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Can Nigeria Learn from the 'Failed' Privatization of its Electricity Sector?

The performance of Nigeria's power sector has been sub-optimal, despite various policies, interventions, and investments in the sector. Figure 1 shows the trend of the country's electricity installed capacity and generation over the last 5 decades. It is observed that while installed capacity has risen from 804.7mw/h in 1970 to 13,400mw/h in 2020, the size of electricity generated only increased from 176.6mw/h to 3,196mw/h over the period.

Nigeria's electricity generation is very low, as most selected countries record higher values than Nigeria (see Figure 2). Also, countries such as Ghana, Kenya and Botswana with lower generation still have relatively higher per capita electricity generation than Nigeria. The sector has been grappling with problems around generation, transmission, distribution, incessant grid collapse and general ineffective infrastructural capacity. These problems are further compounded by low investment, policy inconsistencies, subsidy and an inefficient tariff regime.

Over the years, successive governments have come up with reforms, laws, policies and interventions toward solving Nigeria's electricity problems. One of such reforms is Electricity Power Sector Reform Act of 2005 which has the aim of deregulating the generation and distribution segments of the power supply market. These efforts have predated and birthed the privatization of the sector in 2013 and the handing over of the generation and distribution of power to the private sector, while the government retains the transmission.

However, the general experience is that the Nigerian electricity sector has not witnessed the type of improvement envisaged and required to move the economy forward. This suggests that the privatization of the power sector has failed to achieve its major objective of delivering increased and efficient power to Nigerians.

It is interesting to also note that while already privatized, government still expends huge amount of resources to cover shortfalls along the various value chains of the sector, coming from the CBN Payment Assurance Facility (PAF), Federal Government Budget Allocation and World Bank Power Sector Remittance Order (PSRO) loan. Specifically, the PAF comes from the establishment of Nigeria Electricity Market Stabilization Facility (NEMSF)

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by the CBN worth N213 billion to mitigate the current challenges facing the power and gas sector, among others.

The Nigerian Bulk Electricity Trading Plc. (NBET) is a Federal Government company set up, among others, to purchase electricity from the electricity Generating Companies (GenCos) and resell to the Distribution Companies (DisCos). NBET defines the Minimum Remittance Order (MRO) as the minimum remittance that a DisCo must make to NBET in relation to its invoice for grid distributed electricity received by the DisCo for a period. It is the rate at which the sector regulator determines the tariff is commercially viable to the DisCo.

To further illustrate the nature of the problem in the sector, data obtained from the NBET indicates that in 2021, DisCos' tariff shortfall amounted to about N251 billion while market shortfall is estimated at about N113.5 billion. Figure 3 shows the distribution of both shortfalls across the different DisCos. It is observed that Ibadan leads the chart with N34.47 billion and N21.75 billion tariff and market shortfalls respectively; and this is closely followed by Kaduna. A DisCo such as Kano has a high market shortfall relative to its tariff shortfall; while Ikeja, Jos and Eko have relatively low market shortfalls relative to their respective tariff shortfalls.

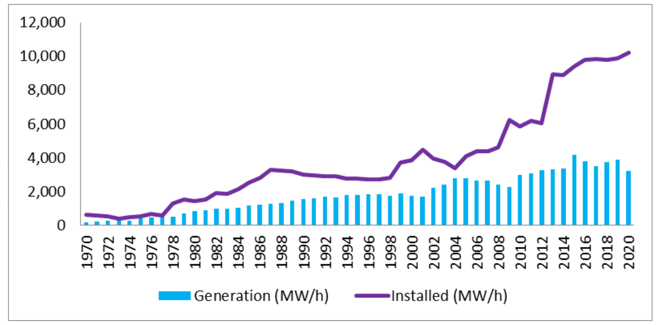
The figure therefore shows that government supports DisCos with relatively high tariff shortfalls while those with relatively high market shortfall will be highly indebted. Accumulation of shortfalls by the Discos over the years contributes to their high indebtedness and inability to meet some of their acquisition loan obligations to commercial banks.

In a bid to salvage the sector from total collapse, the Federal Government recently announced the takeover of four of the DisCos namely: Kaduna, Kano, Ibadan, and Port Harcourt. The government also inaugurated the board of the Nigeria Electricity Liability Management Company (NELMCO) to enhance the ongoing efforts to resolve liabilities relating to shortfalls for distribution companies, among other challenges plaguing Nigeria's electricity sector.

While it is important for government to step in and ensure that the DisCos perform sustainably with improved access to electricity by Nigerians, the country needs to properly define and be committed to its privatization philosophy. For instance, the National Development Plan (2021-2025) has, as government philosophy to "*…open opportunities for the private sector to be a major engine of growth.*"

Learning from the experience of the privatized refineries which was reversed by a new administration in 2007 and the recent takeover of the DisCos, one strongly wishes future privatization exercise in the country are properly executed by determining the suitability of private sector operations for the relevant sectors or their aspects, attracting the right investors and implementing an effective framework for regulating private operators.

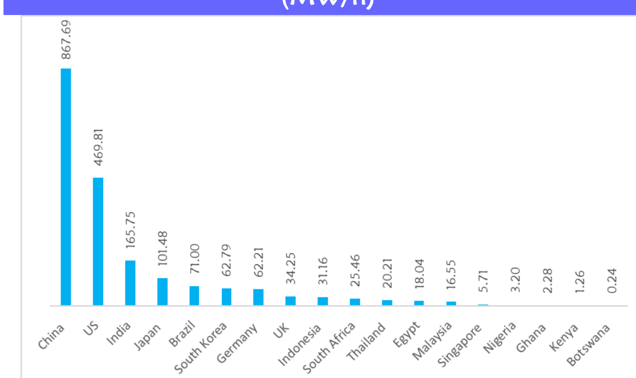
Figure 1: Electricity Generation and Installed Capacity



Source: PHCN, CBN & ADSR Research

It is observed that Ibadan leads the chart with N34.47 billion and N21.75 billion tariff and market shortfalls respectively; …

Figure 2: Electricity Generation of Selected Countries (MW/h)



Source: EIA & ADSR Research

Government's plan to privatize some of its assets aims at transitioning Nigeria from public sector to private sector led economy. However, the recent takeover shows weakness in implementing the right policy and institutional framework to drive the exercise to success. Thus, future effort at privatization may suffer trust problem and may affect the success rate. Going forward, there is need for proper and effective policy and institutional framework that would eliminate policy inconsistency, ensures effective reform implementation and proper capacity need assessment of investors to attract those with the right technical and financial capacities.

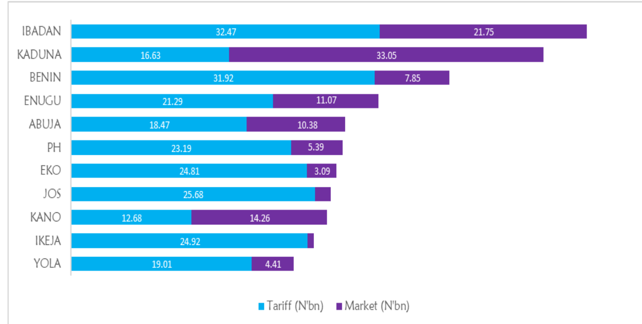
Moreover, the takeover also raises questions about the fate of the country's electricity sector in the short to medium term. Will the government just move in, stabilize the sector and move out and for how long? Or will it completely be under government control and what will the performance level be, and at what cost? Regardless of the approach taken, Nigeria and Nigerians need an electricity sector that generates, transmits and distributes electricity to power the economy. It is equally important that this is done in a manner that is efficient and devoid of unnecessary costs for sustainability.

Issues around investors' confidence should be managed discreetly; lest they become too cautious of dealing with the country in the future, particularly on long-term projects. Unnecessary issues of litigations can also be avoided, learning from the case of Ajaokuta Steel Company which stalled the development of the Company for many years with some financial penalties. In the current case, issues of litigation that may arise need to be well managed and resolved. Government needs to build investors' confidence in the sector. The new board of NELMCO, recently inaugurated, needs to deliver on its set mandate of settling the liability of the defunct PHCN to boost investors' confidence and attract the right ones to the sector.

As earlier depicted, the DisCos are currently experiencing huge tariff and market shortfalls; this needs to be addressed whether the sector is operated by the private sector or the government for a while. No doubt, government may bear some costs, but this should be for a defined period. The sector needs to operate in a manner that minimizes costs and be free from unnecessary bureaucratic processes that may introduced other financial and non-financial costs to the citizens.

If things are done transparently and efficiently, costs may be low and affordable to Nigerian who themselves may have little or no justification to push back on cost-reflective tariffs, especially if they get value. No doubt, the current supports are unsustainable, and they are more likely to disappear under a private-sector producer that operates efficiently and guided by the right policy and regulatory framework.

Figure 3: Tariff and Market Shortfalls of DisCos 2021



Source: NBET, ADSR Research

__Note__: Tariff Shortfall is the portion of a DisCo's invoice currently catered for by the government until the market becomes fully competitive and a cost cost-reflective tariff is adopted. Also, Market Shortfall is defined as the payment gap between the MRO and actual remittance made to NBET in a particular period.

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Wheat Prices, Wheat Production and Wheat Bread

The issue of high food inflation has been on the front burner in Nigeria for a while and it appears it will not go away anytime soon. A major food item in Nigeria is bread, which is consumed by many Nigerians and the current trend of its price shows it is gradually getting out of the reach of many consumers.

Several factors can be attributed to the high and increasing price of bread; some of which include increase in the price of wheat on the international market due to Russia/Ukraine war, high exchange rate and unfavourable operating environment for businesses in the country.

Looking at the international price of wheat, which is a major input into the production of bread, the price has increased by 91.4% in the last five years (figure 4); rising from $4.27/bushel in 2017 to $8.32/bushel at the beginning of the third quarter of 2022.

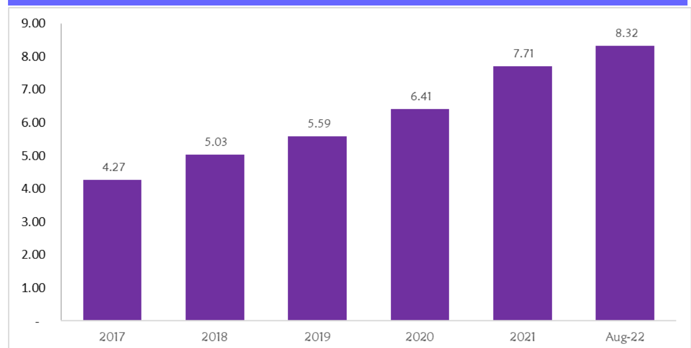
Nigeria is very susceptible to this price increase as the country produces less than 10% of its total domestic demand for wheat. In 2021 for instance, Nigeria imported wheat worth N1.3 trillion and this has been the trend for many years. All these have effect on the price of wheat bread. Specifically, the price of a 500g sliced bread has increased from an average value of N320/loaf in 2017 to about N500 in 2022 (figure 5).

While Nigeria may not have solution to the rising global wheat price, it is imperative to increase domestic production of this commodity in order to bridge the demand-supply gap which is currently widened by insecurity in the production region of the country, among other factors.

The recent effort by the Federal Government and the African Development Bank (AfDB) to develop national strategy and/or intervention to ensure Nigeria achieves 50 percent self-sufficiency in wheat production by 2027 is highly commendable. Also, the recently launched National Agricultural Technology and Innovation Policy (NATIP) to boost domestic food production through modernization of the agricultural sector in line with the changing global food systems and supply chains toward food sufficiency can afford the country the opportunity to improve its wheat production.

More specifically, As Nigeria is blessed with good weather condition that supports agriculture, it is important to draw lessons from global wheat producers and adopt global best practices in wheat production such as high-yielding seedlings, improved mechanization and technology, effective crop and farm management and most importantly, security of farmers in the production area to boost wheat production. Investment in research and appropriate technology to reinforce the search and adoption of local alternatives to wheat and its derivatives is also critical.

Figure 4: International Wheat Price (US Dollars)/bu



Source: Bloomberg & ADSR Research

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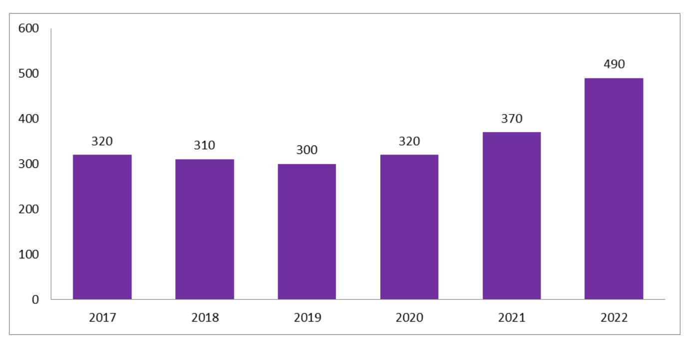
Figure 5: Price of Bread



Source: NBS & ADSR Research

Adoption of Remote Work Culture Growing at a Slow Pace in Nigeria

Conversations around remote work is gaining momentum in recent times. The COVID-19 pandemic which bedeviled the global economy in 2020 made it mandatory for various organizations to adopt the remote work culture as against the traditional mode. Over 80% of corporates throughout the world made and encouraged workers to work remotely to contain the spread of the virus. As a result, working remotely or from home gained more attention and relevance.

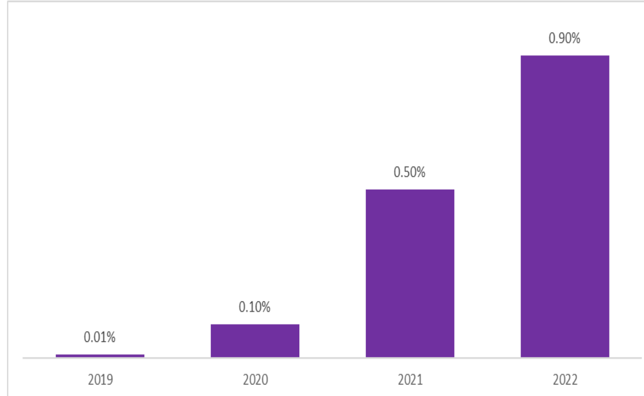
However, prior to that, there has been strong demand for more flexible workplaces as the millennial generation agitates a more flexible work environment. This stems from disparity between career values of the millennials compared to the older generation. The remote culture is also not uncommon in Nigeria, as most corporations are seen to be adopting this mode of work at a growing rate.

In this report, we made an inquiry into the proportion of jobs advertised in Nigeria seeking to employ workers to work remotely. Specifically, we analyze online job advertisement to obtain the proportion of advertised jobs where it is explicitly mentioned that successful applicants will be required to work remotely.

As shown in figure 6, this proportion has been rising over time; starting from 0.01% in 2019 to 0.10% in 2020 and also to 0.50% and 0.90% in 2021 and 2022 respectively. Although rising, this rate is still low. However, it should also be noted that there are many job advertisements that may not include the mode of work in the advertisement until a successful applicant is on-boarded.

Going forward, we expect to see more jobs requiring and/or allowing their employees to work remotely. There are merits in terms of job flexibility, space and related cost management, less or no travel time and access to a wide range of human resources, regardless of time and space differences. It is however important for organisations to balance these against some other demerits such as problems arising from less commitment to work, distractions, lack of person-to-person contacts and feelings, internet and other telecommunication downtime, cyber security challenges, among several others. The good news is that advancement in technology is already been targeted at addressing most of these challenges.

Figure 6: Remote Jobs as a Percentage of Total Job Vacancies.



Source: Anastat, ADSR Research

… there has been strong demand for more flexible workplaces as the millennial generation agitates a more flexible work environment.

Capital Market Performance Dipped Marginally in August and September

Performance of the Nigerian capital market recorded a decline for three consecutive months as the ASI and market capitalization dropped by 1.06% and 2.04% respectively, M-o-M. The ASI and market capitalization stood at 49,836.51 points and N28.88 trillion respectively at the end of August, and they continue to decline in September, recording 49,695.12 points and N26.8 trillion respectively in the first week of the new month.

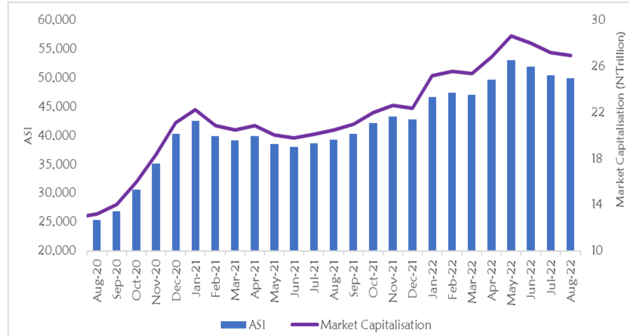
This decline in performance can be attributed to the economic uncertainty as a result of the anticipated 2023 general elections as well as investors diversifying their portfolios to the bond market to take advantage of the recent hike in interest rate by the monetary authority. Despite the M-o-M decline, the ASI and market capitalization have gained 16.67% and 20.56% respectively, Y-t-D as well as a Year-on-Year gain of 27.07% and 31.55% respectively.

Moreover, latest data obtained from the Nigeria Exchange Group (NGX) shows that total transactions on the Stock Exchange declined by 35.36% (M-o-M) in July while foreign inflow lost 44.46% when compared to June's inflow. However, total transactions and foreign inflow of investments gained 13.5% and 27.61% respectively, Year-on-Year.

Domestic transactions stood at N71.5bn as at the end of July representing a decline of 37.46% when compared to total domestic transactions in the previous month. Of this, institutional investors accounts for 57.13% while retail investors account for the remaining 42.87% of the total domestic transactions.

Based on this, a slowdown in market activities can be observed and it is expected that the market performance will remain relatively low in the short to medium term as investors' sentiments and economic uncertainty remain unfavorable to the market.

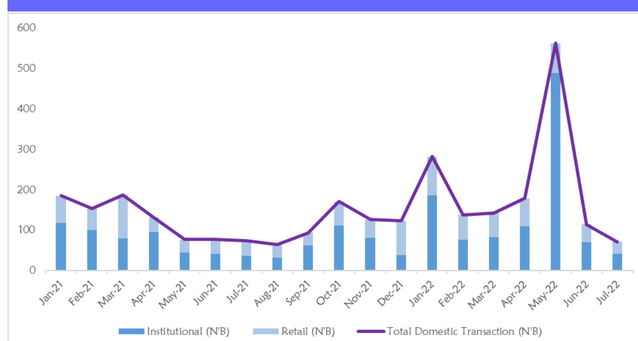
Figure 7: All Share Index and Market Capitalization



Source: NGX &ADSR Research

… total transactions on the Stock Exchange declined by 35.36% (M-o-M) in July while foreign inflow lost …

Figure 8: Total Domestic Transactions



Source: NGX & ADSR Research

2022 World Youth Day: Youth Development through Corporate Social Responsibility (CSR)

Youths, they say, are the leaders of tomorrow; and investment in the youth today is for a greater tomorrow. Understanding this importance, the United Nations set aside 12 August of every year to celebrate youths the world over. The theme of this year event is "Intergenerational Solidarity".

The UN believes that to achieve the Sustainable Development Goals (SDGs), the world needs to leverage the full potential of all generations and solidarity across generations. To ensure that "no one is left behind" therefore, collaborative effort in fostering successful and equitable intergenerational relations and partnerships is key.

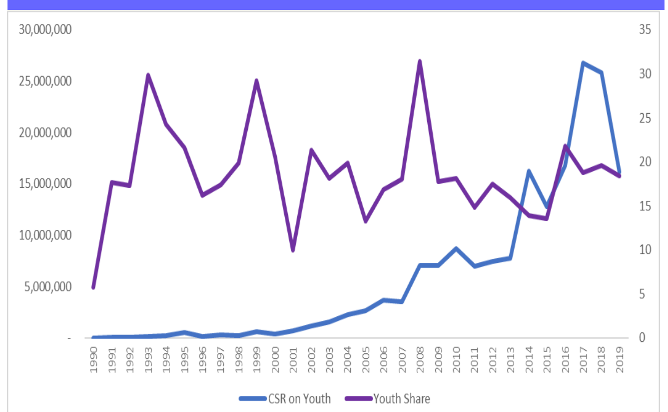
Countries of the world contribute to youth development through governmental organization, ministries, departments and agencies (MDAs) in areas such as sport, entertainment, technology and innovations. On the other hand, private and corporates invest in youths' development through corporate social responsibility (CSR) mechanism. To mark this year's Youth Day, we examine the contributions of corporate organizations to youth development through their CSR mechanism.

Over the last four decades, corporates in Nigeria across all sectors – banks, aviation, FMCG, oil and gas, insurance, pharmaceutical, construction, etc, have made steady contributions to youths' development through their CSR. Data from Anastat databank shows that average CSR spending on youths by Nigerian listed firms rose from N16, 723 in 1990 to N17 million in 2021 with the highest average spending of over 26 million in 2017. CSR spending on youth by corporates in the period under review hovers around 18.84% with the highest average of 31.39% in 2008.

Although there is increase in the nominal value of youth CSR in the last ten years, the growth rate witnessed a decline in the last decade with a total average rate of -0.74% compared to the previous decade of 0.59%,

This phenomenon could be as a result of socioeconomic realities facing corporate business environment as well as other factors such as multiple taxation, overheads and running costs, which sum up to high cost of doing business. This goes a long way to affect corporates profitability and reduce their commitment to CSR in general and contribution to youth development in particular. Therefore, as governments of the world through the UN aimed to bridge the intergenerational gap in achieving the SDGs, corporates contribution to this cause through investment in youths' development is also a key aspect, so that "no one will truly be left behind".

Figure 9: Corporates CSR on Youth



Source: ADSR Research

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THIS MONTH'S ANALYTICS TIPS: 20 Useful Shortcuts in Microsoft Excel

SN	Shortcuts	Functions
1	Ctrl + Shift + C	Copies formatting.
2	Ctrl + Shift + V	Pastes formatting (as in the format painter).
3	Ctrl + Shift + L	Inserts filter to a range.
4	Ctrl + K	Inserts a hyperlink.
5	Alt + =	Creates a formula to sum all cells.
6	F11 or Alt + F1	Creates a bar chart from the selected area.
7	Ctrl + D	Fills down (as in the fill handle)
8	Shift + Alt + Right Arrow	Group selected rows/column.
9	Shift + Alt + Left Arrow	Ungroup selected rows/column.
10	Ctrl + 5	Strike through selection.
11	Ctrl + Alt + V	Display pastes special dialogue.
12	Ctrl + T	Converts a range to table.
13	Tab Key	Accepts functions with autocomplete
14	Ctrl 0	Hide columns
15	Ctrl 9	Hide rows
16	Ctrl + Shift + 0	Unhide columns
17	Ctrl + Shift + 9	Unhide rows
18	Ctrl + Alt + F9	Recalculates all opened workbooks.
19	Alt + H + O + I	Auto size columns
20	Alt + W + F	Displays the freeze panes option.

Note: Some of the shortcuts may not work in some versions of Excel as well as Mac.

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Watch Out for ADSR Project

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