goals and policies regarding rural electrification in a cost effective manner using both grid and off-grid approaches</li> </ul>	<ul style="list-style-type: none"> <li>The main objective is to achieve macroeconomic stability and economic diversification. One of the key priorities in achieving its objectives is ensuring energy sufficiency and stability</li> </ul>
Specific impact on Renewable Energy	<ul style="list-style-type: none"> <li>No direct impact on renewable energy</li> </ul>	<ul style="list-style-type: none"> <li>Encourages the use of clean energy sources to meet electricity access targets.</li> <li>Proposes incentives to encourage wide participation and development of the sector</li> </ul>	<ul style="list-style-type: none"> <li>No visible impact as quite a number of strategies and incentives were proposed but none has been implemented till date</li> </ul>	<ul style="list-style-type: none"> <li>Promotes the use of renewable energy sources of energy and sets a target of having at least a 10% renewable energy mix by 2025</li> </ul>	<ul style="list-style-type: none"> <li>No distinct impact on renewable energy</li> <li>Although quite a number of strategies were proposed, very little has been done on implementation</li> </ul>
Specific impact on off-grid	<ul style="list-style-type: none"> <li>Promotes the use of energy efficient products</li> </ul>	<ul style="list-style-type: none"> <li>Encourages off-grid electrification across the country's rural areas</li> <li>Proposes incentives to encourage wide participation and development of the sector</li> </ul>	<ul style="list-style-type: none"> <li>No visible impact as quite a number of strategies and incentives were proposed but none has been implemented till date</li> </ul>	<ul style="list-style-type: none"> <li>It set up the operating structure of the Rural Electrification Agency (REA) and encouraged the use of off-grid technologies for supplying electricity to rural areas. It also directed that the Rural Electrification Fund is to provide capital grant to support the development of off-grid projects</li> </ul>	<ul style="list-style-type: none"> <li>No visible impact on off-grid development</li> </ul>



## Summary of Existing Legislations & Regulations (1/2)

	Industrial Development (Income Tax Relief) Act, 2004	Energy Commission of Nigeria Act Cap E10 LFN 2004	The Electric Power Sector Reform Act, No. 6 of 2005 (EPSR Act)	Companies Income Tax Act 2007	Regulations for Independent Electricity Distribution Networks (IEDN), 2012
Profile	<ul style="list-style-type: none"> <li>The Act repealed &amp; re-enacted the Industrial Development (Income Tax Relief) Act and made provisions for tax incentives to certain qualifying industries</li> </ul>	<ul style="list-style-type: none"> <li>The Act established the ECN which is charged with the responsibility for the strategic planning and coordination of national policies in the field of energy</li> </ul>	<ul style="list-style-type: none"> <li>The Act established NERC and provides for the licensing and regulation of the generation, transmission, system operations, distribution and trading of electricity in Nigeria</li> </ul>	<ul style="list-style-type: none"> <li>The Act regulates the levying and collection of taxes on profits accruing in, derived from, brought into or received in Nigeria.</li> </ul>	<ul style="list-style-type: none"> <li>The Regulation provides the framework for the issuance of licenses to all independent electricity distribution systems, the owners, operators and users of such distribution systems .</li> </ul>
Specific impact on Renewable Energy	<ul style="list-style-type: none"> <li>Eligible manufacturers of solar energy powered equipment and gadgets are granted a tax holiday for a period of 3 years and renewable for a further period of 2 years</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Tax Relief for research and development</li> <li>Reconstruction Investment Allowance</li> <li>Rural Investment Allowance</li> <li>Investment Tax Relief</li> <li>Tax holiday, capital allowances, tax free dividends for gas utilisation companies</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
Specific impact on off-grid	<ul style="list-style-type: none"> <li>Same as above</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>The Act set up the REA and the REF to promote, support and provide rural electrification programmes through public and private sector participation</li> </ul>	<ul style="list-style-type: none"> <li>Same as above</li> </ul>	<ul style="list-style-type: none"> <li>The Regulation defines two off-grid IEDN: "Isolated off-grid rural IEDN" and "Isolated off-grid urban IEDN"</li> </ul>



## Summary of Existing Legislations & Regulations (2/2)

	Embedded Power Generation Regulations 2012	Regulations on Feed-In Tariff for Renewable Energy Sourced Electricity 2015	Regulation for Mini-Grids 2016	Eligible Customers Regulations 2017
Overview	<ul style="list-style-type: none"> <li>The Regulation provides the framework for the issuance of licenses to qualified operators to engage in embedded generation of electricity in Nigeria</li> </ul>	<ul style="list-style-type: none"> <li>The objective of the Regulation is to boost power supply and improve the national renewable energy sourced electricity target by setting a guaranteed price for electricity generated from renewables</li> </ul>	<ul style="list-style-type: none"> <li>The Regulation applies to mini-grids with power generation capacity of up to 1MW. It provides the framework for the registration and operations of mini-grids in Nigeria</li> </ul>	<ul style="list-style-type: none"> <li>The Regulation provides the framework for the direct purchase of electricity by end-users from power generation companies</li> </ul>
Specific impact on Renewable Energy	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Offtake guarantee</li> <li>Standard 20 -year PPA</li> <li>Renewable energy sources enjoy purchase priority</li> <li>Renewable energy producers enjoy special tariffs which will last the duration of the PPA</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
Specific impact on off-grid	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	<ul style="list-style-type: none"> <li>Promotes off-grid energy generation</li> </ul>	<ul style="list-style-type: none"> <li>Promotes off-grid energy generation and distribution</li> </ul>	<ul style="list-style-type: none"> <li>Promotes off - grid energy generation and distribution</li> </ul>

# 3. Existing Fiscal Incentives

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## Key fiscal incentives currently available and applicable to the off-grid clean energy sector (1/2)

1	<i>Incentives (General)</i>	<i>Responsible Agency</i>	<i>Eligibility</i>	<i>Process to Secure</i>
	Tax Relief for Research & Development (R&D)	FIRS	Companies that engage in research and development for the improvement of their processes and products will be entitled to tax relief of an amount equal to 10% of the total profits of the company. Companies engaged in research and development activities for commercialisation will also be allowed 20% investment tax credit on their qualifying expenditure.	The relevant expenses will be regarded as tax deductible, provided that such R&D activities are carried out in Nigeria and are connected with the business from which income or profits is derived.
2	Reconstruction Investment Allowance	FIRS	Companies that incur expenditure on plant and equipment are eligible for a 10% investment allowance.  This encourages the switch from existing sources of energy production to renewable sources and equipment. Such expenditure will benefit from this incentive.	Obtain a Certificate of Acceptance (CA) from the Inspectorate Division of the Federal Ministry of Trade & Industry for individual assets whose value exceeds NGN500,000
3	Rural Investment Allowance	Tax Relief for Research & Development (R&D)	This incentive encourages rural electrification.  Companies that incur capital expenditure on the provision of facilities such as electricity, water or tarred road for the purpose of a trade or business, enjoy an additional allowance under the Act. The company must be located at least 20 kilometers away from such facilities provided by the government. It is scaled as follows:  <b>No facilities at all 100%</b> <b>No water 30%</b> <b>No electricity 50%</b> <b>No tarred (paved) road 15%</b>	Additional capital allowance claimable based on the value of the capital expenditure incurred on the provision of the relevant facility.  The percentage claimable is determined based on the type of facility provided to the rural environment.



## Key fiscal incentives currently available and applicable to the off-grid clean energy sector (2/2)

4	<i>Incentives (General)</i>	<i>Responsible Agency</i>	<i>Eligibility</i>	<i>Process to Secure</i>
	Investment Tax Relief	FIRS	Companies that incur expenditure on electricity, water, tarred road or telephone for the purpose of a trade or business carried on by the company will be granted an "Investment Tax Relief". It is for a 3-year period but cannot be enjoyed alongside pioneer status.	The relief is claimable in the tax computations of the company in the year when the expenses were incurred.
5	Pioneer Incentives	Nigerian Investment Promotion Commission (NIPC)/Industrial Inspectorate Department (IID)/FIRS	Independent power production companies utilizing gas or renewable energy sources and manufacturers of solar energy powered equipment and gadgets are considered eligible for the grant of Pioneer Status incentives (tax holidays) for an initial period of 3 years. This may be renewed for a further period of 2 years.	An application will be made to the NIPC and upon the successful review of the application, payment of application fees and inspection visits by the officials of the NIPC and IID, an approval may be granted to the applicant.
6	Import Duty Exemption	Nigerian Customs Service (NCS)	There is 5% duty applicable on solar panels. However, there is an exemption on solar cells and other components used in manufacture or assembly of solar modules.	Upon clearance of the goods at the port, import duties will not be imposed on the goods.
7	Withholding Tax (WHT) Exemption	FIRS	Investors can enjoy 100% WHT exemption from interests on foreign loans granted to the company where such loans are for at least 7 years with a 2 year moratorium.	Automatic

## 4. Proposed Fiscal Incentives

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## Summary of Proposed Fiscal Incentives

	Incentive	Recommendation	Implementation	Legal Basis
1	VAT	VAT Exemption	<p>Submit an application to the Federal Ministry of Finance.</p> <p>The Minister of Finance can by a Gazette, exempt certain items from VAT</p>	S. 38 VAT Act
2	Import Duty Exemption	Import duty exemption on qualifying imports	<p>Executive order (President)</p> <p>Submit an application to the Federal Ministry of Finance.</p> <p>Engage with the President, the Minister of Finance and the Nigerian Customs Service</p>	This is an Economic incentive and only the Federal Government is empowered to grant such waivers
3	Pioneer Status Incentives	Extend the duration of pioneer incentive from 5 years to at least 10 years	<p>Legislative Amendment to the Industrial Development Income Tax Relief Act (IDITRA)</p> <p>Long term engagement with the National Assembly from bill proposal stage till final passage</p>	S.1 IDITRA,
4	Increased Investment Allowance	Increase Investment Allowance from 10% to 25%	<p>Legislative amendment to the Companies Income Tax Act (CITA)</p> <p>Long term engagement with the National Assembly from bill proposal stage until final passage</p>	CITA, Second Schedule
5	Accelerated Capital Allowance ("CA")	90% CA claimable in the first year asset is put to use, while 10% CA is claimable in the second year	<p>Legislative amendment to the CITA</p> <p>Legislative amendment to the Personal Income Tax Act (PITA)</p> <p>Long term engagement with the National Assembly from bill Proposal stage till final passage</p>	<p>CITA, Second Schedule</p> <p>PITA Fifth Schedule</p>



## Proposed Fiscal Incentives (1/2)

### Overview

This section discusses the fiscal incentives which should be applicable to all categories of clean energy producers and off-grid developers in Nigeria and highlights the implementation strategy.

Some of these incentives have been used to encourage the development of other sectors in Nigeria such as the gas sector.

### 1. Import Duty Exemptions

Import duty applies to machinery, equipment and spare parts used in power generation (except those utilising Nigerian gas).

#### Proposed Change

We recommend complete import duty exemption on the importation of machinery and equipment for use in the generation of off-grid power using renewable energy sources. The proposed list of exempt items are contained in Schedule 1.

#### Beneficiaries of the incentive

- Wholly commercial companies
- Dual purpose entities
- Self generating energy producers

### 2. VAT Exemptions

VAT applies to all goods and services, unless specifically exempted. Goods and services deployed for the purpose of generating off-grid energy are not exempted.

The Minister of Finance signed a Value Added Taxes (Modification) Order, 2017 (the "VAT Order") which seeks to exempt gas supplies to generation companies (GenCos) and bulk power purchases by the Nigeria Bulk Electricity Trader from VAT.

The effect of the Order will be that VAT will be charged only to the final consumer. This leads to reduced cost of production and ultimately lower end-user prices. However, this Order only applies to gas and not to other clean energy sources.

### Proposed change

The following activities should be exempted from VAT:

- Importation of equipment and spare parts for use in renewable energy generation (proposed list of equipment are listed in Schedule 1)
- Services rendered in relation to the development and deployment of off-grid technologies
- Manufacturing, importation, sale or development of renewable energy technologies/equipment (proposed list of equipment are listed in Schedule1)

#### Beneficiaries of the incentive

- Wholly commercial companies
- Dual purpose entities
- Self generating energy producers

### 3. Pioneer Status Incentives

The Industrial Development (Income Tax Relief) Act ("IDITRA") provides income tax incentives to qualifying industries and products for a three year period, which can be extended for an additional one or two years upon fulfilment of certain requirements.

The incentives provided under the IDITRA are income tax relief, tax losses, capital allowances and tax free dividend.

Currently, independent power production utilizing gas, coal or renewable energy sources and manufacturers of solar energy powered equipment and gadgets are on the approved list of pioneer products/industries.

However, the length of the pioneer incentive remains unfavorable to off-grid power investors because it typically takes more than five years to have returns on investment in this sector.

#### Proposed change

- Extend the duration of the incentives. We propose 10 years for clean energy investors in line with the Renewable Energy Master Plan 2012.



## Proposed Fiscal Incentives (2/2)

### Beneficiaries of the incentive

Wholly commercial companies

### 4. Investment Allowance

The Companies Income Tax Act grants 10% investment allowance on qualifying capital expenditure. Investment allowance is calculated from the year of assessment in which the asset is first put to use.

Investment allowance does not reduce the capital allowance claimable on the asset but is an uplift on the cost of the asset, and results in 110% tax depreciation deduction on the cost of the asset.

### Proposed change

- We recommend an increase from 10% to 25% for qualifying capital expenditure.
- This will mean that the capital allowance claimable on qualifying renewable energy power assets will be 125%, with 25% claimable in the year the asset is first put to use.

### Beneficiaries of the incentive

- Wholly commercial companies
- Dual purpose entities
- Self generating energy producers (excluding individuals)

### 5. Accelerated Capital Allowance

Under Nigerian law, depreciation is disallowed in income tax computations. The law provides for capital allowances in place of accounting depreciation.

For instance, under the CITA, plant for agricultural production attract 95% (accelerated) capital allowance in the first year. While under the PITA, ranching and plantation assets attract 30% capital allowance.

### Proposed change

- We recommend that 90% accelerated capital allowance be granted to qualifying entities and individual on their eligible clean energy generation equipment. The initial 90% will be claimable within the first year of operation while 10% will be granted in the second year.
- This will mean that the capital allowance is claimed almost completely in the first year of purchasing the equipment.

### Beneficiaries of the incentive

- Wholly commercial companies
- Dual purpose entities
- Self generating energy producers



An aerial view of a large-scale solar farm under construction. The image shows a vast grid of solar panels, with a network of metal racking structures supporting them. Two workers wearing yellow safety vests and hard hats are visible on the panels in the upper right quadrant. The entire scene is overlaid with a semi-transparent reddish-orange filter. The text '5. Proposed Regulatory Support' is prominently displayed in the upper left area, underlined.

## 5. Proposed Regulatory Support

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# Summary of proposed regulatory support required to promote clean energy production and off-grid development in Nigeria

	Recommendation	Implementation	Legal Basis
1	Ease of Licensing	<p>Introduce regulations simplifying the licensing procedure</p> <p>Engage NERC on the provisions of the revised regulations</p>	Electric Power Sector Reform Act 2005
2	Demarcation of Zones by the Government to reduce risk of grid encroachment	Engage NERC to introduce new guidelines on the demarcation of special zones for mini-grid operators	Electric Power Sector Reform Act 2005
3	Public Private Partnership Arrangements	<p>Introduction of government policy and regulation</p> <p>Stakeholder engagement with NERC, the Federal Ministry of Power, REA and other interested agencies</p>	Not applicable
4	<p>Promote the use of cleaner energy sources for buildings</p> <p>Provision of tax Incentives reserved for self generating clean energy producers</p>	<p>Amendment of State Building Laws and amendment /domestication of the National Building Code</p> <p>Legislative amendment to the CITA and the PITA</p> <p>Engage with the executive arm of government and various state governments</p>	Not applicable



# Summary of proposed regulatory support required to promote clean energy production and off-grid development in Nigeria (1/2)

## 1. Licensing Procedure

The Mini-Grid Regulations of 2016 provides for isolated or interconnected mini-grid operators. The provisions apply to mini-grid developers and operators generating power below 1MW. Those distributing above 100KW are required to obtain a permit. Isolated mini-grids below this threshold are only required to register with NERC as a registered mini-grid operator.

Mini-grid operators generating power in excess of 1MW are required by NERC to obtain a generation licence. The licensing procedure is cumbersome, lengthy and expensive. Currently, it takes up to 6 months to obtain a generation license from NERC. The license fees for off-grid power generation in the range of 1-10MW is USD10,000. For above 500MW, the fee is USD200,000. These figures are higher than the fees for comparative on-grid license fees and quite prohibitive.

We recommend a simplification of the licencing process and reduction of the fees to match the fees applicable for on-grid energy. The maximum period during which NERC should issue the generating license should be reduced from 6 months as provided under the NERC Regulations to 30 days. The license should be granted for a fixed period of not less than 15 years and a maximum of 20 years.

The government agency that will be responsible for implementing the change to the licensing procedure is the NERC. Section 96 of the ESPRA 2005 empowers the commission to make regulations prescribing all matters necessary for carrying out or giving effect to the Act.

We recommend engaging the NERC to use its powers to issue a Regulation guiding the licensing procedures for mini-grid operators which will:

- Reduce licensing fees and simplify the process of obtaining a permit under the Mini-Grid Regulations.
- Set up a One-Stop Centre for all incidental approvals. Other regulatory approvals or

incentives that are required can be provided from the office of the NERC by a representative of such agencies.

- Prioritize processing of off-grid renewable energy permits (100kw-1Mw) and licenses (above 1MW).
- Increase the threshold for power generation which requires a generation license with NERC. Only mini-grid operators generating power in excess of 5 MW should be required by NERC to obtain a generation license.

## 2. Demarcation of Zones by the Government to Reduce Risk of Grid Encroachment

Under the existing Mini-grid Regulations of 2017, the mini-grid developer and the community may agree to set an exclusivity period of up to 12 months.

This exclusivity is however only in relation to other mini-grid developers and may be countered by the right of the Distribution Licensee to expand its network and the only remedy available to the mini-grid operator from the community is a claim for damages.

We recommend that the Nigerian government with the guidance of NERC, carve out certain areas which are yet to be covered by DisCos and not within expansion plans by the DisCos and grant special concession to the mini-grid developers to generate, transmit and sell electricity to unserved areas for a minimum of 10 years.

Where the concession period is interrupted by the DisCo, the Federal Government should ensure adequate compensation to the mini-grid operator.



## Summary of proposed regulatory support required to promote clean energy production and off-grid development in Nigeria (2/2)

### 3. Public Private Partnership Arrangements

The government through the REA can enter into partnerships with private companies for the development of off-grid projects. An example of such partnership (depending on the location) may be by the Federal, State, or Local Government leading conversations between the communities and the off-grid developers in identifying land and reaching a conclusive agreement.

The cost of land should form part of the cost model to ensure the arrangement is viable in the long term (this is in instances where land belonging to the government is not available).

Under this arrangement, mini-grid infrastructure will be set up and operated by the private mini-grid operator for 10 – 15 years.

The ownership of the mini-grid will then be transferred to the government. The government will have the option of operating the mini-grid and distributing the power generated by the mini-grid.

The alternative option will be for the government to enter an offtake arrangement with the private investor in which case, the private investor will continue to operate the mini-grid but the government will purchase or guarantee the purchase of all power generated by the private operator.

### 4. Promote the Use of Cleaner Energy Sources

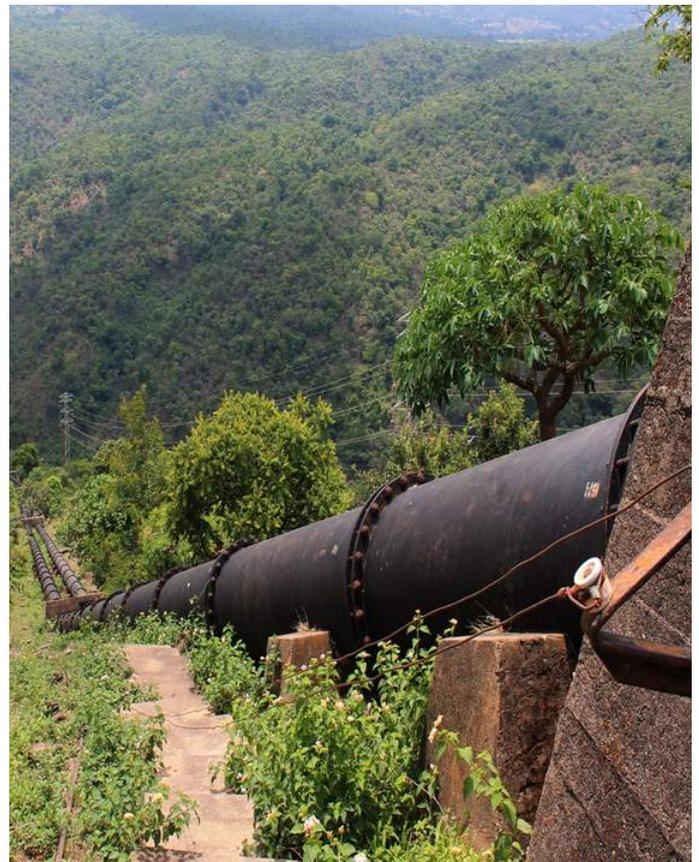
As contemplated in the Renewable Energy Master Plan of 2012, we recommend that all government housing estates, hospitals and schools be fitted with clean sourced power as an alternative to fuel powered generating sets.

The government should also make it mandatory for new buildings (private and government owned) in urban areas to utilize at least 25%-50% clean energy power sources in their new buildings. This should be made a pre-requisite for obtaining building or construction permits.

This will however be a long term project as it will require discussions with the various state governments to amend the processes involved in issuing building permits and an amendment /domestication of the National Building Code.

The government will need to design a road map for the implementation and adoption of this policy. Intensive public awareness and sensitisation will also be required for individuals, government agencies and corporate bodies.

To facilitate the switch to cleaner energy sources, tax incentives such as accelerated capital allowances, investment allowances, import duty and VAT exemptions will be made available to individuals and companies that comply with the regulation. However this must be considered in the light of potential scope for significant reduction of government revenue from import duties.



The background image shows an industrial facility with large, horizontal pipes and a staircase with yellow railings. The scene is overlaid with a semi-transparent reddish-brown filter. The text '6. Implementation Proposal' is centered in the upper half of the image, underlined.

## 6. Implementation Proposal



# Implementation Proposal

## Short Term Proposals (“Quick Wins”)

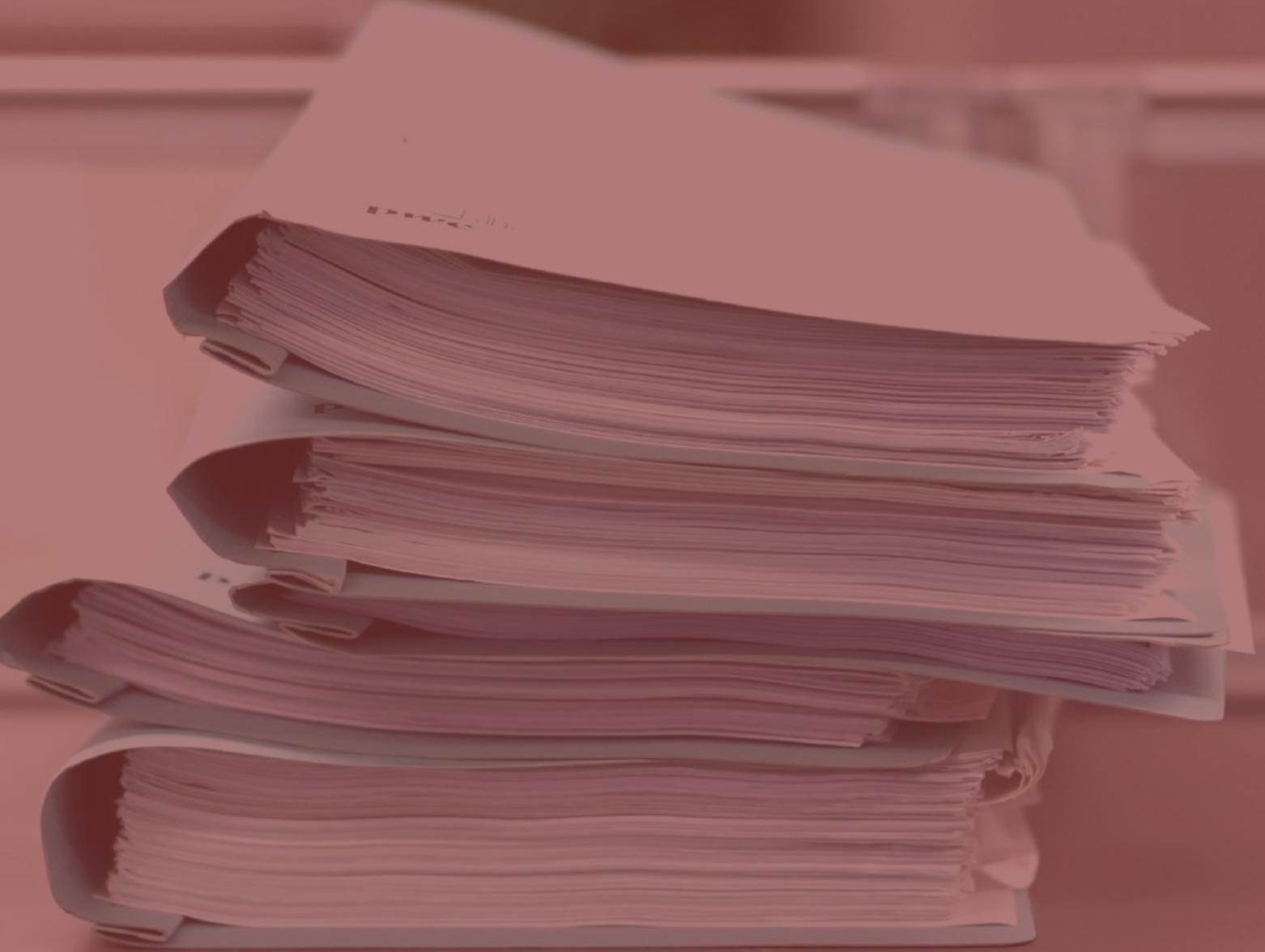
Recommendation	Implementation
VAT Exemption	Submit an application to the Minister of Finance requesting for VAT exemption
Import Duty Exemption	Submit an application to the Federal Ministry of Finance for the issuance of an executive order
Public Private Partnership with respect to the ownership and management of the distribution and generation assets of the mini-grid projects	Introduction of Government Policy

## Medium to Long Term Proposals

Recommendation	Implementation
Pioneer Status Incentives	Legislative Amendment to the Industrial Development (Income Tax Relief) Act (IDITRA) Long term engagement with the National Assembly from bill proposal stage till final passage
Increased Investment Allowance	Legislative amendment to CITA and Personal Income Tax Act (PITA ) Long term engagement with the National Assembly from bill proposal stage till final passage
Ease of Licensing	Engage with NERC to introduce new Regulations on the application for licensing process
Demarcation of Zones by the Government to Reduce Risk of Grid Encroachment	Engage with NERC to introduce guidelines on the demarcation of zones for mini-grid operators
Promote the use of cleaner energy sources for buildings. Provision of tax incentives reserved for self generators using clean energy	Engage with the executive arm of government and various state governments to ensure that the use of clean energy sources in buildings are encouraged

# 7. Schedules

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## Schedule 1

### Clean Energy Equipment Under the ECOWAS Common External Tariff 2012 – 2019.

It is proposed that the following items below should be exempted from the payment of import duties and VAT, as a means of encouraging the use of these items locally.

HS Code	Classification	Current Import Duty rate %	Import Adjustment Tax %	Current VAT rate%
8419.19.00.00	Energy saving fluorescent lamps	20	NA	5
8502.31.00.00	Windpowered generating sets	5	NA	NA
8502.39.10.00	Solar powered generating sets	5	NA	NA
8502.39.20.00	Gaspowered generating sets	5	NA	NA
8419.19.00.00	Solar water heaters	5	NA	NA
8541.10.00.00	Diodes, other than photosensitive or light emitting diodes	10	NA	NA
8419.11.00.00	Gas water heaters	20	NA	5

### Additional Items Which Should Be Exempted From Paying Import Duties and VAT

In addition to the items listed on the previous slides, we recommend that all renewable energy equipment used in the generation of off-grid electricity should be exempted from the payment of import duties. We have provided below a list of equipment which have no direct link to the HS codes in the ECOWAS Common External Tariff 2012 – 2019. This list is not exhaustive and is open to inclusions, prior to adoption.

#### S/No Proposed Additional Items

- 1 PV panels for power generation, any capacity
- 2 Control systems for PV panels and renewable energy powered generators working with direct current
- 3 Control systems for PV panels and renewable energy powered generators working with direct current
- 4 Hydroelectric generators
- 5 Static DC to alternating current (AC) converters for PV systems
- 6 Inverter batteries
- 7 DC electronic equipment for use with PV panels, wind and hydro generators
- 8 Materials used in building equipment for renewable energy use
- 9 Measuring instruments related to renewable energy variables, such as: temperature gauges, pressure gauges, solar radiation meters etc.
- 10 Smart meters



## Schedule 2

### Qualifying Clean Energy Sources



# Glossary

S/N	Terms	Definition/Meaning
1	<b>CBN</b>	Central Bank of Nigeria
2	<b>CIT</b>	Companies Income Taxes
3	<b>CITA</b>	Companies Income Tax Act
4	<b>Capital Allowances</b>	Claim against assessable profits by companies when computing their tax liabilities
5	<b>DISCOs</b>	Distribution Companies
6	<b>ECOWAS</b>	Economic Community of West African States
7	<b>FIRS</b>	Federal Inland Revenue Service
8	<b>GENCOs</b>	Generation Companies
9	<b>Hybrid Generating Sets</b>	This refers to generating sets which integrate renewable energy sources with fossil powered generators (diesel/petrol) to provide electric power off-grid or fed into batteries for energy storage
10	<b>IDITRA</b>	Industrial Development (Income Tax Relief) Act 2004
11	<b>Kw</b>	Kilowatt
12	<b>Mw</b>	Megawatt
13	<b>NGN</b>	Naira
14	<b>NERC</b>	Nigerian Electricity Regulatory Commission
15	<b>PITA</b>	Personal Income Tax Act
16	<b>Pioneer Status Incentives</b>	A fiscal incentive provided under the Industrial Development (Income Tax Relief) Act offered to companies operating in designated pioneer industries and or producing pioneer products and can provide an income tax holiday for up to five years
17	<b>REA</b>	Rural Electrification Agency
18	<b>REF</b>	Rural Electrification Fund
19	<b>USD</b>	United State Dollars
20	<b>VAT</b>	Value Added Tax

All On, an independent impact investing company, was seeded with funding from Shell, and works with partners to increase access to commercial energy products and services for under-served and un-served energy markets in Nigeria, with a special focus on the Niger Delta. All On invests in off-grid energy solutions spanning solar, wind, hydro, biomass and gas technologies deployed by both foreign and local access-to-energy companies that complement available grid power across Nigeria and help bridge the significant energy access gap.

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