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POLICY BRIEF: ENHANCING DOMESTIC RESOURCE MOBILIZATION AND CLIMATE FINANCE THROUGH NIGERIA'S EXTRACTIVES SECTOR

BACKGROUND

Nigeria's economy is highly dependent on oil and gas revenues, contributing about 70% of the federal budget and 95% of foreign exchange earnings. In contrast, solid minerals contributed less than 1% of GDP despite an estimated value of USD 700 billion in reserves. For example, a total of USD 6.071 billion (N66.4 billion) in outstanding revenues remained uncollected by the Federal Government from the extractive sector in 2021. The extractive sector, therefore, holds significant untapped potential for Domestic Resource Mobilization (DRM) that would allow for sustainable development and ambitious climate action. Yet, weak fiscal governance, revenue leakages, and policy gaps persist. Nigeria faces an annual climate finance gap of USD 27.2 billion, requiring urgent reforms to maximize the extractive sector's role.

The extractive sector is not just about numbers; it affects the lives of millions of Nigerians, from youth in mining communities struggling with environmental degradation to citizens paying the price of climate change disasters like the 2022 floods that displaced over 1.4 million people. Communities in the Niger Delta live daily with oil spills, polluted farmlands, and unsafe drinking water. Artisanal and small-scale miners face health risks from unsafe mining practices, while children are exposed to toxic chemicals such as lead. Meanwhile, climate-related flooding in 2022 caused USD 6.7 billion in damages disproportionately affecting women, youth, and rural farmers. This shows that extractive governance is not just about revenue, but about people's lives, dignity, and survival.

KEY RECOMMENDATIONS

1. Strengthen Revenue Mobilization and Enforcement.
2. Reform Fiscal Frameworks and Incentives in the Mining Sector.
3. Formalize and Empower Artisanal and Small-Scale Mining (ASM) for Livelihood Development.
4. Mainstream Finance for Climate Action into Development Planning.
5. Expand Finance for climate action through Innovative Instruments.
6. Enhance Transparency and Accountability in Extractive Revenues.
7. Mandate Benefit Sharing and Community Consent in Extractive Operations.

Nigeria's pathway toward a low-carbon and climate-resilient future must be anchored in the principles of a feminist just transition, one that places people, equity, and care at the centre of economic and environmental transformation. Through stronger domestic resource mobilization and fairer governance of its extractive wealth, Nigeria has the opportunity to reclaim control over its natural resources and channel revenues toward social protection, gender-responsive climate action, and inclusive green growth. However, reclaiming domestic wealth does not mean Nigeria should bear the full burden of financing the transition. These efforts must complement not replace international climate finance. The Global North, whose historical emissions have fuelled the climate crisis, must fulfil its climate finance commitments and reparative obligations to the Global South. Only through this shared responsibility can Nigeria achieve a transition that is not just green, but also fair, inclusive, and equitable.

KEY ISSUES

Nigeria's extractive sector continues to face deep-rooted fiscal and governance challenges that limit its ability to generate revenue and support finance for ambitious climate action. Every year, billions of USD are lost due to inefficient tax incentives, financial leakages, and unchecked gas flaring. While reforms have been introduced to improve transparency and accountability, enforcement remains weak, and fiscal loopholes persist undermining the sector's potential.

The issue of unpaid liabilities is also significant. By mid-2024, over USD 6 billion were still outstanding from companies operating in the sector. These uncollected funds represent missed opportunities to invest in national priorities such as climate adaptation and mitigation.

Policy inconsistencies add another layer of complexity. The Petroleum Industry Act (PIA, 2021), aimed to attract investment and improve efficiency, also reduced tax and royalty rates limiting government revenue. Similarly, the Nigerian Minerals and Mining Act (2007) offers generous incentives that haven't attracted major investors, but instead fuelling informal and artisanal mining activities.

Nigeria faces a major climate finance gap. To meet its climate goals, the country needs about USD 27.2 billion annually, yet current funding falls far short. This highlights the urgent need to strengthen domestic revenue generation especially from the extractive sector to support a just transition and sustainable development.

KEY RECOMMENDATIONS

To maximize DRM and strengthen climate finance, Nigeria must undertake a set of coordinated fiscal, institutional, and policy reforms within its extractive sector. These reforms should address the dual challenge of optimizing resource-based revenues while ensuring that extractive activities contribute meaningfully to climate action and sustainable development.

1. STRENGTHEN REVENUE MOBILIZATION AND ENFORCEMENT

A stronger fiscal enforcement regime is essential to curb the significant losses currently experienced in the extractive sector. This includes full implementation of the Petroleum Industry Act (PIA, 2021) and other fiscal laws, alongside strict recovery of all outstanding payments identified by the Nigeria Extractive Industries Transparency Initiative (NEITI). Strengthening the capacity of the Federal Inland Revenue Service (FIRS), the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), and other collection agencies will help enforce compliance, close revenue gaps, and eliminate discretionary waivers that erode government income. Additionally, penalties for gas flaring and environmental violations should be reviewed and increased to reflect the true economic and ecological cost of such practices.

2. REFORM FISCAL FRAMEWORKS AND INCENTIVES IN THE MINING SECTOR

The Nigerian Minerals and Mining Act (2007) requires urgent review to align its fiscal provisions with global standards and contemporary realities. Current tax holidays, import duty exemptions, and unlimited loss carry-forwards have failed to attract significant investment, instead leading to base erosion and loss of government revenue. Revising the Act to introduce fair but efficient fiscal terms will promote accountability and allow the government to capture more value from mineral extraction. The reforms should also ensure that fiscal incentives are linked to performance indicators such as employment creation, environmental responsibility, and local content development.

3. FORMALIZE AND EMPOWER ARTISANAL AND SMALL-SCALE MINING (ASM) FOR LIVELIHOOD DEVELOPMENT

Artisanal and small-scale miners (ASMs) drive Nigeria's solid minerals sector but often work informally, missing out on support and exposing themselves to risks. Formalization should focus on empowerment, not just regulation. Organizing miners into cooperatives can improve safety, income, and access to credit. With training, financing, and better tools, ASMs can move from survival to sustainable livelihoods fuelling rural development and boosting government revenue.

4. MAINSTREAM FINANCE FOR CLIMATE ACTION INTO DEVELOPMENT PLANNING

Extractive revenues should not only serve fiscal purposes but also advance climate resilience and sustainable development. A portion of the Host Communities Development Trust Fund should support local populations' climate projects in mining communities. National and state budgets must also reflect climate priorities to align with Nigeria's long-term low-carbon goals.

5. EXPAND FINANCE FOR CLIMATE ACTION THROUGH INNOVATIVE INSTRUMENTS

To close the USD 27.2 billion annual climate finance gap, Nigeria must deploy innovative financing mechanisms that complement traditional sources. Alongside progressive tax reforms, the government should call for debt cancellation but also activate the National Climate Change Fund and roll out a carbon tax, ensuring all revenues go directly into clean energy, climate-resilient infrastructure, and local adaptation projects.

6. ENHANCE TRANSPARENCY AND ACCOUNTABILITY IN EXTRACTIVE REVENUES

The government should fully implement NEITI's audit recommendations to recover lost funds and prevent future leakages. Discretionary tax breaks should be eliminated, and all revenues from environmental penalties to royalties should be openly tracked and directed toward climate action. Civil society should be empowered to monitor and ensure these funds are used fairly and effectively.

7. MANDATE BENEFIT SHARING AND COMMUNITY CONSENT IN EXTRACTIVE OPERATIONS

Communities on the frontline of extraction bear the brunt of environmental degradation, loss of livelihoods, and social disruption resulting from extractive activities, yet they often receive minimal direct benefits. To promote equity and social justice, Nigeria should institutionalize benefit-sharing and free, prior, and informed consent as mandatory components of extractive governance. This means companies must get clear, informed consent before starting operations, and a fair share of revenues should go directly into local development, climate adaptation, and restoring livelihoods. Strengthening the Host Communities Development Trust Fund and involving communities in decision-making will build trust, reduce conflict, and make extraction more inclusive and sustainable.

CONCLUSION

Nigeria's extractive sector holds significant untapped potential for domestic revenue mobilization and climate finance. Reforms in fiscal frameworks, enforcement of existing laws, transparency, and innovative financing mechanisms are critical. Without bold reforms, Nigeria risks fiscal instability and failure to meet its 2060 net-zero commitments. Harnessing the extractive sector effectively can bridge the climate finance gap and support sustainable national development.

The Extractive Sector Research Series spans across Liberia, Nigeria, Zimbabwe, Zambia and Kenya uncovering how natural resource extraction is an opportunity for a feminist and just transition.

The series is part of ActionAid Denmark's Global Program on Climate Justice, and will be recurring, deepening the evidence and momentum for lasting change.

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