

# INDISPENSABILITY OF DUE DILIGENCE TO PRIVATISATION OF ELECTRICITY FOR EFFECTIVE SERVICE DELIVERY IN EKITI STATE, NIGERIA

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**Abstract:** Privatisation policy has been found to be the solution to inefficiency and ineffectiveness that characterised the public services like electricity service delivery in Nigeria particularly in Ekiti State. However, the problem of the poor performance of electricity service delivery in Ekiti State emerged from non-adherence to the tenets of due diligence procedure in the privatisation planning process. The paper aimed to foster the indispensability of due diligence procedure in the privatisation of electricity for effective service delivery. Relevant literature on the concept of due diligence procedure and its influence on the privatisation of electricity for effective service delivery were exhaustively explored in this paper. The principles of due diligence as found from the literature were measured against the privatisation planning process of electricity service delivery in Nigeria and the findings showed lopsidedness as the principles of due diligence were not thoroughly adhered to. The paper thereby recommended all-inclusive and comprehensive privatisation planning process that entails all the tenets of due diligence procedure in the privatisation of electricity for effective service delivery.

**Keywords:** Due diligence, Public service delivery, Electricity, Privatisation, Nigeria.

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## 1. INTRODUCTION

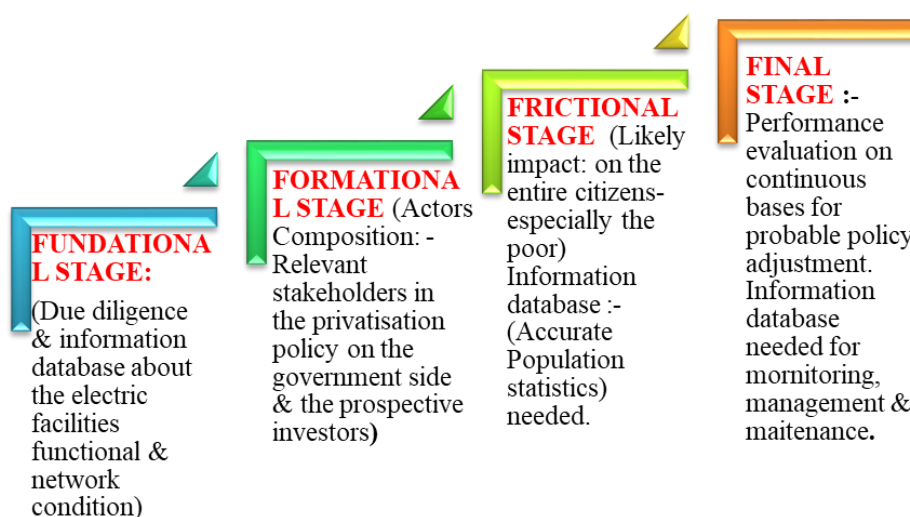
Due diligence has been defined by the Oxford English Dictionary as; ‘reasonable steps were taken by a person to avoid committing a tort or offence or a comprehensive appraisal of a business undertaken by a prospective buyer, especially to establish its assets and liabilities and evaluate its commercial potential’ (Oxford Dictionary, 2016). Due diligence is an in-depth inventory of accumulating all spatial data related to all the material available to ascertain the investment potentiality. As such, due diligence is a precautionary approach to a business transaction or an agreement with another party (Investopedia, 2016). The process of due diligence makes it possible for investors to carry out a better job of determining the right worthy of a particular asset. In order to determine the value of the venture, there are certain factors pertaining to the business under consideration that the investors need a thorough investigation on, to know if it is an unattainable venture. It is the outcomes of due diligence analysis that guarantees the purchase of an asset as it a present unnecessary danger to both parties (Investopedia, 2016). In line with the focus of this study, the principles of the concept of due diligence procedure become pertinent to the fundamental issues of the electricity service delivery privatisation planning process. As averred by (Evgeniou, 2013). Privatisation must be tailored to the peculiarities of the country and the specific condition of the enterprise. It could be pointed out that, if due diligence is carried out correctly; privatisations can bring about significant benefits for businesses, consumers, the State, and the economy in general. Challenges and concerns must be clearly defined and dealt with at an early stage through appropriate measures.

Experience shows that success is largely dependent on the level and depth of the preparatory work carried out ahead of any privatisation. An important lesson from international experience is that careful and detailed planning and preparation

are crucial, in order to avoid common pitfalls and maximise benefits for the companies involved, their employees, the consumers and the economy as a whole (Evgeniou, 2013). The term ‘due diligence’ historically is from the United States’ Securities Act of 1933. Applies when there is inadequate disclosure of material spatial information to prospective investors in respect of a business deal, the like of the privatisation of electric facilities and service in Nigeria

## 2. PROBLEM STATEMENT, STUDY GAP AND METHODOLOGY

The problem statement evolved from inadequate spatial information, underestimation and problems related to electric facilities’ distribution and functional condition. These were the causes of poor performance of privatisation of electricity service delivery in Nigeria. In this paper, the planning process of the electricity service delivery privatisation was classified into four stages. These stages were; a foundational stage on the issue of privatisation planning process, which should reflect the situation of each country’s condition, (Awogbemi, 2015), formational stage, frictional stage and the final stage. Figure 1.1 below showed the steps that should be considered in the planning process of electricity service delivery privatisation in Nigeria



**Fig 1.1: Showing the 4 stages of the planning process (Sources: Olamide, 2017)**

In the above figure 1.1, the first stage is the foundational stage which comprised of the necessary information about electric facilities’ functional condition and distribution networks, and also about the inefficiency of the service provider and poor service quality. The second stage considered the composition of the actors in the planning process of privatisation. The research sees that the composition of the stakeholders must be all-encompassing as against the domination of political class and the capitalists, in the planning process at the expense of the relevant stakeholders. Atiku in Awogbemi, (2015) observed non-transparency in this aspect, and non-full representation of different interests from the; Social circles, physical planning unit, labour union, etc. (Doukov et al, 2002).

“A review of recent sector reforms—which often feature privatisation of power production and distribution—revealed that technocrats from energy and finance ministries have dominated the restructuring process in the countries studied” by (Doukov et al, 2002:97). Representatives from environment ministries or civil society groups have had little or no voice in the planning process, and opportunities to promote environmental outcomes have been missed.” (Doukov et al, 2002:97).

The third stage is the frictional impact of privatisation on the masses, quality of service, the process of service provider needed to be put into consideration right from the initial stage of the privatisation planning process. Finally, the fourth stage is the final stage of privatisation outcomes. This is the evaluation of the ultimate outcome of privatisation, as viewed from its evaluation by the people. The success or failure could be caused by the initial negligence of all the necessary issues from the foundational planning stage. Such as; lack of proper due diligence procedure and absence of adequate spatial data, as observed by (Nnodim, 2015; IseOlorunkanmi, 2014; Nnalue and Adoga, 2011). These stages are consistent with Stojan’s phases of the planning process and also in the context of the research shall form the framework for analysing the success or failure of the privatisation exercise in Nigeria.

The issue of poor performance of privatisation of electricity service delivery in Nigeria had not been critically viewed via the concept of adequate due diligence procedure, this explains the gap the paper is out filled from a systematic review of the relevant literature. Publications from reputable journals, excerpts from the Daily newspapers, views and opinions of the people's experience about their usage of electricity were the secondary data employed in this study and that formed the methodology adopted for the paper.

### Objective

The paper aimed to assess the indispensability of due diligence procedure in the privatisation of electricity for effective service delivery.

### 3. LITERATURE REVIEW AND THE CONCEPT OF DUE DILIGENCE

Literatures such as; Bada in Nnodim expert report, 2015, Abdullahi, et al. 2014; Josephat, et al. 2014; Klein et al. 2012; Ezema et al. 2012 and Afify, 2011, averred the absence of adequate spatial database spatial information about the electricity service delivery's physical facilities been privatised. Which has caused non-improvements in electricity service delivery before and after privatisation (in terms of; Availability, Accessibility, Hourly frequency/regularity, Reliability, Stability, voltage/current Quality of electricity supply), as observed by, (Okundamiya, et al. 2014; Oyedepo, 2012 and Ezema, et al. 2012).

The importance of acquiring sufficient spatial information and adequate database, initially or alongside in the process of planning for privatisation of a public utility like electricity service delivery, needs to be supported by certain theoretical analysis that appropriately addresses the focus of the study. Hence, based on the premise of the research study, and drawn from the above discourse, the underpinning theory for the privatisation planning process of accessing adequate spatial information database about the electric facilities' distribution network and spatial information on their functional condition can best be analysed using due diligence concept as a theoretical construct.

The study in an attempt to find a solution to the poor performance of electricity service delivery privatisation in Nigeria seeks to employ the concept of due diligence procedure derive from the business world, according to Sullivan, Dan, in TechTarget, (2016). The concept, which explains the process of 'when', 'what', and 'how', spatial information could be carried out when about undertaken a business, so as to avoid failure is found appropriate as the theoretical underpinning of this research. Most especially, as the study involves issues and ventures having an impact on the public social welfare like this electricity service delivery privatisation, in this study.

The due diligence procedures provide the theoretical underpinning for investigating spatial information about electric facilities in the privatisation planning process to ensure an enabling environment for eventual better performance of electricity service delivery under privatisation. The theoretical underpinning contextually provides answers to the first four research questions. Due diligence is a strategic evaluation of a higher level assessment of present challenges and potential prospects, of the enterprise condition and the investor's organisational evaluation of its internal strengths and weaknesses of financial capacity and technical competence to operationally and successfully carry on the business, (Burton, 2014).

The principles of due diligence make it appropriate as the underpinning theory of this study. It was stressed in the literature that; privatisation must be accustomed to the circumstances of the nation privatising and more specifically with the kind of enterprise to be privatised, as posited by Evgeniou, (2013). Notably that, privatisation could be highly advantageous for investors, consumers, the State and the economy generally if it is effectively carried out. Secondly, the due diligence principle includes dealing with identified challenges in the enterprise to be privatised and addressing them with an appropriate measure of the early stage. Again in principle, the success of privatisation, as averred by Evgeniou (2013), depends on extensively, from experience on the level and depth of the preliminary and preparatory work carried out ahead of any privatisation

More importantly and finally in this regard, experience internationally had shown in principle that, careful and detailed planning process and adequate preparation is crucial, in order to avoid common pitfalls and maximise benefits for the investors, workers, the consumers, and the nation at large.

#### 4. DUE DILIGENCE AND PRIVATISATION OF ELECTRICITY SERVICE DELIVERY IN NIGERIA

It has been commonly averred in the literature that, there was no thorough due diligence on the PHCN assets because the workers there were right at war with the Federal Government on the sale of the assets. During that period, none of the buyers could actually go in to assess what they were about buying, (Nnodim, 2015; Nnalue and Adoga, 2011). Adequate and sufficient spatial information is the centre point of due diligence, more so, the findings from the literature submitted that inadequate and insufficient spatial information, ineffective communication at different levels, asset stripping and problems related to valuation and selling procedures were the bane of sustainable privatisation of electricity service delivery in Nigeria, (Nnalue and Adoga, 2011 and Afify, 2001).

In this regard, privatisation of already defected distributive, obsolete and deteriorated electrical system facilities/equipment as observed by (Bräuninger, 2013), is likened to Batini (2012) submission that, "If you diet when you are sick, it's quite probable you'll get a lot sicker, so it's not a good idea". In the process of privatisation, was the perception of the PHCN staff about the distribution network and functional condition of the electric facilities sought, to ascertain the electric service delivery's prospect for better performance if privatisation? As queried by (Etieyibo 2011; Tetteh, 2013; IseOlorunkanmi, 2014). The foregoing and other questions on electrical system facilities are the concern of this paper.

Therefore, on the ground of this initial shortcoming in the privatisation planning process, there is no justification for any timeframe for measuring performance when the fundamental issues for detail consideration for sustainable privatisation policy are left out of its process, (Pollitt, 2013; UNDP, UNEP, World Bank, WRI, 2003; Doukov et al., 2002; Dubash, 2002). Furthermore, non-availability of adequate spatial information database about these electric facilities' distribution and functional condition serve as another major problem that both the governments and investors faced when attempting to weigh the cost and benefits of privatisation.

Additionally is, the proliferation of negative operational outcomes, occasioned by imperfect spatial information according to, Tetteh, (2013), and lack of comprehensive spatial information detailing the assets and liabilities of the erstwhile PHCN as observed by IseOlorunkanmi, (2014). Above negligence was caused when, due diligence exercise of large corporations at the data room of the BPE, instead of a full financial and physical audit, and also undervaluation of assets of state-owned. These all together formed the reason for inadequate spatial information database, the premise this research study tries to address. This inadequate spatial information problem had a great influence on the quality of service being provided to an extent that the level of service is so low to the government and public expectation, (England, 2011).

#### 5. FINDINGS FROM THE LITERATURE

The due diligence that was carried out before the electricity service delivery privatisation was an only indoor exercise in the visual room of the Bureau of Public Enterprise.

The physical electricity facilities were not accessed and assessed as they were on the ground to ascertain their state of the electrical facilities functionality.

The actual assets and the liabilities of the electricity service delivery were not adequately ascertained as such the DISCOS were not aware of the quantum of task and challenges ahead.

The findings from the literature also revealed that spatial information of electricity facilities distribution was inadequate.

#### 6. CONCLUSION

It is observed in the literature that nonattendance to data issue obstructs each progression of the privatisation procedure from recognising the kind of services that should be put to the private sector, to requesting the true cost of bids, to monitoring and managing the implementation of contracts (England, 2011). The paper finally concluded in this regard that experience internationally had shown in principle that, careful and detailed planning process and adequate preparation is crucial, in order to avoid common pitfalls and maximise benefits for the investors, workers, the consumers, and the nation at large.

## 7. RECOMMENDATIONS

This paper drawn upon the information from the relevant articles, publications, and opinions found out that the privatisation of electricity service delivery was hurriedly done and implemented. Adequate due diligence procedure was not properly conducted. This inadequate due diligence procedure not only hindered the Discos' access to those electrical infrastructure facilities but also to the facilities' adequate assessment. Hence, as regards the privatisation of electricity service delivery of which its effectiveness has to do with the equitable distribution of its facilities drawing on adequate knowledge and available spatial data and information about the intending users. It, therefore, becomes imperative as the paper suggests that:

- Development policies and decision making of the sort of privatisation of electricity service delivery should not be independent of adequate due diligence procedure initially before implementation.
- The due diligence procedure must be a holistic exercise detailing every electrical facility and ascertaining their functionality to guaranty effective electricity service delivery.
- Adequate due diligence procedure should adopt a comprehensive strategy that will integrate implementation of electrical facilities distribution alongside with spatial specification.
- The quantum of consumption of each user in a particular neighbourhood must be determined the capacity of electrical facilities that would be required to serve them effectively.
- Due diligence must be open and transparent, a practical exercise that has physical contact with each electrical facility as they are on the ground.
- To our policy and decision makers, disjointed, muddling through, trial-by-error kind of plans and policy implementation the kind of the power reform process should be exchanged with carrying out of the thorough investigation of the nation's real situation of things. Embarking on due diligence for better implementation of any public policy is imperative. This was not considered in the recent privatisation of electricity service delivery in Nigeria which account for its failure.

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