GOVERNMENT POLICY ON PRIVATIZATION OF POWER IN NIGERIA: END-USERS FINANCIAL COST PERSPECTIVE

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Abstract
Since the privatization of the power sector in Nigeria in 1999, the cost impact to end-users have not received adequate empirical evaluation. Using data from consumers of privatized electricity power in Enugu State, this paper sought to evaluate the significant effect of privatization on end-users of electricity product. The survey research method was employed with two major hypotheses formulated to govern the study. Respondents were selected using random sampling technique and generated data was tested with Z-test statistic. Descriptively, a proportion of the respondents strongly agreed that privatization has a significant cost effect on consumers. The finding led to the acceptance of the two alternative hypotheses and rejection of the null hypotheses because the computed Z values were between -1.96 and 1.96 of their critical values. The paper among others recommed that government should establish a mechanism to regulate charges to end users of electricity product by privatized electricity distribution companies.
Keywords: Privatization, electricit, financial cost, end users

Introduction

The relevance of establishing public corporations globally was first formally felt in the 19th century. During this period, there were lots of cataclysms in the European society which were occasioned by privatization, industrialization and urbanization. Social issues like unemployment and economic inequalities were pronounced in that era especially in Great Britain. In Africa, a good number of countries mostly colonized by the Europeans chose the public sector for economic and social development at independence. This amounted to the reason why in Nigeria, functions like industrial production, transportation, social services, communication and power were initially assigned to the state in addition to its traditional functions of security and justice in the first and second republic. Unarguably, Nigerian government encouraged the development of the public sector since independence in 1960 and particularly 1970s although this was non-successive because of government attitude towards public enterprises management.

Unfortunately, studies have shown that most government owned industries and corporations in Nigeria have remained citadels of corruption and inefficiency resulting in heavy drain on the economy (Ahmed, 2011, Vivian, 2013, Muogbo, 2013). Consequently, the Nigerian economy had to embrace privatization as one of its cardinal economic policy towards economic development. This followed her implementation precisely in 1986 of the International Monetary Fund (IMF)'s conditionalities attached to the Structural Adjustment Programmes (SAP) which developing countries were made to pursue by the Bretton Woods Institutions (Eleje, 2013).

It was perceived that the basic rationale for privatization in Nigeria was to ensure that many more private service providers including electricity and power are brought in to compete and thereby regulate the market for fairer pricing. Privatization was also one of the reforms Nigeria had to undertake to integrate the economy into the mainstream of the world economic order. According to Obasanjo (1999), there are two interrelated aspects to this integration. First, Nigeria needs the technology; the managerial competence and the capital from the developed world to enhance the performance of her utilities. Secondly, there are very serious linkages between the efficient functioning of the country's utilities and her ability to attract foreign investments. Nigeria cannot be talking about creating favorable environment for foreign investments if the performance of her transport, telecommunication, energy and power sectors remains dismal and epileptic. Apparently, many public enterprises in Nigeria, which had suffered setbacks occasioned by inefficiency and political manipulations, were privatized to enhance efficiency and proper management.

Since the advent of privatization policy in Nigeria, attention has been ongoing by way of proposals, debates, seminars and symposia all over the country on the relevance of such policy to national development. The contention most times has been whether to privatize strategic public utilities or not. While many speak strongly in favor of privatization arguing that government corporations are dominated by corruption, poor accountability, lack of transparency and inconsistency, others dismiss the whole idea arguing that the benefits of privatization are being overemphasized. They rather prefer government to continue supporting and promoting public utilities. Their arguments hinge support on the fact that government is the greatest employer of labor and the most effective means of ensuring economic equality of the people. While these arguments are on, not so much attention has been given on the effect of the privatized enterprises on economic welfare of the citizenry. This means the existence of a research gap which needs to be covered by research. This study therefore is a contribution in this direction. The paper specifically investigated the significant effect of consumption cost of privatized electricity on the end users. The study further examined the extent of availability as well as reliability of privatized electricity product to end users in Nigeria. It is expected that the study shall benefit several groups of people including the private electricity consumers, electricity product providers, government, policy analysts and the academics.

Conceptual framework

The concept *'privatization'* evokes sharp definitional reactions from many angles in recent time. Literarily, it has been defined as the transfer of ownership and control of enterprises from the state to the private sector. However, various groups and persons have also presented some working definitions. The Bureau of public enterprises Act of 1993 defined privatization as the relinquishment of part or all of the equity and other interests held by the government or any of its agencies in private enterprises. To the Nigeria Economic Summit (1995), privatization is a term used to describe a variety of policies, which are designed to transfers fully or partially, ownership and control of public enterprises to the private sector to encourage competition. According to Theme (1997), privatization is viewed as any of a variety of measures adopted by government to expose a public enterprise to competition or to bring in private ownership or control or management into a public enterprise to reduce the usual weight of public ownership or control or management. However, in a strict sense, privatization means the transfer of the ownership (and all the incidence of ownership, including management) of a public enterprise to private investors. The latter meaning has the advantage of helping one to draw a line between privatization and other varieties of public enterprise reform. It is also the sense in which the term has been statutorily defined in Nigeria.

Starr (1998) opines that privatization is a shift from the public to the private sector, not shifts from within sectors. According to him, the conversion of a state agency into an autonomous public authority or state owned enterprise is not privatization, neither is conversion of a private non-profit organization into profit-making form. Consistently, Ogunde (2002) submits that privatization is the state policy whereby state owned companies are sold out to private individuals. Critically, he argues that it is a process whereby collectively owned properties are auctioned out to "money bags" who naturally are the ones that can afford effectively the cost of such ventures. Furthermore, privatization is argued in Dimgba (2011) as a phenomenon which has been a necessary concomitant to the principle of liberalization, which involves the transfer of control in terms of ownership and management from the government to private investors.

In the second phase of the privatization scheme in 1999, guided privatization was conceived as "the transfer of government owned shareholding in designated enterprises to private shareholders, comprising individuals and corporate bodies (Ayodele, 2004)". Accordingly, guided privatization was to be implemented in the context of 'one enterprise at a time', so that the lesson of experience will be used to improve upon the programmers (FGN, 1998). Meanwhile, full or guided privatization policy in Nigeria has been defended on different grounds, foremost of which is the view that it would lead to economic growth and efficiency. To this end, the Nigerian government has aggressively embraced the concept, having been spurred on largely by creditor institutions like the World Bank and the International Monetary Fund.

Aside the foregoing positions, Ajayi (2014) made three major observations that: (1) for privatization to take place there must be the existence of public enterprises, which need to be converted into private enterprises; (2) there must be the reasoning that private ownership or control or management would be better than public ownership; and, (3) there are problems with public ownership of enterprises and privatization is parts and parcel of a reform agenda to turn these enterprises so that they can deliver goods and services more efficiently and effectively. In that case, privatization is about ensuring efficiency in the operations of public enterprises. In Nigeria, it has been argued that government enterprises are poorly managed due to some certain negative factors (Adeyemo, 2005). These factors render public enterprises inefficient in operation thereby given rise to clarion calls for privatization of public utilities to foster economic growth and development in Nigeria.

Privatization of electric power in Nigeria

Electricity power generation in Nigeria began in 1896 when two small generating sets were installed to serve the then Colony of Lagos (Wikipedia, 2017). In 1929, the Nigeria Electric Supply Company (NESCO) was incorporated. Subsequently, the Electric Corporation of Nigeria (ECN) was established to take over the assets of NESCO in 1951. Nigeria Dams Authority (NDA) was setup in 1962 to develop the hydropower potentials in Nigeria. Barely a decade later, precisely in 1972, ECN and NDA merged to form the National Electric Power Authority (NEPA). NEPA was a vertical-integrated utility responsible for the power sector in Nigeria. It was solely responsible for the generation, transmission and distribution of electricity until 2005. However, under NEPA, the power sector for over two decades prior to 1999, experienced poor investment in infrastructural development. During that period, new plants were not constructed and the existing ones were not properly maintained. Consequently, the National Council on Privatization (NCP) in 1999 constituted the Electricity Power Sector Implementation Committee (EPIC) to embark on a comprehensive review of the entire electricity sector in order to prepare grounds for liberalizing the sector to attract private sector investment and ensure competition in the market. By 2001, electricity generation has gone down from the installed capacity of about 5,600MW to an average of about 1,750MW, as compared to a load demand of 6,000MW. Also, only nineteen out of seventy-nine installed generating units were in operation (Oladipo and Temitayo, 2014).

In an effort to rescue the situation, the federal government in March 2005 signed the Power Sector Reform Bill into law. Consequently the Power Holding Company of Nigeria (PHCN) was established and subsequently unbundled into eighteen (18) successor companies comprising eleven distribution companies (DISCOS), six generating companies (GENCOS), and one transmission company (TRANSCO) respectively. The aims were to transfer electricity management and financing operations to the organized private sector; establish an independent and effective regulatory commission to oversee and monitor the industry as well as focus the federal government on policy formulation and long-term development of the industry, among others. TRANSCO was to be under the control of the Federal Government. It is to be noted that the establishment of PHCN was to cater for the inefficiency of NEPA, and to improve power system in Nigeria. On August 8, 2005, the peak generation was 3774 MW out of the available generation of 4000MW. This improvement was said to be as a result of the participation of the private investors in electricity generation and rehabilitation of generating plants.

By 2010, however, five years into the latest reform, very little restructuring had been undertaken, and available generation capacity has remained less than 4,000 MW for a population of over 150 million, the largest on the African continent. As at September 2014, available generation capacity stood at 6,662MW; generation capacity was 5,228MW; peak generation was 4,420MW; expected generation from Nigeria's Independent Power Producer (NIPP) was 5,453MW and, government on-going Hydro Projects was 4,234MW. Meanwhile power industry projected to have available 10,000MW in 2015 and 20,000MW 2020 (Oladele, 2014).

Theoretical framework on privatization

The concept of privatization is anchored on the neoliberal theory. It is based on the doctrine of competition and profit motive founded on free market pricing and freedom from the interfering hands of state regulation (Wikipedia, 2011). According to the neoliberal theory, privatization could reap the advantages of the market system namely; effectiveness, productivity, and efficient service. Privatization would thus, strengthen market forces with some degree of deregulation, economic liberalization, relaxation of wages and price controls. It is noteworthy that privatization in developing economies is derived from the international capitalist imposition, especially the World Bank/IMF, which stipulated economic liberalization as pre-conditions for providing development loans to the Less Developed Countries (LDCs). Apparently, privatization has become an acceptable paradigm in the political economy of states. It is now a strategy for reducing the size of government and transferring assets and service functions from public to private ownership and control.

The theory of privatization has not gone unchallenged even in developing countries. From the view point expressed by Professor Aluko cited in Adeyemo (2005), the assumption of the inherent efficiency of the private sector should be questioned. He argued that in Nigeria, much of private sector profits are not always the result of efficient operation and increased productivity but rather, money that private contractors make through inflated contracts, patronage and corruption. He argued that most of the richest people in Nigeria's private sector make their money for the most part, through their public sector connections and influence. Secondly, the privatization program in Nigeria, which came as an integral part of the country's overarching public policy of adjustment credits, has been bogged down by a host of problems and controversies. According to Etieyibo, (2011), only 10% of the 400 public enterprises that were privatized from 1999 till date are properly functioning, an implication that the privatization program in Nigeria is socially unjust.

Review of empirical literature on privatization

Extent empirical literature exists on privatization of public enterprises in Nigeria. Magginson, Nash and Randerborgh (1994) compared the performance of 61 privatized companies from 18 countries comprising Six (6) developing and twelve (12) developed countries, before and after privatization. The variables observed include profitability, efficiency, capital investment, output, employment, leverage, and payout. The study used Wilcoxon signed-rank statistic to test the significant changes in the variables. They also employed proportion test to determine whether the proportion P of firms experiencing changes in a given direction was greater than would be expected by chance (typically P=0). Results indicate that privatization has: a significant increase in profitability, output per employee, capital spending, total employment, dividend payout, and a decrease in leverage. These results were unchanged when compared with industrialized and developing countries.

Udoka and Anyingang (2012) evaluated the effect of privatization on economic growth and development of Nigeria from 1979 to 2007. Their aim was to ascertain the relationship between public and private sector spending and Gross Domestic Product (GDP). The study adopted *ex-post facto* research design. Data gathered were analyzed and tested using ordinary least square (OLS) multiple regression statistics. Result showed that the combination of private and public sector capital spending significantly impact GDP. It also found a strong and positive relationship between GDP and public sector capital spending.

Akintola (2010) examined the effect of privatization of public enterprises on industrial relations practice in a mixed recessional economy. The survey approach using questionnaire and chi square test of significance was adopted. Result revealed that privatized public enterprises in a recessional economy does not create enabling environment for harmonious labour–management relations. Also, it was established that though privatization policy implementation enhances efficiency and improved workers' performance, however, retrenchment and job insecurity of the workers are always the resultant effects of any privatized public enterprises.

Gasmi, Noumba and Recuero (2011) evaluated worldwide differences in the impact of privatization of the telecommunications sector on networks expansion, tariffs, and labor efficiency. They used a time-series-cross-sectional (TSCS) data set containing time varying information on 108 countries for the period 1985-2008. Result showed a positive and significant effect of privatization on some of the outcome variables in OECD and African resource scarce coastal countries; a positive but weak effect in Latin American and Caribbean countries; and a negative and significant effect in African resource rich and African resource scarce landlocked countries.

Muogbo (2013) investigated the ability of corporate governance rule to help both the shareholders and the directors to maximize their interest from privatized firms in Nigeria. The study sampled 60 stakeholders including regulators and investors of Nigerian private firms. The Likert scale questionnaire was found to have Cronbash Alpha reliability coefficient of 0.93. Frequencies, percentages and Spearman's rho coefficient of correlation were used for analyses. Results revealed that corporate governance has significant positive relationship with privatization in terms of setting up sound corporate objectives and in maximizing shareholders wealth.

Vivian (2013) appraised the relationship between privatization and economic growth of Nigeria. Data was collected and analyzed using ordinary least square method (OLS). The result of the study shows that there is a positive but insignificant impact of private investment on the economy.

Ahmad (2011) explored the steps and conditions necessary to implement a successful privatization plans, and reviewed privatization impact on firms' performance. The focus of the study was on privatization in developing countries, and the impact that privatization has on firms operating in those countries. The empirical evaluation of the study was performed using a qualitative research method. The results were based on interview, and on three major international studies. The interview questions were regarding as the prerequisites and steps required to implement a successful privatization program, while the studies used were in respect of newly privatized firms' performance in developing countries. The aim of the study was to find out what should be done to manage a successful privatization campaign in a certain developing country, and what impacts does privatization have on the performance of firms in general. The findings showed a positive impact of privatization on firms' performance.

Methodology

This study employed survey method involving the use of direct observation and self-designed questionnaire in data generation. The population of study was 4000 households who are owners of prepaid meters in Enugu Metropolis. A sample size of 400 hundred households was determined from the population using $1/10^{th}$ (P) sample size determination model. For effective coverage and cost efficiency, the sample size was divided into two strata: Densely populated areas comprising Abakpa Nike, Emene and Agbani Road; and moderately populated area of New Haven, Okpara Avenue and Trans-Ekulu respectively. Random sampling technique was used to select the sample size issued questionnaire. Returned questionnaire were descriptively analyzed, summarized, and interpreted with total score, Likert scale rating and simple percentage. Data were further subjected to 'Z' test statistics at 0.05 level to proof the extent of significance in testing stated hypothesis.

Data presentation and analysis

Table 1: Questionnaire Distribution and Return

Category	Distributed	%	Returned	%
Densely Populated Area	250	62.5	250	62.5
Moderately Populated Area	150	37.5	150	62.5
Grand Total	400	100	400	100

Source: *Field Survey (2017)*

Table 1 shows an impressive response rate. It confirms that 100% of the distributed questionnaire were retrieved and deemed valid for further evaluation. This response at 95% confidence level is appropriate for the research. The table also shows fairness in the distribution of questionnaire across the selected categories.

Table 2: High Billing Charges to End Users of Privatized Electricity Power Supply

Category	S. Agreed	Agreed	Undecided	Disagreed	S. Disagreed	Total
Densely Pop.	95	62	50	33	10	250
Moderately Pop.	55	38	20	17	20	150
G. Total	150	100	70	50	30	400

Source: *Field Survey (2017)*

Table 3: Percentage Proportion of Questionnaire Responses on Billing Charges

S/No.	Options	Frequency	Percentages (%)
1	Strongly Agree	150	37.5
2	Agree	100	25.0
3	Undecided	70	17.5
4	Disagree	50	12.5
5	Strongly Disagree	30	7.5
Total		400	100.0

Source: *Field Survey (2017)*

Table 4: Availability and Reliability of Electricity Power Supply to End Users

Category	S. Agreed	Agreed	Undecided	Disagreed	S. Disagreed	Total
Densely Pop.	10	30	30	75	105	250
Moderately Pop.	15	17	38	20	60	150
G. Total	25	47	68	95	165	400

Source: *Field Survey (2017)*

Table 5: Percentage Proportion of Responses on Power availability and Reliability

S/No.	Options	Frequency	Percentages (%)
1	Strongly Agree	25	6.25
2	Agree	47	11.75
3	Undecided	68	17.00
4	Disagree	95	23.75
5	Strongly Disagree	165	41.25
Total		400	100.0

Source: *Field Survey (2017)*

Hypotheses testing and results

Hypothesis One:

H_{01} *The consumption charge to end users of privatized electricity power supply in Nigeria is not significantly high*.

H_{A1} *The consumption charge to end users of privatized electricity power supply in Nigeria is significantly high*.

Hypothesis one is tested using the stated Z-test statistic

Computing from table 3, P = 0.625; Q = 0.375; and n = 400

Therefore, Z = 0.242

Decision: The decision rule is to reject the null hypothesis if the computed Z value is between -1.96 to 1.96 of the critical value. Hence, since our computed "Z" value of 0.0242 falls between -1.96 and 1.96 of the critical value, the null hypothesis was rejected.

Hypothesis Two:

H_{02} *There is no significant decrease in the availability and reliability of privatized electricity power supply to end users in Nigeria*

H_{A2} *There is significant decrease in the availability and reliability of privatized electricity power supply to end users in Nigeria*

Hypothesis two is again tested using the stated Z-test statistic.

Computing from table 5, P = 0.35; Q = 0.65; and n = 400

Therefore, Z = 0.0238.

Decision: Since the computed "Z" value of 0.0238 falls between -1.96 and 1.96 of the critical value, the null hypothesis is again rejected in line with the decision rule.

Conclusions and implications

The foregoing tests provide strong evidence to substantiate the fact that privatization though positive to development also has abundant cost implications to national progress. Deducing from the two tests above which rejected the null hypotheses, the study concludes that the consumption charge to end users of privatized electricity power supply in Nigeria is significantly high. Similarly, there is significant decrease in the availability and reliability of privatized electricity power supply to end users in Nigeria at present.

The above conclusions have major implications to national welfare. First, it implies that not every citizen of Nigeria can frequently afford electricity product if the charges are not checkmated especially in this era of prepaid meter. Secondly, users of electricity product including households, commercial businesses and manufacturers will have to spend more financial resources in alternative power supply to run their business and other family demands.

Recommendations

- Government should establish sound mechanisms to regulate charges to end-users of electricity product by privatized electricity distribution companies.
- Generation and transmission of electricity power in Nigeria have experienced dwindling growth since independence till date even with the privatization policy. Projections have never been met. Private investors-the GENCOS and DISCOS should devise better strategies to improve power generation and transmission for Nigerians to fully reap the dividend of privatization of the power sector.
- Meanwhile, recent studies show that power vandalization contributes significantly to insufficient power supply. Security agencies should therefore be adequately equipped by the government to ensure protect of electricity installations.
- Lastly, the electricity power regulatory agency should also stimulate measures via effective monitoring of local personnels in-charge of electricity supply to guarantee availability and reliability of electricity power supply to end users in Nigeria.

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