

## **An Assessment of the Challenges and Prospects of Power Sector Reform in Nigeria from 2000 – 2013**

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### **Abstract**

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The paper assesses the challenges being faced by power sector reform in Nigeria from 2000 when the reform was conceived by the then administration of President Olushegun Obasanjo, to the 2013 when actual implementation is beginning to take shape. The research work uses documentary analysis technique to assess various documents in order to find out the rationale behind the reform agenda, the various challenges that the reform must address such as general apathy, fear of price hike and technical expertise of private owners and the prospects of the reform such as revitalization of the manufacturing sector, reduction of unemployment and crime as well as improving national image. The paper offers useful recommendations on how best to guard against failure of the reform agenda by insisting of transparency, due process and safeguarding the reform against possible sabotage.

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### **Introduction**

Electricity generation, transmission and distributions are becoming the most important determinants of economic development in the world. This is largely due to the emergence and domination of global economic by knowledge based information technology and manufacturing industries that rely heavily on electricity. This makes power a must-sought prerequisite for development not only in Nigeria but across the globe. In the endless race to generate electric energy Nigeria is left far behind in the comity of nations and this explains to a greater extent why the economic development of Nigeria is also stagnating. Over the years, Nigerian governments have been struggling to improve electricity generation by injecting more money in the public owned sector which only becomes over staffed, inefficient in service delivery and failed to improve capacity utilization.

With the dawn of fourth republic in 1999, the Obasanjo administration formulated a new power policy which was adopted by the national council on privatization and approved by the federal executive council in 2001. This led to the designing of the Electric Power Sector Reform EPSR Act which was later signed into law on 11<sup>th</sup> March 2005 with the following objectives:

- a. Improve power supply for domestic, commercial and industrial users.
- b. Attract private investment to complement funding by government for the expansion of electricity services to all parts of the country.
- c. In the long run, ensure that electricity supply is made more reliable, economically efficient and equitable so as to effectively support Nigeria's socio economic development (FMO, 2006).

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These goals are expected to be achieved through the following roadmap:

- i. Creation of initial holding company (PHCN) into which staff, assets and liabilities of NEPA will be transferred before subsequent unbundling and privatization.
- ii. Incorporation of successor companies and the privatization of the unbundled entities.
- iii. Establishment of a regulatory agency (I.e. the Nigerian Electricity Regulatory Agency).
- iv. Establishment of a Rural Electrification Agency and Fund (REAF).
- v. Establishment of Power Consumer assistance Fund under the management of Nigerian Electricity Regulation Agency to subsidize underprivileged power consumers (FMO, 2006).

These brief but wide ranging goals are aimed at improve quality of electricity, enhance its supply and spread access while at the same time achieve inflow of foreign direct investment which will help in improving the economy.

The research work therefore aims to examine the rationale for the power sector reform, the challenges facing the reform and the possible opportunities for growth and development of the country.

### **Rationale for power sector reform in Nigeria**

The epileptic supply and poor quality electricity in Nigeria is a common knowledge and a great source of concern for all Nigerians. It cripples the economy by stunting the manufacturing sector, inhibits employment generation, wade off foreign direct investment, restrict banks to double-digit interest rate, increases individual spending on alternative sources of energy thereby inhibiting savings, drain resources from government for maintaining which could have been used to improve other sectors etc.

Since independence, government monopolizes power supply have been injecting public fund to sustain and improve electricity quality and supply in the country but to no avail. The country's population continues to rise in geometric progression while the generation and transmission of electricity is growing in arithmetic progression which makes it grossly inadequate for a developing nation like Nigeria. A brief comparative analysis of population and power generation in some countries of some countries of the world proves that Nigeria is left behind which translate into its economic backwardness.

**Table 1.1 Power generation and consumption in selected countries.**

<b>Country</b>	<b>Population</b>	<b>Megawatt</b>	<b>Per capita Consumption</b>
USA	50 million	813,000	3.2 kilowatt
Cuba	0.54 million	4,000	0.38 kilowatt
United Kingdom	7.5 million	76,000	1.33 kilowatt
Iraq	3.6 million	10,000	0.42 kilowatt
Iran	0 million	42,000	1.03 kilowatt
South Korea	7 million	52,000	1.09 kilowatt
Malaysia	5.5 million	130,000	2.8 kilowatt
Egypt	7.9 million	18,000	0.3 kilowatt
South Africa	4.3 million	45,000	1.02 kilowatt
Nigeria	60 million	4,000	0.03 kilowatt

**Source:** *Constructed by the author (Data sourced from the Federal Ministry of Information)*

Table 1.1 shows that by Cuban standard, the entire megawatts generated in Nigeria can only serve Lagos or Kano states while by South African standard, every one million population is supposed to enjoy 1000 megawatts of electricity but in Nigeria every one million is having an inadequate 25 megawatts of electricity. “As a result, Nigeria today is one of the most expensive places in the world to live, work and do business. In fact, the situation has driven some talented and innovative entrepreneurs, business people, and scholars away” (Ndege, June, 2012)

This is coming when Nigeria prides itself of possessing abundant energy sources that it exports to the outside world. Idriss, Kura, Ahmed and Abba (2013) asserts that “the resource endowment of crude oil and natural gas currently estimated at 35 billion barrels and 185 trillion cubic feet respectively, the substantial coal reserve of 2.75 billion metric tons, the large amount of renewal and non-renewable energy sources such as wind, solar, and hydro are more than adequate to fuel much of Sub-Saharan Africa energy demand.

Despite this shortcoming, it is noteworthy that prior to 1999 there was no holistic attempt to improve power generation since 1990 when the Shiroro power station was commissioned and maintenance was avoided for more than a decade. (FMO, 2007). This led to rapid decay of the infrastructure.

In addition to problems of poor power generation capacity, there is massive corruption in the Nigerian power sector with politicians and bureaucrats turning it to honey-hub where public funds can be easily converted to private use. Corruption penetrates not only the area of electricity generation and capacity building but even the aspects of electricity distribution, utilization, billing and revenue generation. Workers are influenced by financial inducements and nepotism to alter load-shedding arrangements, billings and sometimes pilfer official properties. While presenting its report to the Chairman of National Electricity regulatory Commission (NERC) on 30<sup>th</sup> May 2012, the Metering Probe Committee and the Committee on Public Enquiry on Metering formed by the commission confirmed that despite inefficient service delivery by the company, the staffs are charging consumers arbitrarily.

The committees also reported that only 55.94% (2,893,701) are metered out of the 5,172,979 customers registered in the records of NERC out of which only 8.42% of the total households in Nigeria numbered 28,900,492 are billed correctly for electricity consumption. In addition, the distribution companies had meters in stock in all the six geo-political zones visited by the committees but failed to fix them for customers who are seriously demanding for the facility; even those who paid for meters continue to operate without meters. The committee chairman, Bamidele Aturu reported that “sharp practices and inefficiencies are the hallmarks of the metering system from aging power plants to terrible transmission lines to more importantly, rampant corruption and poor collection rates. In virtually all the six zones visited we received complains ranging from outright refusal to read installed non-prepaid meters, culture of impunity of PHCN staff and connivance of some unscrupulous PHCN staff with private individuals to defraud the general public” (Alohan, J. May 31, 2012).

Those alleged to have been perpetrating this kind of bribery are not without excuses. Their salaries are paid at irregular intervals creating a feeling of financial uncertainty and insecurity in the minds of workers, staff welfare is not forthcoming and the pension and gratuity of staff can only be obtained after relentless struggle and lobbying. Man is naturally in need of certain basic necessities and if the society does not provide conducive, legal and acceptable means of livelihood, then he can be forced by necessity and evil machinations of an idle mind to indulge in indecent, nefarious and despicable mind-boggling acts that will disturb the peace, stability and progress of the society as a whole. In addition, it was alleged that about 300 billion naira of funds meant for the payment of staff pensions in NEPA/PHCN disappeared from the government coffers.

On realizing this, the then minister for power Prof. Barth Nnaji constituted a committee under former auditor general of the federation Mr. Joseph Ajiboye to unveil the mystery behind the sudden disappearance of the money. After scrutiny, the committee discovered a difference of 22.15 billion between the records of NEPA and that of PHCN which is claimed to have been paid as pension in contradiction with the evidence obtained from the financial statements of 2004 – 2010. The panel discovered that pension payments in some zones kept changing every month while others like Ilorin zone do not have record of pension payments since 2006 (Soriwei, F. September 15, 2012). With the ongoing privatization of PHCN, the workers entered into negotiation with government to decide the amount to be paid as pensions to the PHCN workers whose career will be abruptly terminated.

In contrast with the workers' submission to be paid 25% of their total emoluments, government officials proposes only 15% and asserts that even that percentage is offered on compassionate ground citing that they will like the issue to be settled in accordance with the provisions of the 2004 pensions act where the actual employee' contribution is 7.5% percent. This is the view held by the house committee on power led by Hon. Patrick Ikhariale. The committee is insisting that paying up to 15% will go in contradiction with the pension act 2004 and therefore set a dangerous precedence and is equally unfair to other workers who are receiving 7.5%. Yet, the workers on their part claim that their request is in line with the condition of service base on which they were employed. More so, they claim that it is a global practice for their entitlements to be paid before disengagement. This is a sign that the debate will go on without a sign of resolving the dispute in the near future. So, while the privatization of PHCN is ongoing, the workers remain uncertain of their future and collection of their benefits is even more worrisome.

As such, PHCN workers and indeed Nigerian workers in general sometimes indulge in corrupt practices because workers welfare is considered a burden even in the midst of governments' ability to pay and where approval for payment is obtained, the workers get little or nothing of the approved figure. Thus, they prefer a consumer who will grease their palms with N200 every month in return for not disconnecting him from the grid than a faithful consumer that will pay what is due through due process simply because the former will go to their pockets and the latter to the pockets of superior thieves.

The above reasons among others necessitated the adoption and execution of reform agenda to restructure the power sector through unbundling and further privatization of electricity generation transmission and distribution.

### **The challenges of power sector reforms in Nigeria**

Sectorial transformations generally and power sector reform in particular must cross some stumbling blocks in the path of success. The electricity reform initiative faces the following problems among others:

**Poor Achievement Indicators:** According to the federal ministry of information “the federal government has set targets for generation capacity of 10,000 megawatts in 2005 and 20000 megawatts in 2010. Heavy capital investment required to meet this need has been estimated at over \$15billion.” However, from the beginning of power sector reform, a total of 3.2trillion naira (about \$20billion) was injected into the exercise but instead of expansion in the nation's power generation; on Saturday, 10<sup>th</sup> August 2013 the minister of power stated that power generation dropped from over 4,000 to 2,628.6 megawatts. For a project to gulp trillions of naira and end up diminishing in total output indicates doom at the end of the exercise (Wakili, 2013 and Nnodim, 2013). Since the government wanted to achieve 20,000MW in 2010 but could only achieve 13.1% in Aug 2013 after injecting an amount higher than the total projected project cost, the indicators are surely pointing towards failure in the system.

**Corruption and Mismanagement in the Reform Process:** It can be noted that one of the reasons that necessitated the reform is the high rate of corruption in the power sector.

However, a good examination of the reform process reveals that blood is being washed with blood. A fresh round of corruption is enmeshed in the reform agenda that seems to retard the whole process. A good example is the issue discussed above that the sum of 3.2 trillion was injected in the sector to improve power generation which only drops from a little above 4,000MW to 2,628.6MW. It is a clear indication of corruption or mismanagement or both. In another instance, about \$16 billion were spent on power under Obasanjo regime without leading to power generation, distribution and utilization. This compelled the House of Representatives committee that probed power projects to recommend that Obasanjo should be called to answer for his recklessness in the sector. Due process was sacrificed and the Electric power Sector Reform Act 2005 was thrown to the dogs. At last, the committee named former minister of state for energy, Alh.

Abdulhamid Ahmed and former minister of power Mr. Olushegun Agagu, Former M.D. of PHCN Eng. Joseph Makoju, Eng. G.O.P. Osakue, CEO TCN, Eng. (Dr.) C.E. Ifesie, Head Transmission TCN and Project Manager (Transmission) NIPP, Eng. Mike Ezeudenna, AGM (Lines) TCN, ENG. C.N.O. Nwachukwu, chairman technical committee and General Project Manager (NIPP), Mr. J.A. Olotu M.D. NDPHC/NIPP, Eng. I. Onuoha Deputy Chairman, Technical Committee, Eng. Emmanuel Okonkwo Project Manager Distribution, NIPP, Eng. Tope Onadibe project Manager Gas NIPP, Mr. J.C.W. Balami, Head Finance NIPP & AGM Finance PHCN, Eng. Ayodele G.M. technical Services and Eng. Sam Gekpe MD/CEO Rural Electrification Agency. The offences alleged to have been committed by these people include but not limited to deliberate subversion of due process, willful disregard of the principles enshrined in the Electric power sector Reform act 2005, gross abuse of financial rules in the award of contracts and payment, awarding contracts to unregistered companies, incompetence and inefficiency. Each was alleged to have committed one or more of the listed offences. Therefore, the committee also charged and recommended sixteen companies for investigation and prosecution by EFCC and ICPC with the hope of recovering huge amounts of money paid to them under the cover of fraudulent contracts in the power sector (Sahara Reporters, Aug. 2008; Adeniyi, O. 2012).

**Growing Apathy among Citizens:** Considering the legendary power generation and supply problems that defied every solution in Nigeria, Nigerians tend to strongly believe that all policies will, like the previous ones end in futility. Many Nigerians hardly believe in the privatization agenda especially due to the failure of many other projects and programs in other sectors of the economy such as the poverty eradication program, NDE, and the seven point agenda. The level of corruption and mismanagement being reported on the pages of newspapers is also making a project a nerve-racking exercise.

**Poor Transparency and Accountability:** Nigerians and potential investors are wary of the level of transparency and accountability in carrying out business of governance in the country. Privatization initiatives are sometimes marred in hidden transactions that contradict due process and give preferential treatment to some bidders against others. A good example is the case of the then Minister of power Prof. Barth Nnaji who was appointed to oversee the reform agenda but was forced to resign because of his conflict of interest and corruption leveled against him. The National Council on Privatization complained that Mr. Nnaji had interest in two companies (Geometric power and O & M Solutions of Pakistan) that were bidding for two state assets (Afam Power Plant in Rivers State with an installed capacity of 776mw and Enugu Distribution Company) and as member of the NCP this may generate conflict of interest. He was accused of having interest in the evaluation of the biddings and other important decisions. This resulted in the cancellation of the evaluation processes because the minister's nominee might be bias in taking decisions (Cheri and Abubakar, 2013un).

**Fear of Price Hike:** At inception, the federal government recognize the fact that Nigerians will be wary of the privatization agenda due to fear of price hike especially considering the frequent statements of government officials that electricity tariffs cannot even cover the production cost.

By implication, if the sector is fully privatized, consumers will pay for the full cost of production and ensure reasonable earning for all the three levels of power supply (Generation, transmission and distribution). Thus, the Electric Power Sector Reform Booklet maintains that one of the duties of NERC is “ensuring that the prices charged by licensees are fair to consumers and are sufficient to allow licensees to finance their activities and to allow for reasonable earning for efficient operation.” Hence, the government input in its plan, the creation of a Power Consumer Assistance Fund which will be managed by Nigerian Electricity Regulatory Commission to subsidize underprivileged power consumers. With this arrangement, the planners assured Nigerians to expect “ultimate reduction in costs of electricity to consumers through efficiency gain.” This sounds reasonable but the fear of Nigerians is the potential rise in price without commensurate rise in supply and quality.

**Handling opposing Interest Groups:** It is not unexpected that staffs of the defunct NEPA/PHCN, suppliers of generators, diesel dealers and the likes that are benefiting from the rampant power outage are opposing power sector reform. However, their opposition is largely due to be lack of awareness about the potential benefits the nation at large can derive from the exercise. Those groups may organize a formidable opposition that can sabotage and derail the whole exercise.

**Fear of Contract Inflation:** Closely related to mismanagement is the fear of over inflation of contracts by the Nigerian authorities. The Zungeru power plant for instance is billed to provide 700MW of electricity at the cost of \$1.3billion (N212 billion) which translates to 303million naira per megawatt of electricity. Comparatively, the Africa’s largest power plant in Ethiopia (The Grand Ethiopian Renaissance Dam) is designed to generate 6000MW at the cost of \$4.8billion. That is N131million per megawatt while the World’s biggest plant (The Three Gorges Dam in China) was designed to generate 22,550MW and completed in 2012 at the cost of N163million per megawatt totaled at \$22.5billion (Abdallah, Sunday, Hamagam & Shosanya, 2013, Sept. 9). Despite the fact that size alone cannot determine the cost of projects, others being topography, climate etc., it is difficult to explain why Nigeria’s cost of power production nearly doubles that of China and more than doubles the Ethiopian estimates.

### **Prospects of the Power Sector Reform**

The power sector reform if properly implemented will ignite development in all other sectors of the nation. Nigeria’s stands the pleasant prospect of enjoying the following benefits through its power Sector Reform:

**Improvement in Manufacturing:** Energy crises have been sending manufacturers packing away from Nigeria. Companies in Nigeria’s industrial cities of Kano and Lagos are closing operations and laying workers off because they cannot operate on gas power generators and still expect a reasonable profit. Success in EPSR will revive the manufacturing sector by giving the old companies a reason to reopen and the new ones a reason to start operating (Ndege, June, 1, 2012). It is estimated that improvement in power sector will lead to 25% increase in the rate of economic growth (Dafinone, 2010).

**Reduced Interest Rate:** One of the reasons for low GDP and high unemployment in Nigeria is the high level of interest charged by banks. Most banks are charging upto 21% on loans which makes it near impossible to borrow-invest-repay-and-profit from a business endeavor. A stable electricity supply as envisaged by the power sector reform will give banks good reason to reduce interest rate because banks’ running cost will be significantly reduced if they stop running on diesel fuelled generators. A reduction to single digit interest rate as advocated by the current CBN governor will encourage Nigerians to borrow and invest in the economy (Ndidi, July 3, 2013).

**Job creation:** The International Finance Corporation conducted a study in sub-Saharan Africa titled ‘assessing private sector contribution to job creation’ where infrastructure constraints including cost of power supply, low access to finance and poor skills as job creation obstacles (Kagwe, 2013).

It is also established that in the year 2011, unemployment in Nigeria within the age group of 20 to 24 years in Nigeria is 40% while that of the age group of 15 to 19 years is 31% and in the same years the national bureau of statistics reports an increment in unemployment rate from 21.10% to 23.90% while the average unemployment rate from 2006 to 2011 was 14.6% (Oladele, Jan. 27, 2013). Employment opportunities will emerge as a bi-product of the aforementioned prospects. With low interest rate and growth in the manufacturing sector, companies must employ workers and individuals will also indulge in small and medium scale businesses through which others can earn a living.

**Reduction in crime:** Unemployment leads to idleness while idleness breeds crime. Creation of employment opportunities to absorb teeming Nigerian, able and willing job-seekers will significantly reduce crime in the country. Youth are engaged in inter-ethnic, religious and political violence simply because they are mostly unemployed or underemployed. According to Oladele, (Jan. 2013), the socio-economic problem facing Nigeria is “compounded by the fact that several thousands of jobless youths have been forced into crime because of idleness... while there are no justifiable reasons for anyone to take to crime because of unemployment, the negative effects of unemployment in the country in the country today call for urgent efforts to remedy the situation.” A reformed electric sector will create many jobs that will engage the minds and efforts of our youth and disengage them from ethnic and sectarian battle fields.

**Encourage saving culture:** Nigerians have been spending huge amounts of money to cover domestic needs for energy and maintain their workstations. Individuals buy kerosene, gasoline generators and cooking gas. With stable electricity, corporate and individual expenditure will significantly reduce which will invariably encourage savings. Resultantly, saving culture among the populace will lead to productive investment that will increase the country’s GDP.

**Comfort at home and office:** Constant and stable electricity supply will improve workers’ efficiency by making offices comfortable for workers. It will also make electronic office facilities such as electronic mails and gadgets readily available and reliable at all times.

**Improve national image and attract foreign direct investment (FDI):** Success of the Electric Reform will improve Nigeria’s image in the international community. Table 1.1 is a pointer to the national disgrace that poor power supply pose to Nigeria. An improvement in electricity generation, transmission, distribution and utilization will attract Foreign Direct Investment into the country which will supplement the domestic investments.

**Reduction in the over dependence on government:** Nigerian governments have been complaining of NEPA/PHCN as consuming public resources that could have been used for infrastructure development without commensurate results. Full privatization of the power sector as envisaged by the reform will shift the burden from government and allow it to utilize the fund for the provision of basic infrastructure.

### **Conclusion**

Base on the challenges examined and the prospects explained, it can be concluded that privatization of Nigeria’s power industry remain a viable option if not the only solution to persistent power outages that cost the country trillions of naira and resources without commensurate results. However, the reform agenda must be implemented with care to avoid pitfalls. Corruption, mismanagement and nepotism must be avoided and the culture of transparency and accountability must be accepted as dear virtues.

With the rating of National Electricity regulatory commission by a non-governmental organization (The Public and Private Development Centre) as the most transparent public institution in Nigeria in 2013, (Alohan, Oct. 24, 2013) it is a good indication that the electricity industry is improving its management capacity and reducing the chances of corruption and mismanagement.

### ***Recommendation***

Base on the facts examined, the following recommendations are hereby forwarded:

- a. To ensure proper and efficient implementation of the reform agenda, there should be a timeframe for all major activities and the government must ensure that they are achieved within the time specified for such activity.
- b. To avoid collapse of the privatized companies, all owners of the new companies must enter into agreement with foreign technical partners that have the capacity to maintain the plants and ensure their efficient utilization.
- c. Transparency, accountability and due process must be imbibed and enshrined in all major activities of the reform process and all post reform business undertakings of the companies to avoid regression back to the old culture of impunity.
- d. A great majority of Nigerians especially in the rural and semi-urban areas are grossly unaware of the power sector reform. There is need to engage in massive awareness creation in order to reduce high level of apathy and encourage participation of all Nigerians in the area of protecting the sector's facilities, plants and staff and supporting the reform in any way possible.
- e. Closely related to awareness creation, the fear of price hike must be addressed by subsidizing consumption especially certain category of consumers that cannot afford the new billing as well as those corporate consumers that need to be encouraged in order to develop the Nigerian economy.
- f. Government should constitute a task force to guard against any form of sabotage by opposing interest groups. Importers of gasoline generators sets, retrenched workers, and diesel dealers may decide to sabotage the reform for personal interest. Therefore task force will put intending saboteurs off.
- g. Government and private stakeholders must explore the possibility of utilizing alternative sources of energy apart from the hydro and thermal sources. Solar, wind and nuclear energies should properly harnessed to augment and hydro and thermal sources that Nigeria over relies on.

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