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## Power sector devolution presents some big advantages... if Nigerian states can coordinate

**Summary:** Nigeria's [Electricity Act 2023](#) transfers regulatory authority for the power sector from the federal government to the country's 36 states. Devolution presents significant opportunities for efficiency and reform. However, so far, implementation has been slow due to states' limited institutional and financial resources — putting the effort's ultimate chance of success at risk. Kenya faced similar challenges and offers numerous lessons. In Nigeria, a regional approach to electricity regulation would allow states to pool resources and simplify the regulatory landscape for private-sector players.

**Context:** Despite privatizing power generation and distribution in 2013, the Nigerian power sector remains mired in challenges. The federal government continued to set tariffs that were not cost-reflective, leading to indebted utilities, a lack of investment, and poor service delivery.<sup>1</sup> The government has attempted to ease utilities' liquidity challenges with direct subsidy payments. However, the annual subsidy required [is now](#) NGN 3.3 trillion (~\$2.6 billion), well above the NGN 450 billion allocated in the 2024 budget.

Finally, worsening public finances, the inability to deliver a functioning power sector, and clamor from state governors [pushed](#) the federal government to devolve regulatory powers. The Electricity Act 2023 empowered states to create independent electricity markets and license power generation, transmission, and distribution within their borders. Devolution presents opportunities for states to sidestep inefficiencies at the national level by allowing them to liberalize energy prices, independently fundraise for the power sector, license technically competent investors, and avoid dependence on indebted utilities. However, the states' slow responses to date risk future legal changes that could limit those powers.<sup>2</sup> The Minister of Power has already attempted to [halt](#) the transfer of regulatory powers to three states, citing their incapacity, before [backtracking](#) days later.

Reflecting on lessons from Kenya, this memo assesses whether Nigerian states are adequately equipping themselves to realize the opportunities that devolution presents — and suggests a pathway forward.

### Where Nigeria's devolution stands today

Before the Nigeria Electricity Regulatory Commission (NERC) transfers regulatory responsibilities to state-level counterparts, states [must](#) enact laws governing their independent electricity markets. Thus far, only three states (Ekiti, Enugu, and Ondo) have

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<sup>1</sup> [Centre for the Studies of the Economies of Africa \(CSEA\)](#)

<sup>2</sup> [PwC's Annual Power & Utilities Roundtable \(14th edition\)](#)

completed this process; several more have drafted legislation to follow suit.<sup>3,4</sup> At the end of this process, Nigeria will presumably have 36 independent electricity markets and state regulators.

## Lessons from Kenya

In 2010, Kenya undertook a similar devolution effort to transfer responsibility for energy planning to county governments.<sup>5</sup> Kenya’s Energy Act 2019 built on those constitutional changes and authorized the devolution of key regulatory and policy functions in the energy sector to counties. Yet, electrification governance remains fragmented and complex, with national-level actors still primarily responsible for planning and implementation.<sup>6</sup> Many political, economic, and legal obstacles have hindered successful devolution in Kenya.<sup>7</sup> Table 1 shows that Nigeria is similarly vulnerable.

**TABLE 1:** An assessment of Nigeria’s vulnerability to challenges faced by Kenya during the devolution of energy planning responsibilities. Kenya’s experience with devolution is drawn from studies by Tesfamichael and Cyoy (2022), and Volkert and Klagge (2022).

Challenges	Kenya’s Experience	Nigeria’s Vulnerability
Limited capacity in sub-national governments	<ul style="list-style-type: none"> <li>County energy departments are lumped together with other sectors, such as environment, natural resources, and transport, leading to competition for resources and funding.</li> <li>Lack of trained personnel and funding to push energy projects at the county level.</li> <li>Multilateral organizations and donors continue to cooperate with national actors instead of counties, citing the latter’s inactivity.</li> </ul>	<ul style="list-style-type: none"> <li>28 of 36 states have energy ministries, but 20 of them also oversee other sectors such as mining and water, so resources have to be shared. Eight states have no ministry with an energy mandate.<sup>8</sup></li> <li>States have low internally generated revenues and rely on dwindling federal allocations.<sup>9</sup> All states allocated a total of just \$304 million to energy in 2024, with significant inter-state disparities (Figure 1).<sup>10,11</sup></li> <li>Most externally funded energy support programs are channeled through federal agencies, e.g., the World Bank Nigeria Electrification Project.</li> </ul>

<sup>3</sup> [Punch](#)

<sup>4</sup> Cross River, Lagos, Osun and Taraba states

<sup>5</sup> [Stockholm Environment Institute](#)

<sup>6</sup> [Tesfamichael, M. and Cyoy, E.N. \(2022\). Beyond devolution: unlocking county energy departments’ policy capacity in Kenya. Climate Compatible Growth Programme COP27 Policy Brief Series](#)

<sup>7</sup> [Marie Volkert, Britta Klagge. Electrification and devolution in Kenya: Opportunities and challenges. Energy for Sustainable Development, Volume 71, 2022, Pages 541-553](#)

<sup>8</sup> Ekiti, Jigawa, Kano, Katsina, Kebbi, Nasarawa and Zamfara states. Note that some of these states may have electricity boards that are implementing agencies for energy projects.

<sup>9</sup> [State of States report \(2023\)](#)

<sup>10</sup> An exchange rate of 994 NGN/USD (accurate as of 1 January 2024) was used for conversions. As of 15 May, the exchange rate had depreciated to NGN 1,450 NGN/USD

<sup>11</sup> [Open Nigerian States](#)

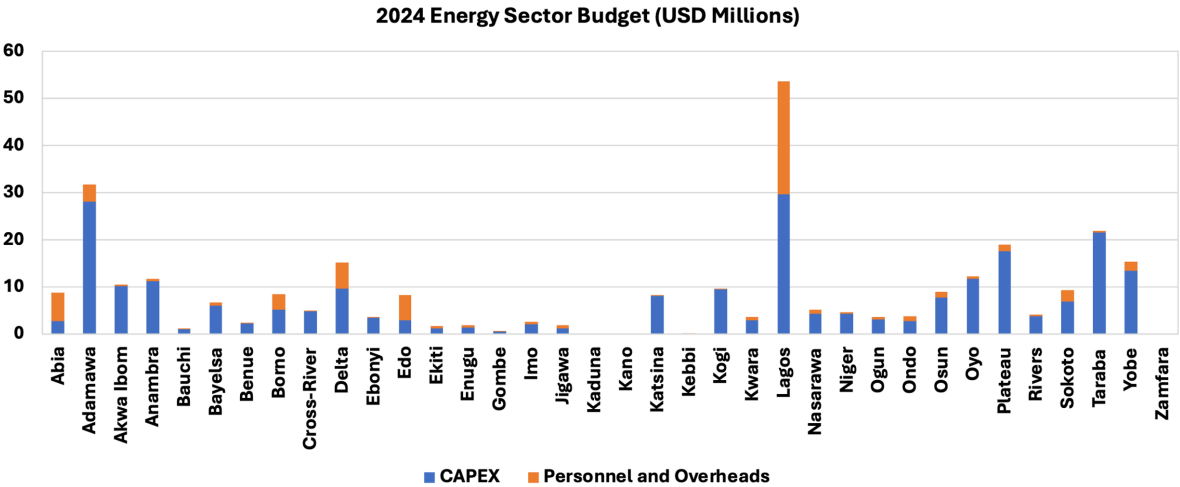
<p>Overlapping jurisdictions lead to poor accountability</p>	<ul style="list-style-type: none"> <li>• Many devolved functions (e.g. land procurement and wayleave<sup>12</sup>) are concurrently held by national and county agencies. Where responsibilities overlap, no legislation specifies who leads.</li> <li>• Rural electrification is a shared responsibility, but national-level actors view it as devolved entirely to counties.</li> <li>• There is no formal collaborative working structure between counties and national agencies</li> </ul>	<ul style="list-style-type: none"> <li>• The Electricity Act 2023 gives the Rural Electrification Agency responsibility for coordination, implementation, and monitoring of rural projects nationwide, while NERC suggests state governments should take sole responsibility.<sup>13</sup></li> <li>• NERC retains oversight of interstate generation, transmission, trading, and system operations.</li> </ul>
<p>Legitimacy challenges</p>	<ul style="list-style-type: none"> <li>• Delays in passing the Energy Act caused uncertainties and prolonged periods in which counties did not take up their functions.</li> <li>• The private sector preferred to work with national-level actors to deliver electrification projects, e.g., the Kenya Off-Grid Solar Access Project, co-implemented by Kenya's national utility and the Rural Electrification and Renewable Energy Corporation, both state-owned entities.</li> <li>• National agencies continue to control project planning, decision-making, resource mobilization, and implementation with no input from counties, thus undermining their political legitimacy.</li> </ul>	<ul style="list-style-type: none"> <li>• States have been slow to enact electricity laws, likely due to competing government priorities and slow donor support, causing the federal government to temporarily halt the transfer of regulatory oversight to them, undermining their agency.</li> <li>• The longer states don't assume regulatory oversight, the more likely that federal agencies will entrench the view that they themselves are responsible for electrification.</li> </ul>
<p>Mismatch between federal and state ambitions</p>	<ul style="list-style-type: none"> <li>• Nakuru and Baringo county representatives indicated interest in revenues from large-scale electrification projects (e.g., geothermal) rather than decentralized energy systems. But national government retained ownership of geothermal resources.</li> </ul>	<ul style="list-style-type: none"> <li>• NERC has suggested that states should focus on rural access or off-grid solutions and avoid playing in the on-grid space due to significant financial requirements.<sup>14</sup></li> </ul>

<sup>12</sup> Granting right of passage through or over a piece of land for electricity network infrastructure

<sup>13</sup> [KPMG](#)

<sup>14</sup> [PwC's Annual Power & Utilities Roundtable \(14th edition\)](#)

FIGURE 1: State budget allocation to the energy sector in 2024<sup>15</sup>

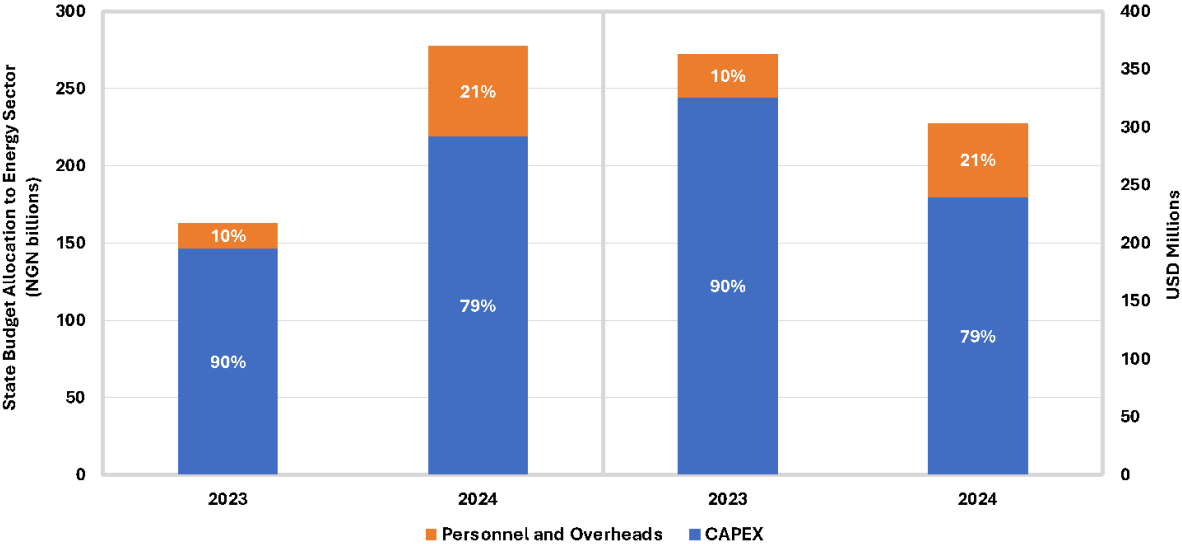


### The case for a regional approach to power sector regulation

Nigerian states must urgently build financial and technical capacity, and simplify regulatory frameworks to encourage investment in electrification projects. Devolution [requires](#) substantial investment in evaluating the existing electricity market and network infrastructure, engaging legal and commercial advisors, and funding technology, human resources, and state-level structures. Kenyan counties' lack of resources, legitimacy, and regulatory uncertainties have hampered that country's devolution process so far. Nigerian states face similar challenges. Despite energy sector spending rising by 70% between 2023 and 2024, currency devaluations resulted in a 16% reduction in dollar terms (Figure 2). Therefore, funding constraints will likely persist. The likelihood of overlapping jurisdictions also shows that the inefficiencies that plague the power sector under the current unified regulatory regime could be amplified at the state level. Thus, states must address their capacity shortages and regulatory uncertainties to realize the benefits of devolution.

<sup>15</sup> All state budgets obtained from the [Open Nigerian States](#) database, a project of the [BudGIT Foundation](#)

FIGURE 2: Total state budget allocation to the energy sector for all 36 Nigerian states



One way for Nigerian states to build this capacity would be to collaborate and form regional electricity markets. The 2013 privatization already created conditions for this when it established 11 monopolies on electricity distribution that cross various states. Alternatively, Nigeria has six ‘geopolitical zones’ that already collaborate on development agendas and share economic and political resources. Either of these groupings could serve as a basis for regional regulation, with several benefits.

- Less regulatory complexity: Harmonized regulatory regimes for bordering states would ease the difficulty of building large projects that can serve customers in different states. Additionally, not all states have diverse, low-cost power generation options. For example, large hydro and natural gas are concentrated in a few states. Regional electrification planning promotes the most efficient use of resources to meet customer needs.
- Easier transition from existing distribution monopolies: 11 distribution companies (DisCos) have already built infrastructure and operations across their assigned territories. If neighboring states retain uniform laws, they will incentivize DisCos to maintain existing operations instead of, for example, divesting and focusing only on the most profitable states.
- More financial resources: State energy ministries are currently spending ~\$1.5 per capita annually, which is insufficient to support the sector. Resources will be more strained if states start paying electricity subsidies because implementing cost-reflective tariffs is politically sensitive and challenging. Pooling financial resources and institutional capacity with neighboring states would reduce the individual burden of devolution.

To assess regional devolution opportunities, Nigeria’s state governments should establish formal platforms for dialogue and collaboration with their neighbors and DisCos. Working

groups with representations from each stakeholder can then build a plan for regional electricity markets, including electricity laws needed to support regional integration and capacity needs, and define how DisCos will serve new blocs. Several existing forums could host this platform, for example, the Nigeria Governors' Forum (NGF) or regional development commissions such as the Development Agenda for Western Nigeria (DAWN) Commission. Additionally, states could engage development partners to support this effort. For example, the UK Nigeria Infrastructure Advisory Facility (NIAF) and the US Agency for International Development (USAID) already [intend](#) to [assist](#) individual states in designing their electricity markets.