

Privatising Power

UK aid funds energy privatisation in Nigeria

March 2015



As part of a £100m project run by consultants Adam Smith International the UK has used an estimated £50m of aid money to support energy sector privatisation in Nigeria. Although the process is yet to be completed, the results so far have been

disastrous, with Nigerian people facing higher prices, poor service and regular blackouts. The companies involved in the privatisation have made many workers redundant and had to be bailed out by the central bank in 2014.

Background

Despite its vast oil wealth, over half of Nigerians lack access to electricity,¹ and the country's grid power usage per person is among the lowest in the world, meaning that many people rely on candles and kerosene, or expensive diesel generators. Lack of electricity hampers the provision of public services like healthcare and education, and makes it difficult or impossible for businesses to operate efficiently. As a result, Nigeria relies on imports for most of its manufactured goods.² So it is clear that change is urgently needed to Nigeria's energy system.

But despite the country's long and unsuccessful experience with energy privatisation, the Nigerian government supported by aid from the British government continues to pour public money into a privatisation programme that seems doomed to failure, neglecting policy options that could address Nigeria's serious energy supply problems.

Since the late 1990s, Nigeria has allowed independent power plants (IPPs) owned and operated by private companies. These have caused large losses for the state power company which had agreements with the IPPs to purchase their power.³

In addition, a deal between Enron and the Lagos government to set up a power plant and three diesel units on barges anchored off Lagos formed part of the fraud charges against Enron executives.⁴

In 2005, the Electric Power Sector Reform Act split the national electricity company up into 18 separate companies (11 distribution companies, 6 generation companies and a transmission company) ready for privatisation.⁵

The process then stalled until the election of President Goodluck Jonathan in 2011, under whom the country has embarked on a privatisation process which the UK's Department for International Development describes as "far more ambitious than anything ever attempted in Africa",⁶ and "seen by many as being so ambitious as to be unrealistic".⁷

Since then, the generation and distribution companies have been privatised, with Nigerians feeling the impacts already.

"The privatisation of energy in Nigeria has been a spectacular failure. We've been fed on promises of stable electricity for over a decade, but the majority of Nigerians have to depend on themselves to provide their own power. Millions of homes generate their own electricity with battery inverters and gasoline generators, with public power supply being seen as a back-up at best.

The new privatisation investors are only concerned with how much money they can recoup in as short a time as possible. Regardless of whether or not the privatisation process leads to better power supply, the truth is that with the recent frightening increases in the cost of electricity, the vast majority of Nigerians won't benefit from it as they can't afford it."

Ken Henshaw, Senior Programmes Manager, Social Action, Nigeria



Protestors in Nigeria reject increases in electricity prices

A disaster for Nigerians

Since privatisation, Nigerian people have experienced:

- Price rises – prices have been increased twice since privatisation, with another increase announced in January 2015.⁸ While prices in different areas are set by the different distribution companies, in Lagos the most recent increase was 29%.⁹ It is clear that price increases are built into the privatisation project and are not just an unintended side effect, with the Financial Times reporting in 2012 that prices would increase up to 88% under reforms designed to attract outside investors.¹⁰ As well as making electricity unaffordable for Nigerian families, the price rises are making small businesses unviable
- Fixed payments - users have to pay a certain charge, payable monthly whether they consume electricity or not, which means that people who use the lowest amount of power pay the most per unit. In 2014, following complaints about poor service, the regulator agreed that the charge would not be payable by people who experience 15 days or more of continuous interruption to their power supply.¹¹
- Job losses - in spite of an agreement between the government and energy sector unions, a quarter of the workers (around 10,000 people) were made redundant (although following union intervention some have been re-employed),¹² and many people have not received their redundancy or other benefits such as pensions.¹³ Trade union members have reported attempts by the private companies to prevent union membership or activity,¹⁴ and those fighting privatisation have faced intimidation and harassment by the military and police.¹⁵
- Blackouts and reduced supply – far from improving the electricity supply, since privatisation, the available capacity of Nigeria's power stations has reduced with several power stations experiencing shut downs due to poor management.¹⁶ It is reported that the federal government alone had to budget N837m (around £2.5m) for fuelling and maintaining generators for its offices in 2014 as a result of being unable to rely on the national grid for power.¹⁷
- Poor service – people have been receiving over-estimated bills (which some have paid and then not received the electricity) and the distribution companies have failed to conduct meter readings. As a result, many users are accepting pre-payment meters to avoid overpayment.¹⁸ There is no option for users to choose their supplier, so people have little choice but to put up with the poor service.¹⁹



Photo: NUJEE

Protestors on the streets of Nigeria

Bailouts and corruption

In theory, privatisation is meant to lead to new investment. In practice, in Nigeria, investment in the newly privatised companies dried up and a financial rescue package had to be administered by the central bank²⁰ in 2014. This is in addition to the government taking on liabilities such as pensions, and World Bank guarantees to ensure that the private power generators get full revenues.²¹

Similarly, while privatisation is often presented as a way of tackling corruption, in fact the adviser of the president, Barth Nnaji had a commercial vested interest in the privatisation²² and firms such as Transcorp, Forte Oil and Rockson, that have links to ex-generals, won bids to take over aspects of the electricity infrastructure.²³

In addition, it appears that the Nigerian government lost out in the sale of the publicly-owned energy companies, selling them off to private companies at very low prices.²⁴

The UK's role

While it is clear that President Goodluck Jonathan has been a major driver of power privatisation since his election in 2011, support from the UK government has been instrumental. Based on annual reports for the UK's Department of International Development (DfID) Global Justice Now estimates that around £100m of UK aid money is currently being used to support energy privatisation in Nigeria. Millions more has been spent on other projects that paved the way for privatisation.²⁵ It appears that the majority, if not all, of this funding has been used to pay for consultants to help implement the reform process, rather than on infrastructure to improve people's access to electricity or increase the amount of power generated.²⁶

The current phase of the project is being implemented by Adam Smith International, a consultancy company set up by free-market think-tank the Adam Smith Institute. According to DfID, Adam Smith International is one of its biggest suppliers. This is the second phase of the project being implemented by Adam Smith International. The first ended early after the budget was spent before completion. In 2013 DfID increased the budget of the current phase of the project, which also includes transport and other privatisation projects, from £48m to £98m.²⁷

Annual reviews of the DfID-funded project show that the UK government's support has been instrumental in the privatisation process, claiming that it has led to credibility, confidence, faster privatisation and greater probability that the privatisation process will succeed.²⁸

However, the latest annual review of the project makes it clear that poverty reduction impacts are almost completely absent from the project, describing this as a "serious shortcoming of the project" and stating that many of the project's strategies don't reflect an "evidence-based approach". The project particularly fails in the northern (poorest) states, with the most recent review of the project reporting that only half the target amount of electricity is being delivered.²⁹

"While it is true that improvements to electricity generation and distribution are desperately needed in Nigeria, privatisation hasn't and won't deliver the efficiency it promises, and is not the answer. Privatisation has led to job losses for between 20 and 25 per cent of the workforce, and the new private employers are trying to break the unions, denying workers their most fundamental rights.

We're facing multiple price rises, the latest being 29 per cent in Lagos state. Meanwhile, there has been no meaningful improvement to the system, apart from through funding provided by the Nigerian government, which we had been calling for before privatisation. Can you imagine a landlord sells their property to someone else, and then uses the money from the sale to paint, furnish and upgrade the house for the new owner? This is what the Nigerian government is doing"

Igwebike Dominic, Assistant General Secretary of the National Union of Electricity Employees

Demands for change

There is much opposition to the privatisation process which is expressed regularly by prominent Nigerian campaigners and commentators, and has also led to street protests. Even commentators that were initially supportive of privatisation have become critical upon seeing what has happened. For example, Punch newspaper, which had previously actively supported privatisation, is advocating the revocation of sale for “non-performing” companies.³⁰

It is clear that there are alternatives to privatisation. It has been calculated that the total cost of universal electricity access could have been met with 0.6% of Nigeria’s oil revenues over ten years.³¹ In addition, in the face of a failure of the new private owners to invest in the power sector, the Nigerian government has said it wants to use N400 bn (£1.3 bn) of Nigerian pension fund assets to encourage foreign investment in the sector. If this sum had been added to oil revenues or the public funds that have been used to support privatisation, this could have been used to deliver universal electricity access without privatisation.³²

The evidence shows that time and again, energy privatisation fails to meet people’s energy needs. Global Justice Now is calling for an end to UK aid money being used to support energy privatisation, and instead to support fair, sustainable and democratically-controlled energy systems around the world.



Photo: NURE

Anti privatisation protestors in Nigeria

“It’s shocking and dismayed that DfID continues to spend UK taxpayer’s money to advocate policies that have failed in the UK and all across Africa. It seems that DfID is blindly following a deeply discredited, ideological approach that only serves to line the pockets of UK consultants while further entrenching corruption among Nigeria’s elite.”

David Boys, Deputy General Secretary, Public Services International

Endnotes

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More info

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