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# *Utility privatization and the poor: Nigeria in focus*

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# 1. Introduction

The ultimate goal of any credible and legitimate government is to ensure sustained improvement in the standard of living of the citizenry. Towards this end, the government usually evolves development plans that will facilitate effective mobilization, optimal allocation and efficient management of national resources. In such efforts, priority is usually given to the provision of development facilitators, such as transportation and communications, as well as social overhead, such as education and health.

Drawing on the successful experience of most developed economies, all developing countries have also adopted a similar development process. In addition, for several reasons, such as the small size of the private sector, or for the so-called "security reasons", the development process had been largely dominated by the public sector. Available evidence suggests that this public sector dominated process has not achieved the desired impact over time, prominent among which is the lack of an inclusive framework on the consequent alienation of the people from the public policy process.

This, coupled with recent development in the globalising world, have precipitated the clamor for comprehensive national economic reforms that will facilitate more efficient macroeconomic management and thereby steer the economy back onto the path of sustainable growth and development. The major components of this reform are the deregulation that augurs well for the promotion of a private sector-led economy. This was informed by the assumption that the private sector is more efficient in the allocation of resources, and that this level of efficiency will be enhanced in a competitive environment emanating from the deregulation of the economy. This implies that the reliance on the market rather than the state is the accepted antidote against the problem of under-development in affected economies. The privatization of state-owned enterprises (SOE), is the major strategy for obliterating the culture of public-sector domination of the economy.

While acknowledging the desirability of enhanced efficiency in the management of national resources and better service delivery, the extension of wholesale privatization program to the utility sector had of recent been of concern to development analysts and concerned groups of stakeholders. This concern arises from the fact that unguided privatization cannot be classified as ordinary commodities, given the implications of their non-accessibility and affordability of some of these utility items to the citizenry, especially the poor and the vulnerable groups in the society.

Nigeria is committed to following the footsteps of several countries that have embarked upon the privatization of the national economy. The scope of the nation's privatization program covers several sectors, including banking and finance, manufacturing, hospitality and tourism, among others. The privatization train has now arrived into the utility sector and it is operating at varying degrees within the sib-sectors therein. Given the criticisms that have trailed the implementation of the privatization programs in other sectors, it appears timely to evaluate the proposals for the privatization of the nation's utility sector. This is with a view to ensuring compatibility of the new policy orientation with the overall goal of poverty alleviation through wealth creation and sustainable development, rather than focusing on growth as an end by itself. It will also facilitate a pro-active framework towards ensuring a pro-poor privatization of the utility sector in Nigeria, with special emphasis on water, which is a necessity for human existence.

Towards this end, the remainder of the paper is organized as follows. The next section highlights the objectives and process of Nigeria's privatization program, followed in section three by a brief discussion of the concept of poverty. In section four, the paper characterizes the microeconomic and macroeconomic linkages between utility and poverty, while section five summarizes current developments in the privatization of Nigeria's utility sector. Greater attention was devoted to efforts towards water sector privatization in section six. The policy issues towards a pro-poor utility privatization process in Nigeria were highlighted in section seven, followed by concluding remarks in the last section.

## 2. *Utility and development*

This chapter takes stock of the linkages between the state of infrastructure and the poor. It appraises in greater detail the meaning of infrastructure and poverty if only to resolve the usual conceptual mix-up between utilities and infrastructure, poverty cum the poor, and the relationship between infrastructure and the poor.

### 2.1 Concept of Utility

There is no ironclad definition of utility. Otherwise referred to as infrastructure, it refers to all basic inputs into and requirements for the proper functioning of the economy and those that enhance the standard of living of the people. There are two generally accepted categories of utility, namely, economic and social. The former, mostly referred to as economic utility, is at a given point in time part of an economy's capital stock to facilitate economic production or serve as inputs to production (e.g. electricity, roads, and telecommunication). The other group, social utility, encompasses services such as health, education and recreation, water and sanitation which have direct and interactive impact on the quality of life. Collectively, both categories affect the level of productivity of the economy. In fact, the basic utility sectors typically account for 7.1 to 11 percent of GDP (World Bank 1994). The impact of such utility on human development and enhanced quality of life is also apparent.

### 2.2 The State of Utility in Nigeria

The poor performance of public utility services in Nigeria has been a subject of considerable discussion (Jerome, 1999). Efficient provision of reliable electricity, telephone, water, and transport services has remained elusive in the Nigerian economy especially since the oil boom years of the 1970s. In fact, in recent years, the problems in the sector have reached crisis proportions as the electricity power system collapse became prominent and power supply has become increasingly erratic. Water taps also remain dry for most of the time, while the performance of telecommunication and postal services remain very unsatisfactory.

The protracted problem of the utility sector has imposed extremely high costs on the economy. Certainly, the unreliable but increasingly more expensive utility services since the advent of the Structural Adjustment Program (SAP) has contributed substantially to lowering the quality of life and well-being of the average Nigerian who, over the past four decades, has become more and more impoverished.

In response to these shortages, many businesses and households have resorted to self-provision, often at high cost. For example, one study of 179 Nigerian manufacturers by Lee and Anas (1996) revealed that 92 percent of firms surveyed owned electricity generators, substantial self-provision of utility is also the norm for low-income consumers. and 44 percent had boreholes to assure their own private water supply.

Relief from the failure of public providers often comes through the informal sector. The best-known examples are private water vendors who use trucks or smaller receptacles to haul water either for distribution at central locations or to individual dwellings. In some places, private vendors served 90 percent of households, and in several places purchases of water from private sources amounted to more than 30 percent of household income. It is important to note that a very large proportion of poor households cannot afford the cost of water from these private sources and has to resort to drawing water from streams and other unhygienic sources. It is against this background that agitation has mounted for private sector involvement in the provision of utility.

## 2.3 The Concept of Poverty and the poor

Poverty often appears an abstract concept, especially from the perspectives of researchers and policy makers in developing countries. The “best” definition of poverty remains a matter of considerable academic and political argument. Perhaps the only view on which there is consensus is that the standard of living of the poor falls below minimum acceptable levels.

Initial concerns about poverty focused on growth indicators such as per capita gross national product. However, there is now a far more detailed and better understanding of the meaning and dimensions of poverty. According to the World Bank (20001a), “poverty is pronounced deprivation in well-being”. In this context, poverty refers to hunger, lack of shelter, being sick and unhealthy, not knowing how to read, joblessness, fear for the future, lacking access to clean water, powerlessness, vulnerability, lack of opportunities representation and loss of freedom, and social exclusion.

The relative emphasis on each of these indicators varies by society. There are also gender dimensions to the problem. In fact, the United Nation’s Human Development Report (2001) stated that 70% of the world’s poor are female and that on average; women’s share of GDP in developing countries is less than 50% of men’s share.

Also a consultative study with the poor in Nigeria (Okumadewa, et. al, 2002) associates poverty with lack of dignity, status, security and hope. In addition to material deprivation characterized by poor insecure housing, food insecurity and **limited access to utilities** and services,

From a policy perspective, it is important to understand and make a distinction between the real causes of poverty as distinct from the effects and indicators of poverty. First of all, we need to recognize that poverty is a systemic problem that precipitates the deprivation of the people. We also need to appreciate that the quality of national leadership, and the consequent overall quality of national resource management determine the nature and severity of this deprivation. Hence, in general, we can isolate bad political leadership as the major cause of the problem of poverty.

Bad leadership is sustained when the people are deprived in two respects. The first is lack of timely access to accurate information about the polity. The second is lack of functional education. Most bad regimes use information control as a power source. In addition, lack of functional education impairs ability to profitably utilize available information for influencing public policies. Hence, poverty of information and of functional education confine the citizens into a state of involuntary incapacitation from engaging in public policy process and decisions that affect their well-being and their future.

These, in turn promote a non-inclusive policy process whereby public decisions and programs are not guided by nor truly reflect the articulated views, needs and preferences of the citizenry. They also precipitate national policies and programs that jeopardize the interests and even the very existence of the weak and vulnerable segments of the society, especially with respect to accessibility to and affordability of basic necessities of life, such as water. Overcoming these basic deprivations should therefore be the cornerstone for any meaningful national poverty alleviation endeavor. This includes national privatization program, the acclaimed and goal of which is enhanced efficient management of national resources for wealth creation, accelerated growth and sustainable development.

## 3. *Utility privatization and the poor*

There are various ways in which utility privatization can affect the poor. These are normally assessed in terms of its macroeconomic and microeconomic linkages which we discuss briefly as follows:

### 3.1 Macroeconomic Linkages

Issues relating to growth, employment and public expenditure or macroeconomic in focus, and their impacts are indirect. The nature and characteristics of these linkages and impacts are summarized on Table 1.

For example, privatization can lead to a significant improvement in public finances through the elimination of unproductive subsidies and avoidable transfers to unprofitable SOEs, as well as the generation of privatization revenues. If these public funds are reallocated to programs whose incidence is more progressive, this change can benefit the poor. The situation will be greatly improved if revenue generated from privatization could be used to effectively expand national production possibility frontiers.

**Table 1: Macroeconomic Linkages between Utility Reform and Poverty.**

| *Category* | *Benefits* | *Potential Loss* | *Risks/Ameliorating factors* |
|---|---|---|---|
| Economic Growth | More private participation in provision of infrastructure may help growth, and thereby poverty reduction, by increasing productivity, and easing access. | Relative price changes for infrastructure services can influence consumption baskets especially where no safety nets are in place to address the specific needs of the poor. | If economic growth benefits mostly the non-poor, poverty may not be reduced and inequality may increase, with a possible reduction in social welfare.<br>Privatization of Infrastructure can contribute broadly to growth in the economy. |
| Employment | If infrastructure reform generates economic growth, there should ultimately be some employment creation, but it may take time. | Reforms may generate layoffs and reductions in wages, at least during the transition period. | The negative impact of layoffs on poverty can be mitigated through severance packages and other policies. |
| Public expenditures | Revenues from reforms (for example, privatization) and the phasing out of subsidies generate fiscal space for other public programs that may be better targeted and more pro-poor. | The poor may be hurt by the reduction or removal of public subsidies for infrastructure services (there may be cuts in the subsidies for both connections and consumption) | "Privatization revenue earmarking and better targeting may ease financing of the needs of the real poor. |

**Source**:- Adapted from Estache, Gomez-Lobo and Leipzinger (2001)

Several empirical studies on macroeconomic impact of privatization have also been reported in the literature. For example, Galal, et. al. (1994) estimates the welfare consequences of divestiture across a variety of sectors in Chile, Malaysia, Mexico, and the United Kingdom. They focus on four stakeholder groups: the owners of the enterprises, the consumers, the workers, and the competitors.

The study found that the net welfare consequences of privatization are almost invariably positive overall. However, the picture in respect of consumers was ambiguous. In about half of the cases consumer welfare improves, and in the other half it deteriorates. The authors attributed the negative impacts primarily to prices being raised to efficient cost-recovery levels. However, the study did not distinguish between rich and poor consumers. These findings imply the importance of affordability as a determinant of differential impact of privatization on concerned groups.

The findings of the various studies are summarized on Table 2.

**Table 2: Macroeconomic Impact of Utility Privatization – Comparative Evidence**

| Source | Countries | Sectors | Policy Tool or Reform | Method | Results |
|---|---|---|---|---|---|
| Galal, et. al. (1994) | Chile, Malaysia, Mexico, United Kingdom | Electricity, Telecom-munica-tions, Transport | Privatization | Construction of counterfactual based on pre-reform time series data. Projection of both actual and counterfac-tual scenarios into the future with the difference between the two providing the meas-ure of welfare change. Im-pacts on owners, consumers, workers, and competitors explicitly modeled. | Substantial net welfare gains found in 11 or 12 case studies. Owners and workers generally gained from privatization. Mixed results for consumers who gained in some cases and lost in others. |
| Estache and Fay (1995) | Argentina, Brazil | Electricity, roads, sanitation | Regional investment Gaps | Regional relative and abso-lute convergence model ranking relative effect of various public investment programs on regional growth. | Lack of infrastructure in-vestment revealed as main impediment to growth in several provinces in Argen-tina and states in Brazil. |
| Ferreira and Mal-liagros (1998) | Brazil | Infra-structure | Changes in public in-vestment programs and produc-tivity. | Econometric estimates of the linkages between infrastruc-ture and GDP and total factor productivity. | Long-run output elasticity is 0.55-0.61, with the strong-est effect coming from energy and transport; strong effect on total factor productivity as well. |
| Baffes and Shah (1998) | Bolivia, Columbia, Mexico, Venezuela | Infra-structure | Public In-vestment needs. | Econometric analysis of elasticity of output to access to infrastructure. | Elasticity of output to infra-structure varies from 0.14 to 0.16. |
| Chisari, Estache, and Romero (1999) Navajas (2000) | Argentina | Electricity, gas, telecom-munica-tions, water. | Privatiza-tion, regula-tion. | General equilibrium model of the economy. Use of two alternative scenarios permits separate identification of the impact of privatization versus regulation. | Gains are equivalent to 2.25 per cent of GDP, of which three-fourths are attribut-able to privatization and one-fourth to effective regulation. All income groups' benefit, but the poor benefit more. The distribu-tion of income improves. Macroeconomic indicators, including employment, also improve. |
| Alexan-der and Estache (2000) | Latin America | Electricity, gas, telecom-munica-tions, transport, water. | Restructur-ing, privati-zation, regulation. | Review of existing studies and compilation of case study material. | Evidence from a variety of sources indicates that reform of infrastructure, when properly conducted, has a discernible positive impact on macroeconomic performance. |
| Benitezs, Chisarie, and Estache (2000) | Argentina | Electricity, gas, telecom-munica-tions, water. | Privatiza-tion, fiscal reform regulation. | General equilibrium model of the economy to assess the fiscal consequences of utili-ties' privatization and regula-tion. | Argentina gains more from net present value of subsidy cuts and that largest share of increase in unemploy-ment results from series of credit shocks rather than to utilities reform. |

## 3.2 Microeconomic Linkages

The second aspect focuses on microeconomic linkages which are felt directly by the poor. The first relates to impact of privatization on access to utility by the poor. There is a general feeling that private sector-led privatization will aggravate the problem of non-access of the poor to utility services because private providers would focus on high income areas in which they can maximize the profit on their investment.

Affordability is another issue that may arise from privatization. In particular, improved quality standards may lead to increase in cost of production. This may warrant increase in tariffs and blockade of sources and types of leakages, such as illegal connection. These may effectively reduce the ability of the poor to afford the price charged for utility services if there is no coordinating initiative by the government. These dimensions are summarized in Table 3.

**Table 3: Microeconomic Linkages between Utility Reform and Poverty.**

| Features | Risks | Benefits and mitigating factors |
|---|---|---|
| | *Access issues* | |
| Increase in connection fees | The fee for obtaining a connection to the infrastructure service is likely to increase substantially when privatized firms reflect actual costs of connections. | Countries can adopt rules for uniform connection costs across geographic areas. |
| Risk of "cream-skimming" or "red-lining" | Firms may have incentives not to serve the poor on an individual (cream-skimming) or neighborhood (red-lining) basis. | Rules against cream-skimming or red-lining can be imposed. |
| Reduction in availability of alternative services | The fee for obtaining a connection to the infrastructure service is likely to increase substantially when privatized firms reflect costs of connections. | Access to alternative services will not be affected if foreseen in contracts. Availability of communal services may increase as a result of privatization. |
| Increase in network cost caused by service quality upgrades | The quality of service is likely to improve, but this may make network services unaffordable for the poor. | Evidence shows that poor households are willing to pay reasonable amounts for improved quality service. |
| *Affordability* | | |
| Increase in price | Average tariff levels can increase because of cost-recovery requirements and the need to finance quality-related investments. | Increases in average tariffs depend on pre-reform price levels and the distribution of the benefits of private participation between stakeholders. Reform can cut costs significantly through improvements in efficiency or new technologies and effective competition. |
| Tariff rebalaning | Tariff structure is likely to be reformed in ways that could increase the marginal tariff faced by the poor. | Competition is likely to decrease average tariffs, thereby possibly compensating for the impact of tariff rebalancing. |
| Formalization and revenue collection | Revenue collection and discouragement of informal connections are likely to be more effective and result in an increase in the effective price paid. | Vulnerable households may desire a formal connection, even at a cost. Safety is likely to increase with the formalization of connections. Informal connection may have been more expensive. Reform can bring technology choices that lower costs. |

**Source**: - Adapted from Estache, Gomez-Lobo and Leipzinger (2001)

## 4. Privatization in Nigeria

Nigeria’s public enterprise sector is perhaps the largest in Sub-Sahara Africa both in terms of absolute numbers of enterprises and the contribution to the gross domestic product (Lewis, 1994). Since the colonial era, public enterprises have assumed increasingly diverse and strategic developmental roles in the Nigerian economy. This was accentuated during the oil boom era of the 1970s and 1980s, when the military regimes decided to take control of the commanding heights of the economy. The sectors covered include manufacturing, agriculture, banking and finance, services, and public utilities such as telecommunications, power and water.

A survey report indicates that as at 1987, there were about 1500 public enterprises (PEs) in Nigeria, made up of 600 at the federal level and about 900 smaller PEs at the state and local levels. These enterprises accounted for about 30-40 percent of aggregate fixed capital investment and about 50-60 percent of formal sector employment. It is estimated that successive Nigerian governments invested about 800 billion Naira (approximately US$90 billion equivalent) in the PE sector over two decades (Obadan and Jerome, 2004). These were made up of equity loans, subventions from the Treasury and loan guarantees. These investments yielded only $1.5 billion in dividends and loan repayments from 1980 to 1987 (Federal Government of Nigeria, 1986: 24).

Given the persistent failure, these enterprises require continuous massive subsidies but deliver only intermittent and sub-standard services. About 40 per cent of non-salary recurrent expenditure and 30 per cent of capital expenditure was expended annually on these enterprises. Net outflows from the government to the public enterprise sector have been estimated at $2billion annually (Callaghy and Wilson, 1988). The presence of non-performing PEs has effectively impeded entry by potentially more efficient private operators.

In the wake of the economic recession that began in l98l following the collapse of oil prices, the activities of public enterprises attracted more attention and underwent closer scrutiny, much of it centering on their poor performance and the burden they impose on government finance. The above precipitated the disposition of the government towards a national privatization program, the implementation of which commenced in 1988. The Federal Government subsequently promulgated Decree No. 25 on Privatization and Commercialization in July 1988 to give legal backing to and formally initiated Nigeria's privatization and commercialization program.

According to the decree, the nation’s privatization program is expected to:

(i) Restructure and rationalize the public sector in order to lessen the preponderance of unproductive investments;

(ii) Re-orientates the enterprises towards a new horizon of performance improvement, viability and overall efficiency;

(iii) Ensure positive returns on investments in commercialized public enterprises;

(iv) Check absolute dependence of commercially-oriented parastatals on the treasury and encourage their patronage of the capital market; and

(iv) Initiate the process of gradual cessation of public enterprises that can be best managed by the private sector.

In conformity with the provisions of the decree, an 11-person Technical Committee on Privatization and Commercialization (TCPC) was inaugurated on 27th August 1988 to oversee the implementation of the program.

The decree however had several defects. For example, it focused on issues of share valuation, issuance and distribution, with little or no attention paid to fiscal institutional and management reforms, while the short-term impact of the exercise on the sustainable development and welfare implications, especially from the poor, were largely ignored (Ariyo and Jerome, 1999).

The privatization program was suspended in 1993 and a second phase launched in 1998, the implementation of which commenced with the advent of a civilian regime in 1999. Under the second phase, the government hopes to privatize all targeted SOE by the end of year 2006, while some others would have been fully commercialized. The current program relies on core/strategic investors as the dominant mode of privatization. The major consideration for its adoption is financial strength and the concomitant managerial and technical know-how (Ariyo and Jerome, 2004).

## 5. *Societal reaction to privatization*

The response to the new privatization program had been mixed. While many Nigerians and organizations are generally opposed, there seems to have been an apparent support from the international community. According to the (World Bank, 2001b):

> "While the Obasanjo administration is strongly committed to an accelerated privatization program, significant stakeholder groups are resisting the reforms. These include PE [public enterprise] managers and employees, senior government officials and civil servants, notably in sectoral ministries, who perceive that their current power and perquisites will be reduced as the privatization program is implemented. In the National Assembly, a range of politicians view privatization as a threat to national sovereignty, and an unwarranted reduction in the role of the state".

The strongest opposition has emerged from the National Assembly and labor unions, particularly in the utilities sector. In part, such opposition is due to emotion, and this is further complicated by the deep-seated ethnic and regional differences in Nigerian society. This has complicated the implementation process in general and has in particular affected the sale of some public enterprises perceived as being bought by non-indigenes of beneficiary locations. This underscores the need for the support of local elites and local population for the overall success of the program. The situation was heightened by the lack of transparency of the privatization process, absence of a popularly acceptable regulatory framework, and total neglect of issues relating to social safety nets, among others. The integrity of the asset and share valuation process for privatization had also been questioned over time (Ariyo, 1991).

It is important to admit that the overall quality of on-going debate on privatization in Nigeria is below an acceptable level. It is not only emotional, but also beclouded by myopic consideration and self-interest especially on issues relating to laws of employment. Extreme positions are also taken by agitators instead of proposing viable or alternative options for achieving the desired goal. In particular, for policy effect, such debates should focus on broader nation-wide issues on how the reformed the public enterprise sector can promote accelerated growth, wealth creation, sustainable development and effective poverty alleviation. As Harneit-Sievers (2003) has observed, any critique of privatization in Nigeria should focus on issues of poverty, efficiency, service availability and the 'common good'.

## 6. *Utility privatization in Nigeria*

The privatization of the utility sector deserves special focus because of its socio-economic implications for the welfare of the poor in Nigeria. In fact, utilities are often considered as "too crucial" to the national welfare to be totally sold to the private sector Furthermore, a complete sale to foreigners of what is seen as the "national patrimony" by the population is highly unpopular as it questions both the identity and the sovereignty of the country (Leroy et. al. 2002). Nevertheless, the current privatization is anchored on the concept of private sector participation in which private operators act as core investors.

Three major utilities are being elaborated upon for privatization. These include telecommunications, energy and water. We highlight briefly the features of each exercise:

**(i) Telecommunications**

Of this, significant progress had been made towards the de-monopolization of the communications sector, resulting in astronomical increase in various types of networks and services. Currently, there are three major private telephone operators, namely Econet, Globacom and MTN. They have provided additional three million lines since year 2002. NITEL is also under arrangement content in preparation for its full privatization. The current situation is summarized on Table 4.

**Table 4: Mobile Telephony Operations in Nigeria***

<table>
<tr><td colspan="8">Mobile telephony o</td></tr>
<tr><th rowspan="2">Operator</th><th rowspan="2">Network</th><th rowspan="2">Launch date</th><th colspan="2">Subscribers</th><th rowspan="2">% Change</th><th rowspan="2">% pre-paid</th><th rowspan="2">WAP/GPRS launched?</th></tr>
<tr><th>12/2001</th><th>12/2002</th></tr>
<tr><td>MTN</td><td>GSM 900</td><td>Aug 2001</td><td>250,000</td><td>908,000</td><td>263.2%</td><td>NA</td><td>No</td></tr>
<tr><td>Econet</td><td>GSM 900</td><td>Aug 2001</td><td>220,000</td><td>c.775,000</td><td>NA</td><td>NA</td><td>GPRS planned</td></tr>
<tr><td>NITEL</td><td>GSM 900</td><td>Oct 2001</td><td>5,000</td><td>118,000*</td><td>NA</td><td>NA</td><td>No</td></tr>
<tr><td>Globacom</td><td>GSM 900</td><td>2003</td><td>0</td><td>0</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="8">Total number of mobile subscribers (December 2002): c.1.8 million<br>Cellular penetration (December 2002): 1.45%</td></tr>
</table>

***** Reliable but unofficial sources claimed that the four major carriers have secured about two million subscribers as at the end of year 2003

### (ii) Power

Unlike in the telecommunications sector, partial divestitures in the power sector entail a more specific contractual framework, relying principally on lease and concession contracts. The merits and demerits of this option is still a subject for debate. In addition to the privatization of the national energy sector monopoly, NEPA has begun approving and/or implementing several independent power projects (IPPs) in an effort to meet the growing demand for electricity and stabilize current generating capability. The major on-going IPP projects include the following:

**Table 5: On-Going IPP Projects In Nigeria**

| S/No | Commencement Date | Location | Company | Proposed Capacity | Initiating Government |
|---|---|---|---|---|---|
| 1. | July 2000 | Lagos | Enron | 270 MW | Lagos State Government |
| 2. | N/A | Abuja | ABB Group | 30 MW (Energy) 450 MW | Federal Government |
| 3. | August 2000 | P-Harcourt | Siemens | 276 MW | “ |
| 4. | April 2000 | Kwale, Delta State | ENI/Agip | 450 MW | “ |
| 5. | N/A | Bonny | Exxon/Mobil | 388 MW | “ |
| 6. | N/A | Enugu | Eskom | 2,000MW | “ |
| 7. | March 2001 | 3 locations in Rivers State | N/A | 180 MW | Rivers State |

## 7. *Water privatization: an overview*

A key argument for privatizing water is anchored on the theoretical benefits of competition. However, there is very little for real competition in the water sector. It is therefore no wonder that some of the privatization exercises have been effected without any competitive tendering. For example, all the private concessions in Czech Republic, Hungary and Poland up to 1997 were awarded without any competitive tendering process [2], as was the SODECI concession in Cote d’Ivoire. Such problems have been found in Tucuman (Argentina), Szeged (Hungary) and Cochabamba (Bolivia). In these cases, the multinational companies concerned have pursued legal claims for compensation which could have made the circulation of these contracts very costly to the nation. Total reliance of private sector provision of water may therefore not yield the anticipated advantages of competition.

Hall (2001) argues that public sector ownership is not in itself a cause of inefficiency or an inferior basis for providing water and sanitation. The great majority of population in developed countries has water supplied by public sector undertakings. Except for the UK and France, water supply is predominantly public sector managed within the European Union (EU). In the USA, Canada, Japan, Australia and New Zealand the picture is the same as privatization or public –private partnerships (PPPs) are the exception rather than the norm.

Water privatization has a relatively long history in Africa beginning with Cote d Ivoire, which entered into a lease with SODECI, a subsidiary of SAUR in 1960. Since 1999, the privatization of water has accelerated in Africa mainly as a result of pressure put on developing countries undergoing economic reforms. Some of the major water privatization initiatives are summarized on Table 6.

Unfortunately, most of these endeavors have met with failure. In several instances, there have been withdrawals for reasons ranging from bad relations between investor and government to breakdown in contract renewal negotiations. Table 7 documents the incidences and reasons of such withdrawals.

Nowhere has privatization met intense resistance In Africa as in Water. There have been a number of effective campaigns against water privatization in Sub Saharan Africa notably in Ghana, Kenya and South Africa.

Water privatization is still in its infancy in Nigeria. Currently, only Lagos and Ogun states are contemplating privatizing their Water Schemes and Systems. The privatization of water in Lagos State came to the forefront in 1988 when the Lagos State Government instituted the reform of the water sector and sough the assistance of the International Finance Corporation in refurbishing the Lagos State Water Corporation.

## 7.1 The Nature Of Water

As noted earlier, the plan for water privatization in Nigeria is still being articulated, and it is currently being spearheaded by two of the thirty-six state governments in Nigeria. Also, the discussion so far indicates that water appears to be a unique utility the privatization of which needs to be rendered with extreme care. Hence, the focus of our discussion here is to understand the unique features of water to help inform and provide an input towards the evolution of an appropriate water sector privatization in Nigeria. The need for this orientation was informed by the following, among others.

First of all, we need to understand the characteristics of water. In doing so, we recall the recurring question as to whether water is a good (commodity) or a right. Before providing an answer, we need to understand the different types of goods identified by economic theory. These are (i) normal goods; (ii) luxury goods; (iii) given goods; (iv) inferior goods; and (v) necessities. The first four categories comprise goods that have suitable substitutes and whose consumption is discretional. Hence, there is an enhanced opportunity for access and affordability of these categories of goods.

However, the last refers to those groups of goods, the consumption of which are necessary for human existence. Water belongs to this category and incidentally also has no substitute. This makes water a commodity that must be made available to people as a matter of right. Hence, accessibility and affordability of water must be guaranteed by the government. Hence, water is both a commodity and a right. This basic principle puts water in a special category and this unique characteristic must inform the design and implementation of any national water privatization program. The desirability of this concern has been borne out by the above review of experiences with water privatization in various parts of the world. Nigeria has an important lesson to learn from these, hence this orientation.

## Table 6: Water Privatization in Africa

| Country | Company | Year | Method (% sold) | Main strategic investor(s) | Comments |
|---|---|---|---|---|---|
| Burkina Faso | ONEA (Office National de l'Eau) | 2001 | Management contract | Vivendi | Vivendi was awarded a 5-year support and service contract (funded by World Bank). The contract covers the management of the customer service and finance activities. |
| Central African Republic | SNE (Société Nationale d'Eaux) | 1991 | Lease (75) | SAUR | In 1995, a 15-year lease/concession contract was signed with SAUR. However, the former state-owned company was split into 2 entities:<br>- SNE, a 100% company held by government for asset-owning; and - SODECA, the private operating company (with SAUR as main shareholder) |
| Cote d'Ivoire | SODECI (Société de Distribution d'Eau de Cote d'Ivoire) | 1988 | Lease (51) | SAUR | The French company SAUR, won an international tender to supply municipal water services in Abidjan. A new company, SODECI, was formed with SAUR as main shareholder. In 1987, a re-organization necessitated a design of a new contract that appears to be a mix between concession and lease. |
| Guinea | DEG (Entreprise Nationale de Distribution de l'Eau Guinéenne) | 1989 | Lease (51) | SAUR | In 1989, DEG was thus split up into 2 entities:<br>- SONEG, a 100% state-owned company responsible for owning sector assets and for planning and financing investment<br>- SEEG, a joint venture between SAUR and Vivendi in charge of operations and maintenance. At the end of 1999, when the contract had run its 10-year course, the government signed an interim 1-year lease contract. However, efforts to negotiate a new 15-year lease contract broke down, and SEEG was renationalized |
| Mozambique | Water services in 5 cities: Maputo, Beira, Quelimane, Nampula, and pemba | 1999 | Concession (70) | Consortium led by Aguas de Portugal | Aguas de Mozambique is a joint venture resulting from the merging of the water services of 5 cities. A 15-year water concession for Maputo and Motola, as well as a 5-year one for the other 3 cities were awarded to the consortium in 1999. Initially, In 2002, SAUR withdrew from the contract, selling its shares to Aguas de Portugal which became the company's major shareholder. |
| Republic of Congo | SNDE (Société Nationale de Distribution d'Eau) | 2002 | Lease | Biwater | In February 2002, UK firm Biwater was awarded a leasing contract to operate SNDE distribution activity, beating competition from SAUR and Vivendi |
| Senegal | SONEES (Société Nationale des Eaux du Sénégal) | 1996 | Lease (51) | SAUR | This is an affermage contract which led to the creation of 2 distinct entities:<br>- SONES, a 100 per cent state-owned company which, was to absorb the difference before total consumer tariffs and SDE's being responsible, for owning sector assets, planning and financing investments |
| South Africa | Dolphin Coast | 1999 | Concession (58) | Siza Water (SAUR's subsidiary) | Dolphin Coast, with a 30-year concession to run water and waste-water services was awarded to Siza Water (a subsidiary of SAUR). |
| South Africa | Neslpruit | 1999 | Concession (40) | Biwater | 30-year concession contract |
| South Africa | Johannesburg Water | 2001 | Management contract | Ondeo/Northumbrian | 5-year water management contract in Johannesburg, which covers the 6 municipal water and wastewater structures of the city, and its 3 million inhabitants. |
| Uganda | Ugandan National Water and Sewerage Corporation (NWSC) | 2002 | Management contract | Ondeo (Suez's subsidiary) | In January 2002, Suez subsidiary, Ondeo, was to be awarded a 2-year contract to manage and operate the water supply and sewerage services of the Kampala area, taking over from a German technical assistance team. |

**Sources**: Hall, Bayliss and Lobina (2002) and Berthélemy, J., C. Kauffmann, M. Valfort and L. Wegner (2004).

**Table 7: Withdrawals from Water Privatization in Africa**

| COUNTRY | COMPANY | PARENT | REASON FOR WITHDRAWAL |
|---|---|---|---|
| Gambia | MSG | Sogea | Bad relations between investor and government from beginning, exacerbated by aggressive disconnection campaign. Contract unilaterally terminated in 1995, following coup. |
| Ghana | Azurix | Enron | World Bank withdrew funding because of lack of transparency in contract award |
| Guinea | SEEG | Saur/Vivendi | Breakdown in contract renewal negotiations |
| Kenya | Seureca Space | Vivendi | Contract suspended after outcry over contract terms; World Bank commissioned study of alternative privatization options |
| Mozambique | Aquas De Mozambique | Saur | Reasons for withdrawal not made public |
| South Africa | Fort Beaufort | Suez | Contract nullified |
| Zimbabwe | - | Biwater | Company withdrew from negotiations for commercial reasons |
| | Gweru | Saur | Negotiations suspended in 1999. |

**Sources**: Hall, Bayliss and Lobina (2002) and PSIRU Database

## 7.2 State of Water Supply In Nigeria

Towards this end, it is important to put in proper perspective the water supply situation in both the urban and rural areas of Nigeria. Currently, the supply of water is not more than 50% and 30% of its effective demand for the urban and rural areas respectively. With the exception of Lagos and the Federal Capital Territory, Abuja, no urban community has waterborne sewerage systems. The consequent lack of adequate sanitation due to severe shortage of safe potable water has precipitated severe public health problems.

UNICEF studies show that poorer communities and groups, particularly women, suffer excessively due to longer hours needed to fetch water and suffer health problems arising due to lack of privacy in sanitation facilities. In general, the poor purchase water at a cost of up to 12 times amount being paid by residents with house connections.

The Federal Government promotes the policy while State Governments, which constitute the second tier of government in a three-tier federal structure in Nigeria, are primarily responsible for the provision of water. Most of them set up agencies, which operate under resource constrains occasioned by lack of independence in decision-making, inadequate budgetary allocation, and severe political interference. They also lack both the ability and willingness to fix and collect tariffs, nor could they prosecute those engaged in illegal connections. All these result in unsatisfactory performance, especially with respect to poor service delivery and waste on the part of customers. Hence, most SWAs are not commercially viable.

However, recent developments have blurred distinct delineation of duties whereby all tiers, Federal, State and Local Governments are now involved in the provision of water. Yet, the demand-gap keeps increasing due to, among other things, overlapping functions and massive wastes in public expenditure, in the face of rapid growth of communities and population. Today, the majority of Nigeria's population is not connected to large-scale systems of water supply. Rather, it relies on 'traditional' forms of supply (from streams or wells) or on boreholes sunk by governments, individuals or through communal effort.

## 7.3 The Lagos State Water Privatization Experience

In response to the above, the issue of private sector participation (PSP) in urban meter provision is attracting policy attention. Its adoption is being spearheaded by the Lagos State Government whose State Capital, Lagos is one of the world's fastest-growing mega-cities with a current population of 12 – 14 million inhabitants and projected to reach 25 million by 2020. The initiative envisages concessionary arrangement for private provision of water for wealthy communities in Victoria Island and Lekki Peninsula. Another arrangement, yet to be fully articulated, will involve cross subsidy in the private provision of water for the low income and poor communities in the Mainland areas.

The arrangement with the International Finance Corporation (IFC), which initially spearheaded the implementation of the scheme through, and the World Bank has now taken over since 2002. The major focus had been on the institutional and financial reform of the sector, comprising efficiency, restructuring, cost recovery, enhanced revenue generation and elimination of corruption. Although these attempts have met with resistance for various reasons, it is acknowledged that it has led to improvement in service delivery by the Lagos State Water Corporation (LSWC), the State's water agency.

The overall goal of Lagos State initiative was to promote Private Sector Participation whereby the government would relinquish the management and operation of these services to the private sector while retaining ownership of the entity. (Kalu, 2003).

The objectives of the PSP were listed as:

(a) Bringing technical and management expertise and new technology into the water sector;

(b) Improving economic efficiency in the sector both in operating performance and the use of capital investment by adopting commercial principles and practices;

(c) Injecting large-scale investment capital into the sector or gain access to private capital markets to free government funds for other projects; and

(d) Making the water sector more responsive to customers' needs and preferences

Data from the Corporation indicate that the PSP and the attendant restructuring has resulted in improved revenues; lower operational costs; improved efficiency and profit ability. The Company generated revenues of N1.54bn in the 2001, up from N874m at the start of the PSP implementation in 1999. In the same vein, operating profit was N553mn in 2001 compared to a loss of N296mn in 1999. However, the annual operating cost of the company is close to N2bn; hence the company still has a shortfall in its target for self-sufficiency. Since 1999, there has been several job cuts. The company's staff strength has decreased from 1,852 in 1999 to 1,450 in 2002. It is envisaged that the State Water Corporation will eventually be privatized.

## *8. Considerations for water privatization in Nigeria*

The discussion above has provided some useful insights as to the way forward for water privatization in Nigeria. In the first instance, it shows that water is a special product whose privatization must be handled with extreme care, given the need to take into consideration its multi-dimensional implications (social, economic, health, survival, etc.). Second, the discussion shows that there is no one-model-suits-all approach to water privatization. Each country must therefore design a framework most suitable to its environment. Finally, the limited experience with Lagos State suggests that so far, privatization is mainly concerned with efficiency of operations of water schemes. This approach may fall short of the envisaged conformity with global and national policy focus and objectives of water provision.

As noted earlier, we are interested in raising issues that could facilitate appropriate policy discussion in water privatization in Nigeria. Given this, we propose as follows:

### 8.1 National Policy on Water

It is envisaged that an appropriate national water reform could not be achieved without the existence and due observance of the provision of a national policy. Hence, information on this policy will help chart an appropriate course of action on water sector reform.

According to the Federal Ministry of Water Resources (2000), the objectives of Nigeria's National Water and Sanitation Policy are as follows:

The center-piece of Nigeria's water supply and sanitation policy shall be the provision of sufficient potable water and adequate sanitation to all Nigerians in an affordable and sustainable way through participatory investment by the three tiers of government, the private sector and the beneficiary.

The components of the policy objective include the following:

(i) Increase service coverage for water supply and sanitation nationwide to meet the level of socio-economic demand of the nation in the sector;

(ii) Ensure good water quality standards are maintained by water supply undertakings;

(iii) Ensure affordability of water supply and sanitation services for the citizens;

(iv) Guarantee affordable access for the poor to basic human need level of water supply and sanitation services;

(v) Enhanced national capacity in the operation and management of water supply and sanitation undertaking;

(vi) Privatize water supply and wastewater services (where feasible) with adequate protection for the poor;

(vii) Monitor the performance of the sector for sound policy adjustment and development for water supply and sanitation;

(viii) Legislations, regulations and standards for water supply and sanitation;

(ix) Reform of the water supply and sanitation sector to attain and maintain internationally acceptable standards.

It would be observed that the policy adequately recognizes and makes provision for addressing the multi-dimensional features of water supply, including efficiency, accessibility and affordability. Hence, the current linked effort of Lagos State Government needs to be broadened to take into consideration these features.

**Affordability**

To achieve the goal of affordability to policy aims to undertake the following:

(i) Water supply service cost reduction measures shall be pursued without compromising the quality of service;

(ii) Improved management practice (financial management, operation and maintenance, abstraction and treatment techniques and control of water sources pollution) shall be institutionalized to keep the cost to the minimum;

(iii) Institutionalize efficiency improvement techniques by water supply undertakings to reduce cost;

(iv) All water supply undertakings shall be subjected to performance monitoring and evaluation program;

(v) Tariff policy shall protect the consumer from bearing the additional cost of the inefficiency of the water supply undertaking;

(vi) All consumers shall be metered starting with Industrial and commercial consumers to communal outlets down to domestic consumers;

(vii) Tariff policy shall guarantee cross subsidy to accommodate free supply of basic human needs level for the poor;

(viii) Tariff policy shall ensure that the time for the return on investment provides adequate comfort for the consumer;

(ix) Research and development of appropriate affordable and low cost technologies for the disposal and recycling of all waste.

Also, specifically with respect to the poor, the affordability strategy of the policy includes the following:

(i) Government shall sponsor capital investment for rural water supply. Token community contribution shall be to foster a sense of ownership, a necessary ingredient for sustainability;

(ii) The rural communities shall take full ownership of water supply facilities provided by the Government;

(iii) Cross subsidy shall be implemented to accommodate the needs of the urban poor;

(iv) Government shall subsidize for the poor where cross subsidy is not applicable.

The government believes that it alone cannot achieve all these goals. Hence, it provides a space for private sector participation towards achieving the objectives and strategies of the policy. According to the policy, the government will promote private sector participation by:

(i) The Federal Government shall create the enabling environment for private operators to participate in water supply and wastewater services in Nigeria;

(ii) The Federal Government shall establish a body to be charged with the responsibility of regulating the activities of water supply and wastewater undertakings in a sector permissive of greater private participation;

(iii) The Federal Government shall promote private sector participation in the water supply industry to attract resources for lasting development of the sector;

(iv) The Federal Government shall formulate laws to regulate the activities of the private operators in the water supply and wastewater services to guarantee adequate protection of consumers as well as fairness to the service provider.

It is therefore apparent that PSP is to supplement the efforts and not to replace the role and obligations of the government to the citizenry. The policy also extends the same spirit of partnership to other tiers of government and the communities. In fact, emphasis is being laid on community ownership and management of water schemes all over the country.

## 9. *The way forward*

Various issues need to be considered in order to achieve the aims and objectives of Nigeria's National Water Policy. We also need to keep in view that concern is primarily on enhanced water supply in line with global and national targets, goals and standards. Hence, privatization (conventionally defined) is just one of the options towards achieving this goal. In addition, concrete proposals exist that can help attain the goal of efficiency, effectiveness and avoidance of waste in provision of water in rural, semi-urban and urban areas of the country.

Towards this end, a combination of packages had been proposed. First, available evidence indicate that even the poor are willing to pay for reliable and safe water supply. However, the genuinely affordable price needs to be ascertained through research, especially by non-state actors (NSA). Secondly, there is need for product differentiation by location, as a means of achieving the goal of safe potable water for all. This calls for different technological features and sizes of schemes that are most suitable for each location. Finally, the role to be played by different group of stakeholders will similarly differ by location. A proposed framework for the Nigerian environment is presented in Table 8.

**Table 8:**

| Settlement Types | Types of Settlement | | | |
|---|---|---|---|---|
| | Urban | | Small Towns | Rural |
| Max. Water Consumption | 120 liter/p/d | | 60 liter/p/d | 30 liter/p/d |
| Population size | Above 0.5 mill ("city") | 20,000 – 0.5 mill | 5,000 to 50,000 | Less than 5,000 |
| Possible Future Management (PSP) | Publ. Utility, Nat. & Intern. Companies | Publ. Utility, Local, Nat. Companies | Community, Priv. Enterpren. Local Companies | Community, private, entrepren. |
| Water Service Level | House connection (120 l/p/d) | House connection (120 l/p/d) | Street standpipe (60 l/p/d) | Water point, motor/handpump 30 l/p/d |
| Comments on categories | Urban developed infrastructure | | Poor infrastructure, unregulated development | Rural, low pop. Density. |

**Source**: Federal Ministry of Water Resources (2000)

## 10. Concluding remarks

This paper has highlighted several features of Nigeria's privatization so far, with respect to utility. The paper shows substantial progress and benefits of the privatization of the telecommunications sub-sector, while the reform of the energy sector is yet to take off with full steam. However, the privatization of the water sub-sector is still at its infancy, and Nigeria has a lot to learn from the lessons of experience of other countries in order to identify considerable false starts in its future activities thereon.

The paper characterized the unique feature of water and argued that the conventional privatization strategy that worked for the other forms of utility may not be directly adoptable for water privatization. One basic feature is that water is a necessity for which there is no substitute, and the multi-dimensional features must be considered in its privatization. Of critical importance is the need to ensure accessibility and affordability of water in privatization, especially to the poor and vulnerable segments of the society. Thus, water is considered both a commodity and a right.

The paper also suggests a differential production approach to ensure an arrangement that is most appropriate for each settlement type. Finally, national water privatization should be guided by the principle of partnership for development (Ariyo, 1988). By this, attention will focus on alternative options for ensuring efficient, affordable and accessible water supply to all concerned. It will also help broaden the conception of privatization from its narrow perception as replacement of public provision by private provision of water, in whatever form. Similarly, it will enable the government to avoid the non-state privatization with the abdication of its responsibilities to the citizenry, as it relates to the internationally endorsed goal of providing safe water for all. In addition, non-state-actors need to be actively engaged in the envisaged partnership of this laudable goal, especially in Nigeria.

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