Poor power supply stunting growth of Nigeria's vibrant manufacturing sector

The power sector that is the livewire of any economy has refused to work efficiently in Nigeria. This has rubbed off on the manufacturing sector as many have had to close shop due to the high cost of alternative energy. Experts are in consensus that except the power sector works efficiently, getting the manufacturing sector back to its feet would be a herculean task, BENJAMIN ORISEMEKE writes.

Once a manufacturing hub in the West African sub-region, that has not been the case for over two decades as a sector that once stood strong is now lying prostrate due to several factors that still hold the Nigerian economy down. From the days of the Electricity Company of Nigeria (ECN) through the numerous attempts to commercialise the sector to when it was changed to the Power Holding Company of Nigeria (PHCN) and finally unbundled and privatized, one thing still remains constant, which is that the same structural issues continue to dug the sector.

There was, however, a glimmer of hope when in November 2013, the Goodluck Jonathan administration sold the generation and distribution part of the sector. Many thought the sector would be able to achieve its potentials but alas, despite all the promises by investors of turning the sector around, it has been the same old stories. Current operating figures reveal that Nigeria's power sector is in dire straits. The sector experiences many broad challenges related to electricity policy enforcement, regulatory uncertainty, instability in gas supply, transmission system constraints, and major power sector planning shortfalls that have kept it from reaching commercial viability. In 2022, the Nigerian Electricity Regulatory Commission (NERC) numbers showed that independent power plants (IPPs) accounted for 31.2% of total Generating Companys' (GenCos) capacity. This indicates a 300 basis points decline from 2021 due largely to gas constraints and faulty machinery. In addition, on average, only five IPPs: Azura-Edo (26%), Odukpani (19%), Okpai (16%), Afam VI (15%), and Rivers IPP (8%) jointly accounted for circa 84% of the power generated from the 12 independent power producers in the last four years, due partly to gas constrain.

The World Bank's 2020 Ease of Doing Business report showed that 47 percent of Nigerians lack access to electricity supply. This drastically reduced the contribution of the private sector to the economy. As of 2021, the African Development Bank (AfDB) in a report

put Uganda's electricity sector as the continent's best-regulated sector. According to AfDB's 2021 Electricity Regulatory Index, other strong performers included Kenya and Tanzania, Namibia, and Egypt. Nigeria placed 23rd on the ranking, South Africa (10th), and Ghana (17). Grid performance data from the Federal Ministry of Power in March showed that electricity generation on the national grid was 4,456.8MW. An analysis of randomly picked figures from the grid performance data indicated that power generation had stayed above the 4,000MW mark for months, while the country had yet to record any total grid collapse this year, unlike in 2022. Also, according to the data, on March 2 and 3, 2023, power generation on the grid was 4,859.8MW and 4,962.7MW respectively, while it was 4,753.9MW on February 23, 2023. A recent report by the electricity Think tank Group, comprising the Society for Planet and Prosperity, GCA Capital Partners Climate Advisors, indicates that about 75 percent of electricity consumed in Nigeria, comes from diesel and petrol-powered generators.

The lack of adequate power supply in Nigeria is crippling the economy. That significantly explains why many manufacturing companies have relocated to other countries in West Africa, where the power supply is stable. Recent data from the Manufacturers Association of Nigeria (MAN) revealed that between 2015 and 2019, 320 manufacturing companies shut down operations and others left the country due to unstable power supply. Diesel and petrol-powered generators are reported to account for about 25,000MW, while the national grid provides about 4,000MW, far less than what is needed for economic growth and development. Available records indicate that business owners spend about N6.05 trillion on generators.

Experts say economic loss due to grid collapse is 2 per cent of Nigeria's Gross Domestic Product (GDP). Also, most of the MSMEs have identified unreliable electricity as a major challenge to their businesses. Even MSMEs are willing to switch to renewable energy. Figures from the Nigeria Electricity Regulatory Commission (NERC) show that in one year, electricity consumers paid N750 Billion as tariffs, while the national grid reportedly suffered system collapse up to 50 times.

According to a World Bank report, as a result of poor power supply in Nigeria, businesses lost an excess of N96.4 trillion in the last nine years. This amounts to an average yearly estimate of $29billion. Small and big businesses that depend on diesel for their operations are struggling to survive due to the high cost of the product.

Already, the epileptic power situation has caused quite a number of small businesses to close shops resulting in job losses. Creditors such as banks and other private equity also share in the losses when they can't get their money back. The high cost of running manufacturing plants on generators is one of the reasons most local companies have failed to be competitive or carry out new employment. In spite of the scary scenarios, it is not all gloom and doom for the country's manufacturing sector. Experts are confident that with the massive work in the sector in the last 8 years, it is bound to experience a new lease of life. This is coupled with the legislation that now empowers States to establish their own power plants.

During his inaugural speech in Abuja, President Bola Ahmed Tinubu, said "his administration shall continue the efforts of the Buhari administration on infrastructure. Progress towards national networks of roads, rail and ports shall get priority attention", he said. Experts have opined that to get the country's manufacturing sector working again, the present administration must fix the power sector. Regional Director for Infrastructure West & East at the World Bank, Ashish Khanna said Nigeria needs about $100 billion for the next 10 years to fix its power challenge. "In our estimation, it would be difficult for the government or the World Bank to plug that hole. "And the private sector will do a lot of funding and will look out for whether the sector is financially viable. But they will ask if I set up a plant will they pay for it? Is the pricing and regulatory environment for the sector certain," he queried. Identifying some of the challenges of the manufacturing sector including energy, forex, and insecurity, Gabriel Idakolo, MD/CEO of SD&D Management Limited, said the government needs to utilize the opportunity provided by the coming on stream of Dangote refinery to address some of the manufacturing sectors' challenges. Idakolo told our correspondent that the "new government has an opportunity with the new Dangote refinery to be able to generate enough forex for imports. And the refinery, I gather, also has capacity to generate over 1,200 megawatts of electricity to the national grid. "These capabilities should be explored by the government to intervene in the manufacturing sector by providing the tools they need to improve production and in turn boost the economy," he added.

In a chat with Nigeria Anchor, an Abuja-based Chartered Management Consultant, Prosper Ahworegba, noted that over the years, poor power supply has led to a progressive deindustrialization in the past three decades leading to closure of many industries and/or emigration to other African countries. He said that this has resulted in unacceptably high levels of unemployment.

According to him, the country needs not generate all the 50,000 to 65,000MW of power which it needs before it can power relevant sectors or industrial clusters. He said: "The industrial clusters should be established in areas where Nigeria has economic and strategic advantage. Lagos State under Asiwaju Bola Ahmed Tinubu set worthy examples in this regard with Industry or Social Service-specific IPPs. This model needs to be replicated at the Federal level to drive industrialization in clusters. "In addition, the government should explore and invest in renewable energy sources like the wind, sun and bio-energy sources. International companies that specialize in these areas should be encouraged with incentives to set up factories in Nigeria. For too long we have relied on non-renewable sources of energy like coal and gas."