THE LIMITATIONS IN THE OSTENSIBLE AND PERCEIVED BENEFITS OF PRIVATIZATION: A STUDY OF THE ELECTRICITY POWER SECTOR IN NIGERIA.

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Abstract: The sine qua non of socio –economic development is constant supply of electricity. In Nigeria, reverse has been the case. Since the public corporation that was charged with the onus of electricity power service delivery had become a national tragedy, the nation could not resist the resolve to privatize it. However, since September 2013 when it was deregulated and privatized, power supply has further been deteriorating; leaving the impression that darkness is yet to abate at the end of the tunnel. This paper argues that Nigerians are now discovering the limit of optimism in privatization and that the magic wand for Nigeria's energy predicament might after all not be privatization. The methodology of study is qualitative and perceptible relying essentially on objective facts and data. The paper though posits that the failed public corporation is a victim of ruling class grand conspiracy ab initio, however did not advocate the derailment of the privatization policy in view of the enormity of the resources that have been committed into it. It nevertheless recommends that the policy would be more result oriented if there are level playing fields for competition through the removal of barriers restricting trade entry and exit. This will thus give room to privatization coupled with competition rather than what currently subsists as privatized monopolies and oligopolies.

JEL classification: M29, D29

Keywords: Privatization, Deregulation, Electricity Power Sector, Nigeria.

1. INTRODUCTION

The role of electricity to mankind cannot be overemphasized. In fact, there is correlation between the standard of living and the megawatts (MV) of electricity consumption. Electricity is life. However, this essential utility that has lend credence to life, is an essential commodity in Nigeria. Electricity operates in the country only in fits and starts and the citizenry have their plight further blighted having to pick the tariff of services they do not consume. While the entire nation suffocates under the pressure of collapsed national grid, the manufacturing sector simply took to capital flight and socio-economic activities oscillate between phlegmatic solitude and inconsolable bitterness (Ifesinachi&Tarabinah, 2012; Akinlotan, 2010; Aminu&Peterside, 2014).

Reminiscent of the usual therapy for such white elephant, the urge was to unbundle it and make it accessible to private investors. However, since the inception of the privatization policy which formally took effect in September 2013, Power supply has not been steady. In December 2012, the megawatts(MW) was 4,5176 but by January 2013, it had reduced alarmingly to 3,670 MW. The percentage of electricity consumption of Nigeria is as follow: 46% electricity consumers:≤4hrs per day, 17% electricity consumers: zero electricity power supply (Ise-Olorunkanmi, 2014). Needless to mention that of the 160 millions estimated population, only 40% have access to electricity supply (Igbokwe, 2013).

Similarly, Nigerians are now worse off than before 11th of March, 2005 which marked the commencement of the privatization programme, courtesy of the legislation which lend legal credence to the privatization programme has further polarized and entrenched the disparity between the demand and supply gap of energy in Nigeria (Road map for Power Sector, 2016). Figure 1 summarized this gap.

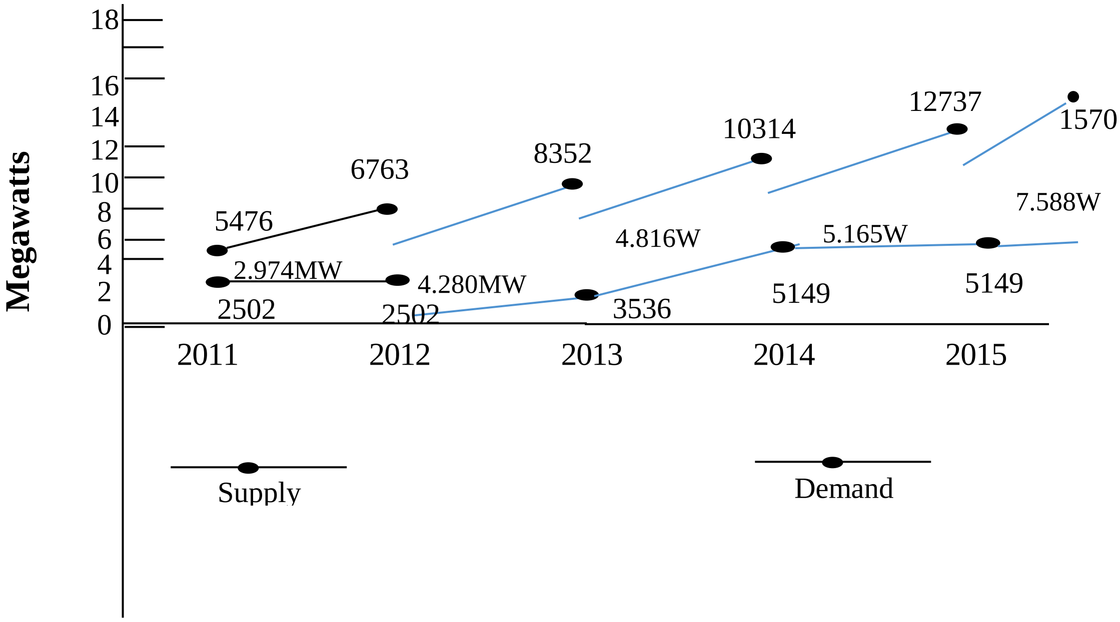

Figure 1: Chart indicating gulf of supply-demand of electricity

Moreover, as air does not allow a vacuum the, disparity between energy consumption and service delivery would be sourced through other means. Suffice it to note that the whopping sum of ₦1, 56trn ($975) was spent by Nigerians on the purchase of generators in year 2008 (Energy Commission of Nigeria, 2010). This phenomenon of Nigeria being the biggest importer of generating set in the world had prompted the country being satirically referred to as 'generator economy' (Ekpo, 2009). Similarly, industrialists in Nigeria incurred the cost of ₦2 billion ($12 million) to purchase fuel on a weekly basis. By the year 2012, this has increased to ₦3.01trn ($1.96bn) (Obasi & Ayansina, 2014).

Similarly, according to NOI polls Ltd,(2014) 81% of the total population of Nigeria did not rely on Electricity Power Holding Sector for the provision of their energy need. 110 million Nigerians which are 69% contended that a great chunk of their income was being spent as running cost on generating plants (Edukugbo, 2014).

Suffice it to note that the disparity between consumption and provision of energy occurs as a result of myriad challenges. Equipments are not only old and defective, working in fits and starts at a terribly low installed capacity; at a time when advanced countries have embraced digital equipments, Nigeria has become dumping ground for many of the equipments which the developed countries are found dysfunctional and obsolete (Adenikinju, 2003).

Similarly, the Minister of Works, Power and Housing, Mr R.B Fasola contends that energy supply in Nigeria currently is 5000MW which is the highest so far and the per capita electricity usage is 136 kilowatt/hour. In relative terms, Nigeria is at the lowest brunk of the ladder with countries like Libya that has per capita electricity usage of 4, 270KWH; India, 616KWH; China, 2,944 KWH; South Africa 4,803 KWH; Singapore, 8,307 KWH and USA, 13, 394 KWH (Nnodin, 2014). It is apt to note that while Nigeria can only boast of this miserable 5000 MW, South Africa with population of about 50million, consumes energy of 52,000MW. Nigeria with 106.2KWH per capita consumption is ranked 178th in the world. Countries like Gabon has 900KWH; Ghana 28,365KWH; Cameroun 176.61 KWH and Republic of Kenya has 124.68KWH; all of them even surpassing Nigeria (Anyaroah, 2013).

In view of this precarious situation, the Nigerian government has disposed off the national asset turned liability. However, the country is yet to sing nunc dimitis over the perennial epileptic power supply challenges in Nigeria, thus, throwing up the question of whether or not the privatization of the sector is the best available option to Nigeria. This paper now raises these questions:

i. The privatization of the power sector is for who and in whose interest in Nigeria?
ii. Has the privatization programme brought about improvement in service performance?

2. Literature Review and Conceptual Underpinigs

First and foremost, what has been subsumed under the concept privatization is a pot-pourri of business activities which can take any of these dimensions: 1) outright disposal of government properties, free enterprise business policies and liberalization; 3) subjecting public corporation to free enterprise business activities; 4) contractualism and commercialization of government business activities ; 5) outsourcing; 6) public/private partnership(PPP); 7) reduction as well as removal of subsidies/subvention; and 8) introduction of user charges (Nhema, 2015;Berejena, 2011; Obadan, 2008).

In specific terms, privatization is the act of subjecting public enterprise to principles that reign in the private sector; the load shedding as well as the surrender by government of certain functions and the assumption of these functions by business tycoons for profit. In the various discourse on the necessity to private public enterprises, the issues at stake are the ‘virtuous three Es’ of management which are economy, efficiency and effectiveness (Chikozho, 2013; Keyter, 2007; Parker & Kirkpatrick, 2005; Ise-Olorunkanmi, 2014). Empirical evidence abound to validate the position that government is not well positioned to play the role of a shrewd and astute businessmen. Owen (1999) contends that parastatals are inundated with peculiar managerial challenges. These are policy asymmetries, lack of transparency, accountability, regulation, investment policy and financial control contradictions just to mention few. These managerial deficit challenges have often been emphasized as the main bases behind privatization (Keyter, 2007; Nhema, 2015; Oluwatoyin, Agbaje&Alabi, 2015).

In other words, it is often contended that since the parastatal corporation management teams are not the investors in the business activities, they are not the risk takers. They are like the proverbial guests of if it is pleasant, they will stay but if it is otherwise, they will take take the next available flight. Also, the corporation economic fortune is ludicrously at variance with the management business misfortune. Needless to mention that parastatal corporations business success are often sacrified at the altar of political expediencies. These are some of the basic factors that have rendered government business comatose.

Nevertheless, it is appropriate to contend that parastatals corporations dismal performance is not solely because of the fact that what belongs to everybody, belongs to no one. The macabre dance of state owned enterprise arose due to structural control deficiency, managerial deficit challenges and state perennial undue interference.(Aharoni, 2006; Tarabinah 2010). This is what props up the grand conspiracy theory. There is an African adage that says that the therapy for the head that aches is not in chopping it off. Hence, when the ruling class deliberately undermines the managerial effectiveness of SOEs so that they can benefit from its privatization, it is an attempt at giving a dog a bad name in order to hang it (Ifesinachi &Tarabinah, 2012; Hall, 2006; Thomas, 2004).

Furthermore, Ifesinachi&Tarabinah, (2012); Aminu&Peterside (2014); Tarabinah, (2010) were of the view that the need to fulfill the conditions for aids and debt relief from donor countries and external agencies have constitute the overwhelming and primary motives to privatize. In other words, the privatization of SOEs in Third World Countries is part of the grand design at further entrenching and incorporating the economy into the firm grip of international finance capital (Hall, 2007; Wei, 2002). Much as there may be strength in the argument of external-centredness of African countries, it is an indictment on the part of leadership portraying her as incapable of autocentric development and self determination. It is part of the dependency theory proposition portraying African leadership as eternal robots incapable of holding their destiny in their hands and bereft completely of self dignity and self respect (Obadan, 2008; Anyanroah, 2013).

In other words, there is the pervasiveness of the clientelic mentality on the part of the Nigerian ruling elite. It is the feeling of helplessness at transforming their societies arising from the psychological inability to comprehend African peoples' capability in taking in their reins of their own development in their hands. This would include the mastering of the intricacies of modern technology, organization and management (Agagu, 2008; Omoyefa, 2008).

3. Objectives

Objective I: To find out in whose interest is the privatization programme of the power sector in Nigeria.
Objective II: To explore whether or not the privatization programme of the power sector has brought about improvement in service performance.

Ho: Privatization of electricity energy has no significant relationship with improvement in service performance.

4. METHODOLOGY

Objective I: To every organization, there are about six major categories of beneficiaries those whose interest the organization serves. These are: i) The employees who draw remuneration (salaries and allowance); ii) Suppliers – those bringing raw materials and winning contracts as well as patronage in general; iii) The government that obtains revenue, through taxation, rates and levies; iv) The entrepreneur (shareholders) – who appropriates profit in terms of dividends; v) The host community – corporate social responsibilities; and vi) The consumers who enjoy the provision of goods and service (service delivery) (Owen, 1999).

The privatization policy on the energy sector in the country may be serving the interests of categories i – v and definitely not that of the category vi which are the consumers. The reason is not far to seek.

The trajectory of the process of privatization was what led to both the Gencos and Discos being sold for $2.525 billion (about #404 billion). Specifically, the Gencos attracted the sum of $1.269 billion and the sum of $1.256 billion was the worth of the Discos. This sum is not only paltry but a deliberate gross undervalue of the national asset (Ise-Olorunkanmi, 2014). Table 1 is the breakdown of preferred bidders in whose interest the Electricity Distribution Companies (Discos) were privatized (Okoro & Chikuni, 2007; Agagu. 2008; Ibitoye & Adenikinju, 2007).

S/N	Company	Deal – Interest	Owners
1.	KANN Consortium	Utility consortium Ltd acquired Abuja Discos. The business serves the corporate interest of Copperbelt Energy Corporation (CEC) Plc and Xerxes Global Investment.	Victor Gbolade Osibodu-Chairman Mrs. Funke Osibodu - Managing Director
2.	Vigeo Power Consortium	Secured Benin Discos for the sum of $129 million.	Charles Monoh
3.	West Power & Gas	They embarked on the implementation of the 434MW. The Niger Delta Power Holding Co discharged the National Integrated Power Projects. Those who formed the West Power and Gas Consortium consists of Atlantic Meridian, African Infrastructure Investment Fund 2, Maritium and Alpha Consortium.	Sir Emeka Offor.
4.	Interstate Electric Ltd	Won the bidding of Enugu Discos for $126 million. It is jointly owned with Power House International and Metropolitan Electricity Authority of Thailand.	AlhajiYusuffHamisuAbubakar
5.	NEDC/KEPCO Consortium	With the winning of this business venture NEDC/KEPCO Consortium became the only business octopus to secure interest in both the generation and distribution of the energy sector. It partners along with Sahara. They acquired Kano Disco at $137 million	Lt Gen. AbdusalamAbubakar (retd)

S/N	Company	Deal – Interest	Owners
6.	Sahelian Power SPV	Integrated Energy Distributor and Marketing Co offers technical advise to Manila Electric Co. The Philippines largest energy distribution company	Alhaji Mohammed Noma.
7.	Integrated Energy Distribution and Marketing Company	Acquired Ibadan Disco for $169m. It is in technical partnership with the Manila Electric Co. the Philippines largest distribution of electric power.	The Governors of the four states.
8.	Aura Energy	Jos Disco for $82m	
9.	4 Power Consortium	This was an amalgam of four Niger Delta governments of Bayelsa, Cross River, Rivers and Akwa – ibon. They secured the Port Harcourt Disco for ₦124 million	
10.	Integrated Energy Distribution and Marketing	Acquired Yola Disco for $59 million.	

Source: Sunday Trust, 6th October, 2015.

For the Gencos, Table 2 Indicates

S/N	Name of Co	Deal	Owner/Chairman
1.	Amperion Ltd	The Chairman acquired equity share of 57%. Technical advise was to be offered by BSG Resources Ltd with 38% equity shares. Shangai Municipal Electric Co. also has 5% equity interest Amperion bidded and won PHCN for $132million	Mr. Femi Otedola
2.	Transcorp/Woodrock Consortium	Ugheli Power Firm With 972mw Capacity Was Secured for the Sum $300m. Mr Tony Elumelu Who was at a time the Managing Director and later Chairman of United Bank of Africa (UBA) Secured this Generating Co through debt financing by African Finance Corporation (AFC), UBA and First City Monument Bank.	Mr. Tony Elumelu
3.	Mainstream Energy Solutions	Those who were financially responsible for the acquisition of the business interest are Guaranty Trust Bank, African Finance Corporation and an expatriate co from Russia, Rusltydro Co.	Col. Sani Bello (retd)
4.	North – South Power	Shiroro Generation Co, North – South consortium consists of the Niger state government, XS Energy Ltd, BP Investment Ltd, Urban Shelter Ltd, Road Nigeria Plc., China International, Water Electric and China Three Gorges Corporation.	
5.	Sahara Energy Resource Nig. Ltd	Acquired Egbin Power Station. It is in partnership with NEDC/Korea Electric Power Company (KEPCO), an international investor for $407 million.	Tope Sonubi & Tonye Cole.

Source: Sunday Trust, 6th October, 2015.

Suffice it to note that this list of the members of the ruling class is by no means exhaustive. The ruling class are members of the petty bourgeoisies; the controllers of the commanding height of the Nigerian economy. The class cuts across the different geopolitical zones of the country and those mentioned are the representatives in the energy sector. They are the executive committee for the management of the affairs of the energy sector (Oketola, Adeoye, Nnodin & Alagbe, 2016).

Furthermore, the Nigeria ruling class is an admixture of the various segments of the petty bourgeoisies; notably the bureaucrats, intellectuals, professionals, military officials, traditional rulers, the wholesale merchants, as well as the emergent large scale entrepreneurs of the commercial and industrial variants (Obi, 2005; Omoyefa, 2008). It is this class that harvests the sale of Nigerian Power Holding Company. Oni (2016) affirms this. ‘‘They sold National Electric Power Authority, the distribution arm of NEPA to themselves. So if it is not performing, it is not because it was sold. It is not performing because it was sold fraudulently and the deals were not open enough. Right now, you merge a couple of states and put them under one distribution company and the span of control is so wide that it is almost unmanageable for those who bought them to cover. So all those guys are making money for themselves. I cannot see anywhere today that is operating differently from when NEPA or Power Holding Company of Nigeria was operating’’.

Objective II: To find out whether or not there has been marked improvement in service delivery since the privatization policy.

First and foremost, privatization alone cannot guarantee and is grossly insufficient to bring about the remarkable rewards of a free enterprise economy. The most important factor that can guarantee efficient service delivery is competition. In the case of breaking the monopoly of the energy service provision in Nigeria, if there is no competition in the power sector, energy unit price will be exorbitant even though unit cost price would reduce and market economy would stimulates the incentives for the maximization of profit. The cost on the part of an average energy consumer in Nigerian in the quest of bringing about improvement of megawatts would decrease in relative comparison to the advantages accruable to power consumers. This position is indicated in Fig. 2. The diagram shows the equilibrium occurring when Marginal Revenue = Marginal Cost. It shows the Demand Curve option opened to the enterprise.

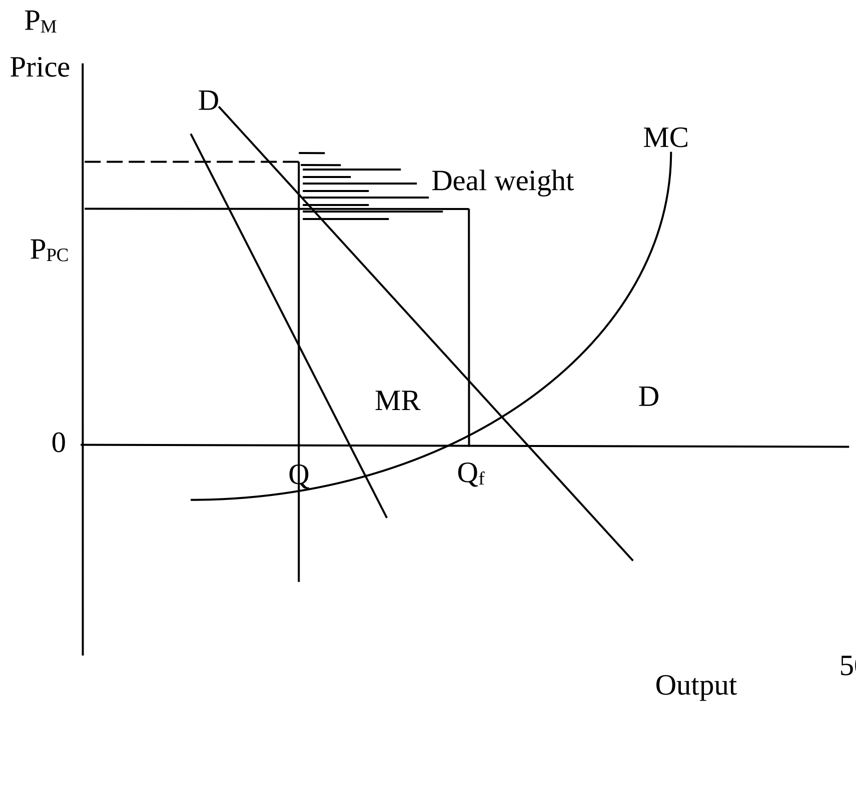

Figure 2: Monopoly pricing and efficiency
Source: Mahmoud, F.M. (1999)

It is apt to note that Equilibrium occurs at the intersection where the Marginal Revenue = Marginal cost which implies at a productivity rate of OQ and value of OP. Efficiency of productivity is arrived at at the intersection where the Marginal Costs curves crosses the Demand Curve i.e at the Productivity level of OQP. When there is perfect competitive market, this is the expected equilibrium. Consequently, while an oligopolistic public corporation might produce commodities beyond what the market requires, a private enterprise might produce below what is required. The above explanation is a pointer to the fact that several of the projected advantages of liberalization; the market based economy, may remain forlon if the parastatal corporation becomes a private oligopoly. This is the unfortunate circumstance of the privatization of the energy sector in Nigeria. In essence, if the result obtainable from the privatization process would be efficiency, effectiveness and economy of scale, much has to do with the policy framework, the institutional mechanisms in particular as well as the degree of competition brought to bear on the goods and services being considered. In other words, a lot of capital outlay is involved in the investment in the power sector. In most instances, the colossal and humongrous fund is often beyond the reach of individuals or even some groups of individuals. This often compel the intervention of commercial and industrial banks among several other financial institutions. The case of Nigeria is not different tasking the banks to finance the energy project up to 70% of the funds in loans and equity amounting to ₦404billion. Yet the bottom-line is that the loan as well as the intervention fund provided by the Federal Government through its agency, Money Deposit Banks remain grossly inadequate to transform the sector. Furthermore, the expected $4.28bn required capital expenditure and rehabilitation expenditure from Nigerian banks are not forthcoming(Oketola,2013; Ekpo, 201; Palekar, 2013).

Suffice it to also contend that the absence of strong capital resource base or the lack of willingness on the part of investors to raise a formidable fund outlay have conspired against the sector's adequate turn around (Oluwatoyin, Agbaje&Alabi, 2015; Edukugbo, 2014). There now exist investors who want to eat their cakes and have it since the logic is to rely on the consumers for the funding of the sector. This is the reason behind the unending desire of the Power Ministry to increase the tariff of the services people are not enjoying (Nnodin, 2014). In other words, the power sector is a highly capital intensive industry and virtually all the investors that acquired the unbundled PHCN borrowed funds from banks. Thus having acquired the loans from banks, continuous financing of the project has become a herculean task.

Suffice it to note that the Bureau of Public Enterprises Director General declared that the DISCOS would be required to spend a total of $357.7m in 2013 alone.Of the amount, Abuja Disco would be expected to invest $36.6m; Benin, $24.3m; Enugu, $27.2m; Ibadan, $43.86m; Jos, $22.75m; Kaduna, $29.96m; and Kano, $30.038m. Others are Eko$45.2m; Ikeja, $58.74m; Port Harcourt, $25.5m; and Yola, $13m. The expected spending by the DISCOS is to cover the areas of metering, health, safety and environmental hazards, reduction in the number of customer interruptions due to network faults, new customers connections and network expansions, improving customer services and complaints handling procedures. Some of the successful bidders have not completed the payment up till the year 2014. Majority of the investors have defaulted the payments up till the year 2014. Of the 11 Discos in Nigeria, only three have fulfilled and complied with their contractual obligation with the Federal Government (Oketola, 2014; Omoboriowo II, 2012; NERC 2015).

Consequently, the challenge occasioned by paucity of fund and narrow financial resource base have compelled foreign--counterpart funding to be necessary and a desideratum. However, insecurity, the socio-economic and political volatility of Nigeria as well as the fear of policy capitulation have rendered the hope, scope and effort at mobilizing resources oversea forlon (Nevin, 2012; Obasi&Ayansina, 2014; Ojobo, 2005; Yusuf, 2017).

Finally, it was highly unnecessary to privatize PHCN; rather but to make it more autonomous and more result oriented by being subjected to keen competition and free enterprise principles. The sector was also capable of being insulated and immunized from political interference. The moment deregulation policy is hastily implemented, devoid of sufficient scrupulous regulatory competitive mechanisms, the result is sub optimality and dismal performance. In circumstances of tremendous externalities and collective interest prevalent, where natural monopolies are paramount, where distributional objectives are sacrosanct, outcomes and results for consumers have not been different and markedly better than when there is absolute privatization programme (Wei, 2002;Chikozho, 2013; Kuehn, 2011; Davies, 2010; Keynes, 2007; Dorn, 2012).

5. Conclusions

The selling of SOEs only improves service delivery if the business thrives and dwells in an environment of keen competition. No benefit is been brought to competition when an oligopoly is disposed off with its regulation mechanisms intact. In other words, business competition can easily be brought into business environment by liberalizing and deregulating the industry rather than selling off the entire business plant. Let there be an all corner affairs of easy entry and easy exit. Privatization will not be result oriented if deregulation is not matched with privatization (Wamunkeyan, 2000)

Consequently, if PHCN had been sold after deregulation, the beneficial effect could have been monumental because competition would have been engendered. Tariffs would have reduced for consumers while new players could have easily joined and those who cannot compete guaranteed free exit. This is predicated on the assumption of the contestable market theory which posits that monopolies are constrained from being predatory by the potential entry of competitors (Wei, 2002:18; Lee, 2012; Binder, 2016; Caplan, 2016).

In the other words, if an organizational contestable market theory exist which posits that oligopolies are hamstrung from being predatory because of the opportunity others have to freely join the business, the lack of competitive benchmarks as epitomized by the privatization of PHCN would be the major reason behind the internal inefficiency and dismal performance of the sector (Clark & Lee, 2011; Chinhowu, 2010).

In similar veins, the main reason of privatization is increment in economic efficiency and effectiveness at the micro establishment level and macro economy on the part of customers who depend on the business or patronize the enterprise with the non – existence of a competitive platform ab initio, afterwards. Nevertheless, the introduction of a particular programme to regulate an industry may be sensible, the main existing keen competition implies that disagreement would occur on tariff between the business class and the regulatory agency, between the business unit and consumers as the potential ‘capture’ syndrome by the entire industry. The operating policy has only brought about a constant process of regulated patterned competition through which regulation remains sacrosanct and business units depend for their profit on the regulatory milieu as opposed to genuine market forces (Crompton &Jupe, 2007; Jerome, 2008; Izaguirre, 2005).

6. Recomandations

1) The process behind the privatization should be revisited and government should remove all barriers restricting free entry and exit.
2) Overtures should be made to investors who can provide power through other means like gas, wind, solar, thermal and other sources rather than the hydro power that Nigeria relies upon.
3) The five Gencos and 11 Discos bidders should be encouraged to seek technical partners from advanced countries that have the technical know-how to transform epileptic power condition like that of Nigeria. A situation whereby technical partners are only from Thailand, Philippine, China and Russia portrays the bidders as narrow, restrictive, unserious and lacking the will and capacity of coping with the rule of the thumb, 1MW for 1000 population expectation of industrial nations.
4) Let the privatization process be revisited with the main aim of guaranting a level playing field for solid investors with the financial ability to transform the sector.

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