

Chapter 17

Enhancing Competitiveness of Public Utilities in Nigeria: The Case of the Power Holding Company of Nigeria (PHCN)

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ABSTRACT

The poor performance of the state owned electricity company the National Electric Power Authority (NEPA), has provided the impetus for the establishment of the Power Holding Company of Nigeria (PHCN). However, despite the power sector reforms in Nigeria the country has continued to face massive challenges in the generation and distribution of electricity.

INTRODUCTION

Since the beginning of the 1980's there has been a swing in the dominant intellectual and development strategies - away from state initiative, ownership and control in the direction of the market mechanism, and private ownership. This swing was sparked by several factors, such as, the perceived success of the newly industrialized countries, and the emergence of conservative regimes in the key Western industrialized nations, a development which has propelled the flourishing of liberal economic doctrines and ideologies (Yahaya, 1993). The ideological bane of the shift from state to market development strategies in most developing countries is the motive that government has been interfering too much in economic activities rather than focusing on issues related to governance (Akinatyo, 2010). The shift towards a strong market economy has also been central to the development strategies propagated by multilateral organizations such as the World Bank and the International Monetary Fund from the 1980s through the 1990s (Haggard and Webb, 1994; Olukoshi, 1993).

In light of the development shift towards a market economy, most developing economies either have embarked upon a privatization program or have continued to maintain state control of key public corporations.

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Nigeria is resource rich in coal, solar, hydro, nuclear, and petroleum oil and gas – with petroleum accounting for about 70% of its export revenue. However, Nigeria has remained poor in the supply of energy such as electricity (Akpata and Ogundipe, 2013; Natural Resource Governance Institute, 2015). It is against this background that this chapter will examine the competitiveness of public corporations such as the Power Holding Company of Nigeria (PHCN) in its ability to supply, distribute, and generate electricity for Nigerians. The chapter will also attempt to examine social economic factors that have inhibited efficient power supply in Nigeria.

LITERATURE REVIEW

The earliest arguments for state intervention in the context of developing economies can be closely linked to views held by development economists such as R. Prebisch and H. Singer on the conditions necessary for import substitution industrialization in developing economies and the obstacles posed for it by the international division of labor (Olukoshi, 1993). However, as a result of the implementation of the world bank economic reforms programs such as structural adjustment, development economists and agencies encouraged private capital flows to the developing world and propagated the position that the private sector would be the provider of investment in infrastructure and public utilities in poor countries. As a result, there has been a drastic reduction in their shares of state ownership from 16 percent to 8 percent of GDP between 1980 and 1996 (Auriol and Blanc, 2009).

The proliferation of the transfer of public ownership to private ownership between the 1980s and the 1990s was sparked by the poor performance in most instances of public corporations. Kornai (1980) suggests that the performance of these enterprises are at times induced by the lack of any commitment on the part of the government to not to bail out or subsidize money losing firms. Along the same lines, Kornai (2001), and Schmidt (1996) posits that the government of most developing countries that promotes public corporations use soft budget constraints to allow less efficient firms to rely on government. Thus, they suggest that government is in the business of adopting paternalistic or political behavior as they attempt to save jobs and increase employment. To this end, Debande and Friebe (2003) concluded that privatization is an alternative that will improve the public corporations productive efficiency.

Despite some of the gains of privatization there is also growing perceptions in some developing countries that reforms have not necessarily benefited the poor. For instance, Auriol and Blanc (2009) suggest that “since the ruling elites in Sub-Saharan African (SSA) countries design programs in the case of water and electricity there is a concern about their optimality”. Their studies argued that some of the privatization programs in SSA are borne out of corrupt practices by some of the ruling elites thus the perceived benefits of privatization are negated by these practices, particularly in the case of utilities such as water and electricity.

Critics of state intervention in developing economies, Yahaya (1993), Lal (1983) and Little (1982), argue that attempts by the state to intervene and correct market failure has even led to bureaucratic failure that is greater than the market failure. Furthermore, these scholars assert that the attempts to use planning and modeling techniques to correct bureaucratic failure will merely compound the problem, because such intervention generally leads to further costs in acquisition and the processing of information; which would have been avoided if the market has been allowed to sway. Yahaya (1993), posits that state intervention induces inefficient, oligopolistic, structures of production, thereby undermining consumer welfare, without delivering the technological developments and learning effects it had prom-

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