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Privatization of Public Enterprises in Nigeria

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Introduction

Privatization Defined

The term privatization is often loosely used to mean a number of related activities including any expansion of the scope of private sector activities in an economy and the adoption by the public sector of efficiency enhancing techniques commonly employed by the private sector. It involves the transfer of productive asset ownership and control from the public to the private sector. The transfer of assets can be total, partial or functionary, with the sale being implemented by methods such as private sales. Leasing arrangements, employee buy-outs and share issues. In Africa, many governments have embraced the idea of privatization, brought to the fore mainly as a part of the adjustment and stabilization programmes of the mid-eighties and the nineties. Privatization now frequently features in government policy statements and in conditionality from donors. The past decade has also seen the World Bank and other donors get increasingly involved in lending operators towards parastatal sector reforms that included privatization components.

African countries share a number of common features in relation to the drive towards privatization. For most of these countries, the first twenty (20) years of independence were characterized by rapid growth, driven by favourable terms of trade and high levels of public investments in infrastructure and services. The development of import substituting industries brought in the dramatic rise of parastatal corporations, which were also used as vehicles for increased local participation in the economies. Many governments moved to nationalize existing foreign interests in their counties and also to create new state enterprises to carry out the various production and trading functions. Parastatal corporations rapidly dominated the extractive industries, manufacturing and financial sectors of their economies, and acquired important economic and political status, becoming major sources of employment. The moderate growth experienced in the seventies (70’s), the early eighties (80’s) and associated inefficiencies made parastatal sector reform a major element in the reform efforts implemented by the countries.

Contextual Issues

Nigeria was one of the earlier countries to embark on a major privatization exercise as part of its economic reform program. One of the numerous challenges facing this country is how to bail out Nigeria’s public enterprises, which were set up to accomplish certain objectives, from inefficiency and obsolesce. The enterprises in Nigeria have found themselves in a state of perfidy, low performance and undoubted inefficiency. Given this situation, the present administration, is bent on revitalizing these enterprises so as to achieve a developed and sustainable economy. One of the bold steps taken is to privatize and commercialize them so that their lost image can be redeemed. In the light of the above, there is an attempt in this paper to discuss the socio-economic justification for and the role of public enterprises in the Nigerian context, their performance before the new policy, privatization in action, its implication and finally suggests alternatives strategies to this policy.

Nigeria’s public enterprises are generally corporate entities other than ministerial departments, they derive their existence from special statutory instruments; and engage in business type of activities to provide goods and services for the overall social and economic upliftment of the citizen.

The non-performance of the public enterprise has prompted series of discussions and policy recommendations on how best to move them out of their present quagmire. It was for these reasons that, in 1999, the democratic regime under the leadership of President Olusegun Obasanjo, initiated sweeping reforms across the various sectors of the Nigerian economy. Where they recognized that national public enterprises have failed to meet public expectation, they were conceived to be consuming a large proportion of national resources without discharging the responsibilities thrust upon them. It was also established facts;

- That they create economic inefficiencies
- They incur huge financial losses
- They absorb disproportionate share of credit especially in the form of foreign loans (Oluade, 2007).

While the public remains divergent in their feelings regarding policy choice and actions, the Federal Government seems decided, poised and irrevocably committed to the privatization option. Towards this end, a decree was promulgated, that is Decree No. 25 of 1988, to give practical effect to and set appropriate machineries in motion to privatize or commercialize certain enterprises (Federal Government Gazette, 1998).

Despite this effort by the government, there is still mixed feelings towards the issue of privatization. On the one hand, privatization is expected to bring to the public enterprises commercial discipline, financial prudence, effective management and commercial viability, which normally characterize private sector. It is expected that this new policy will arrest the decline fortunes of the public enterprises. On the other hand, it is seen by some groups as a relief of their primary role, an open acknowledgement of incapacitation and a sinister design by the ruling class to subject the welfare of the citizens to the whims and caprices of the privileged class. To them therefore, it is a colonial scheme designed to further surrogate the economy to the capitalist world (Obadan, 2000). The overriding objective of this study is to explain the socio-economic justification of privatization and to provide insights into the desirability and sustainability of the reform. It is envisaged that strategies recommended would assist the national council on privatization in correcting the pitfalls embodied in the previous endeavour.

Privatization Objectives and Rationale

Privatization and private sector development is justified on a number of micro and macroeconomic considerations and arguments. These are examined in the following section.

ARGUMENTS AGAINST PRIVATIZATION

Microeconomic Issues

A body of theory has now fully emerged, which seeks to explain the superiority of private over public ownership, with the economic arguments resting on a number of hypothesis about the relationship between ownership, management incentives and market structure on the one hand and performance on the other. Privatization, it is argued, enhances both productive and allocative efficiency.

The main arguments are that under public ownership, enterprises are often used to pursue non-commercial objectives of government, including employment maximization and uneconomic investment choices. These activities are very often inconsistent with efficient and financially viable performance and lead to poor managerial supervision.

This is the major argument for privatization in terms of efficiency: the switch from public to private ownership resulting in the adoption of more precise and measurable objectives on the part of the owners which create the environment and incentives to monitor and control management more effectively (Adams, 1993). Additionally, under private ownership, firms will only remain in existence as long as they are viable. Should they cease to be viable, their resources will be reallocated by the market to other uses. This is contrasted to the poorly performing parastatal organization whose life is extended by its access to cheap credit, subsidies, preferable treatment in the allocation of scarce resources such as foreign exchange and political and other non-economic pressures, which not only constitute a drain on the government resources, but also hinders the efficient allocation of scarce financial and human resources.

Other arguments against privatization include;

- **Rising Prices:** Opponents fear that the private sector will exploit consumers where there is monopoly or oligopoly power such as by raising the prices of goods.
- **Creating poverty:** At the heart of the criticism of privatization is the perception that it has not been fair-hurting the poor and the vulnerable work force, while benefiting the rich, the powerful, and the privileged – thereby perpetrating poverty.
- **Breaking Unions:** Workers dismissed as a result privatization have great difficulty finding other work; the large number of people out of jobs is forced to accept jobs with lower pay, less security, and fewer benefits. They, therefore, believe that the aims of privatization are to reduce labour costs and numbers, and to break union power.
- **Corruption:** There is this argument that even if privatization contributes to improved efficiency and financial performance, it has a negative effect on the distribution of wealth perhaps arising from corruption. Corruption is the single most destructive factor responsible for the pitiable state of affairs in many developing countries. It distorts the economy through waste and misallocation

of resources and creates need for external assistance. Transparency International has for a long time decried the evil consequences of corruption and has identified acute corruption in many developing countries. For example, in 1997, its Annual Corruption Index rated Nigeria as the most corrupt country on earth, followed by Pakistan and Kenya. Corruption. By 1998, the index moved and Cameroon displaced Nigeria as number one. Some misguided Nigerians have argued thus "…after all, corruption is everywhere, including industrialized countries". It is true that corruption is a worldwide phenomenon, and so are industrial development and technological advancement. Why is it then that when industrialized countries are pushing for technological invention, African countries are busy expanding only the frontiers of corruption and poverty-prone ventures?

- **Public Enterprises Should Stay:** There is this strong belief that privatization is not necessary. Public enterprises need not run at a loss; all they require is good managers, less political interference, competent boards of directors, and especially more rational pricing policies.
- **Injustice:** There is an assertion that it is the politicians and bureaucrats that caused the public enterprises to perform poorly but only labour is asked to carry the burden of reform. Critics view this as injustice.
- **Exploitation by Capitalist Countries:** Privatization is seen as an imposition by foreign capitalists and agencies like the IMF and the World Bank; therefore, privatization must be meant to exploit the developing countries.
- **Privatization is foreign:** Some critics have argued that privatization is neo-colonialism since the policy is being pushed by International Monetary Fund, World Bank, and their agencies. It is not an indigenous idea; therefore, it will not work.
- **Labour's Demands for Job Protection:** Right from the onset, the most publicly persistent and organized opposition of privatization in Nigerian has come from the labour movement. There always have been strikes and counterstrikes against any decision to privatize a government agency. Sometimes workers have succeeded in blocking or slowing down the privatization of specific enterprises. In other cases the government simply has brushed aside the labour opposition leaving a legacy of anger and political tension. What is obvious is that workers are reacting against threatened jobs or the possibility that benefits might be jeopardized under new management.

Perhaps, it may be likely that it is the continued pressure from World Bank to get the reform process moving and to keep it on track that causes some of these humanitarian issues somehow to be brushed aside. These indictments are not a rarity. The fears about privatization are not only Nigerian-made apprehensions. Worldwide, proponents of labour have been the most vigorous and persistent. Critics of privatization are consistently portraying its negative effects on income distribution and worker welfare. Not enough is yet known empirically about the impact of privatization in Nigeria to form definitive judgments; the current statements on the issue still lie between propositions and conclusions.

Macroeconomic Considerations

The major macroeconomic consideration, and which is important in the context of overall economic reform, is the direct effect of privatization on the public finances. The immediate effect of an asset sale by the government is an increase in revenues or a reduction in the budget deficit, with the impact being especially greater in cases where the major participants in the acquisition of the assets are foreign investors bringing in "new resources". Galal et al (1994) have confirmed these outcomes using their study of the Mexican experience, which suggested that seemingly unattractive, money-losing, or marginally profitable public enterprises can be sold, often for large sums of money; that even if they do not sell for large sums of money, they can still make a substantial positive contribution to the fiscal situation; and that the aggregate sums can be large enough to make a real difference at the macroeconomic level.

Another positive macroeconomic outcome from privatization is the very act of removing business ventures from the day to day activities of the government. This allows the government to withdraw to areas in which it has or it is expected to have a comparative advantage that is the provision of social capital and basic human services including health and education and generally developing the policies to create the enabling environment for sustained growth. Most governments face serious constraints just providing the basic services referred to above, even before they take on the task of running business enterprises. Privatization permits governments to focus their energy on a selected number of activities and perform them effectively.

What should be expected from pursuing a private sector led development strategy? The ultimate goal of any development strategy is the achievement of economic growth and the improvement of the livelihoods of the population. The growth impacts on private investment and privatization have been well documented. Lessons and experience gained from the rapidly developing countries indicates that there is a close relationship between private investment and GDP growth (Chibber and Leechor, 1993). An important characteristic of the rapid development in Southeast Asia was the substantial government support and encouragement for private investment and generally private ownership. The Newly Industrialized Countries (NICs) supported private entrepreneurship for two reasons: because private entrepreneurs have a clear objective of increasing profitability, and new investment are stimulated because the presence of a large number of private entrepreneurs reduces the risks associated with undertaking economic activities. There is generally the misconception that the Asian tigers grew out of a large dose of government intervention in their economies. This, however, hides the fact that the nature of intervention was positive and intended to advance the activities of the private sector and not one of confrontation with the private sector. Many other countries whose governments also intervened in their economies did not achieve similar results.

IMPACT OF PRIVATIZATION

Rationale for Public Enterprises in Nigeria

Since the beginning of the fourth Republic to date, efforts were being intensified not only to transform the economy but also to sustain the tempo of such development efforts. Public enterprises were not left out in this direction so that they can attain their objectives. Among such justifications as in Central Bank of Nigeria Bulletin includes:

- The need for rapid economic development to alleviate economic stagnation and raise the general living standard of the teeming population.
- Government's determination to control certain strategic sectors of the economy regarded as very sensitive to the social and economic security of the nation.
- The desire to move enormous resources at government disposal to shoulder part of the entire capital formation process in areas where the private sector is seriously handicapped with sufficient funds for investment purposes.
- The pursuit of balance economic development and filling observed gaps resulting from absence of clear private sector imagination in order to prevent sub-optimality.
- The need to reduce and reverse the total dependence on certain imported items and fulfill the primary economic duty of encouraging their local production.
- The objective to create and promote skill employment and even dispersal of industrial potentialities all over the country.
- To break the foreign domination, prevention of monopolistic practices, under exploitation and stimulates retention of capital.

However, the above reason to a very large extent tends to justify the social and economic characteristics of public enterprises, hence its need. (Ayodele, 1998).

Performance of Public Enterprises before Privatization Policy

Anyanwu (1999) succinctly explained that despite the great expectations that spurred the establishment of Public Enterprises and the huge investments and subventions pumped to float and maintain them, they have remained a colossal drain on the nation's hard earned resources with little positive impact on the socio-economic life of the country. The Fourth National Development Plan (1975 – 1980) states that:

"The actual performance of the public enterprises in Nigeria leaves much to be desired. It is clear that many of them are not responding to the changing and dynamic economy. Some do not possess the tool for translating into reality, the hope of successful commercial operations. The level and quality of personnel are sometimes mediocre and reflect the worst traditions and rigidities of the civil service".

Many years later, the position of these enterprises did not improve despite the government effort to sustain their rapid development. This has compelled the than President Ibrahim (1986), shortly before Structural Adjustment

Programme began to declare that government parastatals and owned companies are faced with inefficient management, high overhead costs and in most cases, a negative return on investment. Besides, other specific problems of these enterprises catalogue as explained by Obaji (1999), Anyanwu (1999) and Salak (1999) include the fact that they are suffering from indiscipline compared to the private sector enterprises. They do no conduct or adhere to feasibility and operating plan; they invest in wrong projects. In addition, they are run along civil and service lines under the archaic doctrines of bureaucracy and unwarranted political interference. They pursue vague and often inconsistent objectives and infected by the work of ethnic lethargy, a characteristic of the civil service. They are over-bossed serving too many masters at a time.

Various governments have taken different measures within the background that their existing control gadgetry was capable of effecting change. To this effect, panels were set up in many cases to diagnose the ailment of these public enterprises and make appropriate prescriptions. Unfortunately, the reports of these panels did not in any way help the matter (Anyanwu, 1999). The Babangida administration in a desperate bid to move the economy out of the doldrums, unleashed the controversial Structural Adjustment Programme (SAP), on the privatization of public enterprises in order to restore efficiency in them and unburden the government's dwindling financial resources. This necessitated the Decree No 25 1988 but whether the decree worked or not, will need proper analysis.

Implications of the Privatization and Commercialization Programme

Going by the levels of causal explanations of the predicaments that led to the privatization decree, privatization is likely to have its most positive impacts on the political and economic organizational levels of the nation. With a decision to relinquish ownership and management, there is a fair chance that the enervating effects of political, bureaucratic and legislative lethargies would be cured and eradicated (Zayyad, 1992). Furthermore, in pursuance of their self-interest, owners and managers of privatized enterprises might become more imaginative, more resourceful, more disciplined, accountable and successful now ever than. In addition, where this is not forthcoming, they fold up (Salako, 1999).

This expectation however, does not extend to enterprises not privatized. The hope for commercialized enterprises is even slimmer because nothing is likely to change except of course the high price charges and rates. The experience of the Nigerian Airways in recent times whose prices rose by 33 percent in the first instance and then 100 percent in the second can be used to support this claim.

In terms of ideological explanation of the problems of public enterprises this programme is similar, however, as long as the institutions and the value system that allow the structural weaknesses in the economy persists, economic institutions (public and private) would continue to be taken as a fair game for wanton exploitation and social inequality. Consequently, privatization and commercialization would only be catalytic in the process (Obadan, 2000).

Conclusion

A considerable number of countries in Africa have embraced privatization and private sector development in general as means of accelerating investment and growth in their economies. Indeed for many, the issue is no longer whether to private but when and how best to do so.

The privatization policy of the federal government has been critically examined with a view to assess its conformity with sustainable development. The rationales for the establishment of public enterprise and their performance problems before the privatization policy, which threaten their real foundation, have been explained. It has also been argued that privatization tends to exacerbate rather than alleviate problems of public enterprises and as such worsen socio-economic inequalities in the country. This policy was founded on questionable explicit and implicit assumptions constructed hastily on scheme consisting of components that did not function well in their original habits. There is a need to properly study situations, asses the pros and cons of privatization before decisions are taken. Unless this is done, policies may be instituted that may fundamentally change the socio-economic balance of the country and at the end find itself in a throes of analyzing its unanticipated dysfunctional consequences.

If privatization is carried out with sincerity of purpose, almost every group will come out ahead as a result of divestiture. Workers will be shareholders. Consumers will be better off because of better services. New graduates and the unemployed will get jobs because of expansion. Government will be relieved of the burden of subsidies.

Investors will gain investment opportunities. Ultimately, the public (both foreigners and nationals) will be free to pursue any private economic interest.

Given the enormity of the socioeconomic problems facing Nigeria, there is every reason to worry about the state of our plans and actions. The issues involved, from development of infrastructure through production of vegetables, all have serious ramifications, not only for the public sector but also for the economy as a whole.

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