VISION AND MISSION OF PRIVATIZATION IN THE 21st CENTURY

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Abstract

Privatization is often predicated on the assumption of state inefficiency and absolute efficiency of the market. In Nigeria governments have been subsidizing public enterprises, hence intrusive government policies, obstructive ministerial control and stifling directives have been some reasons adduced for their poor performances by the management of public enterprises. On the other hand, government has anchored their dismal performance on the issue of mismanagement and underutilization. However, in the face of dwindling crude oil revenue World Bank (1983), IMF (1985) made recommendations espoused by the SAP (1986) document that government should disengage from all forms of subsidies and make the private sector engine of growth in the country. This paper examines the reasons why privatization was embarked upon, through the stages and highlighted some benefits so far recorded and identified some 21st century challenges necessary for the realization of the programme.

Introduction

The current global quest for privatization has often been anchored in the following economic analysis. Public enterprises are not "owned" by individuals who have residual claim on the assets of these organizations. The owners of public enterprises are taxpayers who cannot buy or sell public enterprises' assets. Consequently, taxpayer's owners do not have the strong incentive to monitor the behaviour of public managers and employees. They therefore engage in shirking activity and the acquisition of various perquisites that increase production costs. Add to this, the lack of competition, absence of corporate take over and near impossibility of bankruptcy for public enterprise.

By way of contrast, private enterprises (assets) are owned by individuals who are free to transfer within the confines of the law their assets. When private enterprises produce goods and services that consumers demand at costs lower than market prices, profits are made, thus they create wealth and conversely. They therefore disengage themselves from inconsistent behaviour that cannot enhance their present value.

From economic point of view, public and private enterprises managers and employees behave in different ways. Private enterprises tend to be more efficient than public enterprises. According to Adam Smith (1776; 771) "No two characters seem more inconsistent than those of trader and sovereign" since people are more prodigal with the wealth of others than their own. He saw public enterprises as negligent and wasteful, more so that they do not always have direct interest in the commercial outcome of their actions. Smith understood something that contemporary economists have explored in great details, Property-rights arrangements are not neutral.

Privatization as a tool for economic management came to the front burner when Chile became the first country to turn public enterprises to private operators in the early 1970s. Since then, over 140 countries have embraced privatization as a route to economic growth and prosperity.

In Nigeria, the issue of mis-management, poor quality services and low financial returns from public enterprises such as NITEL, NIPOST, WATERBOARD, RAILWAYS and NEPA. According to Falae (1987:15) out of $420 billion sunk in public enterprises in Nigeria between 1979 and 1985 the nation realized a return of less than 10 percent as income. Considering the dismal performance from pubic enterprises in the face of dwindling crude oil revenue government could no longer continue to subsidize these companies. The World Bank (1983), IMF (1986) made recommendations espoused by the Structural Adjustment Programme (SAP) (1986) to disengage from all subsidies to public enterprises and under the SAP document public enterprises were categorized for either full or partial privatization/commercialization.

The objective of this paper is the vision and mission of privatization in Nigeria. The paper is divided into seven sub sections, section two takes a look at the concept of privatization, section three examines the vision of privatization, section four highlighted the stages, section five discussed the mission of privatization, while section six identified 21[SI] century challenges for the exercise to tt successful and section seven concludes the paper.

The Concept of Privatization

Privatization is to sell government owned organizations to private ownership. (Longman Dictionary of Contemporary English). It is often associated with the transfer of assets or service function from public to private ownership or control (Steve, 1983: 976). It also involves ill introduction of private capital or management expertise into a public sector activity (Obadan, 2000:14). Savas (1987:3) defines privatization as the act of reducing the role of government,or increasing the role of the private sector in any activity or ownership of assets.

According to Jerome (1999), privatization finds its strongest argument in the claims that! will improve both allocative and productive efficiency and reduce the budgetary burden of public enterprises. Privatization is the process of changing ownership of government owned enterprises • private investors, who now become the new owners through the sale of the share or assets of such companies (Bureau of Public Enterprises (BPE) 2003).

Since 1980, governments of most countries have employed privatization as a tool **for** economic management with varying objectives, The most frequently cited objectives include:

1. Improvement of the economic performance of the assets or services function concerned;
2. Depoliticization of economic decisions;
3. Generation of public budget revenue through sale or receipts;
4. Reduction in the power of public sector unions;
5. Reduction in public outlays, taxes and borrowing requirement; and
6. Promotion of popular capitalism through wider ownership of assets.

While the principles and practices of privatization exercise may vary in each country, th? ultimate objective is to liberalize the economies through increasing private sector involvement ana capacity utilization. The tag public enterprise is used in Nigeria to mean any business- oriented enterprise in which government has a controlling interest. It is therefore applicable to utilities, which; strictly speaking are called public corporations (Ukwu, 1985:58).

Privatization in Nigeria pre-supposes the existence of creative, effective leadership, efficient performance, technological advancement, and accountability on the private sector. In this sensed privatization is the transfer of ownership and control of public enterprises to the private sector, (Todaro, 1989: 569; Jones, 1991: 39) or the transfer of majority ownership of public enterprises to thd private sector (Kikeri et- al, 1994: 242). According to Obadan (2000) any transaction which results in a government relinquishing its equity stake from 50 percent or more to less than 50 percent could bs regarded as privatization.

Privatization was embarked upon in Nigeria due to public corporations' inability to create wealth and the issue of underutilization, mismanagement that lead to waste of resources and manpower potentials. Consequently, they were seen as drain pipes for government budgets and avoidable burden on the economy. In some countries, where privatization exercise has worked different tags have been employed to describe the trend but the aims and objectives remain the same. In Venezuela it is called capitalization, and in Brazil it is tagged flexibilisation. Most of all, in the process of privatization more investible capital have been injected into the various economies through local and foreign investors to the benefits of the country concerned.

Vision of Privatization in Nigeria

Nigeria as a developing economy in the early phase of national development needed to curtail government expenditure in the face of growing fiscal deficit and create an enabling environment for private sector investment which was almost non existent. Add to this, the issue of mismanagement and under utilization of resources and waste of manpower potentials.

According to Anya (2002:1) as at 1993 a survey by the Technical Committee on Privatization and Commercialization (TCPC) showed that there are about 1,500 public enterprises in Nigeria out of which 600 were owned by the Federal government. Others are controlled by the state and local governments. These public enterprises take a sizeable portion of the federal budget and account for over 5,000 appointments which has become a powerful source of political patronage and "job for the boys". What is more, transfer of these enterprises ran into billions of Naira; in the form of subsidized foreign exchange, import duty waiver, tax exemptions or write off arrears, unremitted revenues, loans/guarantees and grants or subventions. Consequently these enterprises were infested with problems such as; abuse of monopoly power, defective capital structure, heavy dependence on treasury funding, rigid bureaucratic structures, unnecessary bottlenecks, mismanagements, corruption and nepotism. With all these problems with no end in sight the Federal government had no other option than to privatize these enterprises so that government can concentrate her scarce resources on traditional functions; the provision of infrastructure and security through maintenance of law and order as well as creating the enabling environment for private investment to thrive.

Privatization Stages in Nigeria

The vision of privatization exercise in Nigeria is to assist in the restructuring of public enterprises in a manner that will affect new synergy between a leaner and a more efficient government towards a revitalized services oriented private sector.

The first positive step was taken in March 1988 by the then Head of state, Ibrahim Badamosi Babangida when he promulgated the Decree Number 25 of October 1988 establishing the Technical Committee on Privatization and Commercialization (TCPC). Five months later the committee was formally inaugurated with the task of reforming public enterprises as an integral component of the Structural Adjustment Programme (SAP).

The objectives were:

To improve on the operational efficiency and reliability of our public enterprises;

To minimize their dependence on the national treasury for the funding of their operations;

To roll back the frontiers of state capitalism and emphasize private initiative as the engine of growth;

To encourage share ownership by Nigerian citizens in productive investment hitherto owned wholly or partially by the Nigerian government and, in the process, to broaden and deepen the Nigerian market.

Phase 1 of the privatization programme ended in 5^n June, 1993. The Phase 11 of the programme started when the then military government under General Abdulsalam Abubakar promulgated the Public Enterprise Decree Number 28 in early 1999 and by this decree (TCPC) was transformed to the Bureau for Public Enterprises (BPE), which was mandated to monitor the performance of privatized enterprises and plan for the future. BPE was empowered to alter, add, delete or amend the provisions of the document in the best interest of the country.

Like other past governments of the Federal Republic of Nigeria, when President Olusegun Obasanjo was democratically elected in 1999, in a policy statement on 20" July, 1999 his vision was to support the on-going privatization programme because "State enterprises suffer from fundamental problems such as defective capital structure, excessive bureaucratic control/intervention, the use of inappropriate technology., gross incompetence, mismanagement, blatant corruption and crippling complacency which monopoly engenders'[1]. All these constitute a huge burden on the national economy, the way forward was no other than to continue with the privatization exercise. Along this line of reasoning he established the National Council on Privatization (NCP) with the Vice President, Alhaji Atiku Abubakar, as its chairman. The council was given the mandate to determine the political, economic and social objectives of the privatization and commercialization programme, approve guidelines and criteria for valuation of any enterprise marked for privatization-including the choice of strategic investors, identification of enterprises to be privatized and approved prices for the sale of shares and assets.

Mission of Privatization in Nigeria

The mission of privatization in Nigeria is to transform the Nigerian economy and re-integrate her back into the global economy. According to BPE (March, 2003: 8) the mission of privatization is a revitalized economic and social life, the need to remove the financial burden which public enterprises have on the national treasury so that, resources be released for essential service such as education, health, housing, roads, security and other functions of government.

During the first phase of the exercise between July 1988 and June 1993 the following exercises were successfully carried out:

36 enterprises were privatized through public offer of their shares;
4 enterprises were privatized on deferred public offer method;
8 enterprises were privatized via private placement method;
8 enterprises were privatized via sale of assets method;
1 enterprise was privatized through management buy out method (MBO):
Sale of non-water assets of about 18 river basin development authorities.

In the first phase of the exercise 88 public enterprises were either fully or partially privatized. '. This phase can be considered successful because the exercise was done by Nigerians for Nigerians, without foreign technical assistance. More so, it also reduced the huge financial burden of these enterprises on government, minimized government managerial capacity through a re-definition of the role of supervising ministries, created a large body of share holders and broadened the Nigerian stock market (NSE) For example while the proceeds from the sale of shares in NSE in 1987 before privatization the value of sold shares was *3$* 65.5 billion and by August 2000 the value had risen to W428.9 billion. Other benefits include:

Considerable increase in the volume of corporate taxes accruing to the national treasury: N3.7 billion was realized from the sale of shares and assets of 55 enterprises whose original investment was N652 million. This represent less than 2 percent of the total value of the federal government investment as at 30" November 1990 which stood at N36 billion (Ministry and Finance Incorporated (MOFI).

According to Anya (2003 :2) the first phase of the exercise has reduced greatly the scope of political patronage in the form of "board appointments and jobs for the boys" 280 directorship positions were relinquished in privatised companies and consequently, enhancing their operational autonomy and profitability;

Privatization created over 800,000 shareholders through personal share ownership, which from economic point of view is a welcome development towards capital formation and economic growth for a developing economy as ours;
It has also reduced over reliance of public enterprises on government for funding;
It has also installed lost public confidence and reduced political interference. Since autonomy and liberation allows room for rationalization in investment practices hence, efficiency and profitability.

In the second phase of privatization programme in Nigeria 61 enterprises were original!} slated for privatization (36 partial and 25 full privatization).

BPE added extra 37 enterprises some of which were originally meant for commercialization. Notable enterprises that were privatized in this period include; National Insurance Corporation of Nigeria (NICON), Nigeria Re-insurance Corporation, Niger dock Plc, National Aviation Handling Company (NAHCO), Nigerian Railway Corporation (NRC) Nigeria Ports Authority (NPA), Nigeria;: postal Services (NIPOST) and Savannah Sugar Company. Since 13th December 1999, when the second phase of the exercise started more enterprises have been privatized, adding 2.5 billion shares to the capital market and the sum of W35.6 billion was also realized by the federal government from the sale of shares.

During the second phase of the exercise government was able to raise enough funds to:
Narrow down the budget deficit;
Pay back public debt;
Avoid borrowing;
Restructure other enterprises;
Support social sectors such as; education, health, power, and rural development.

Challenges in the 21st Century

Privatization when correctly planned and implemented brings about efficiency, encourages investment and frees public resources for investment in infrastructure and social programmes

According to Shirley (1988:35) (he success of privatization should not be judged in terms of the sale or contract itself or the price paid to government, or even trie survival and the consequent expansion of the enterprise sold, but rather, on the basis of whether there are net benefits to the economy. However, since 1988 the programme started in Nigeria a lot of benefits have been recorded by the people, the government and the privatized companies.

One major challenge to the role-players is to be patriotic to their fatherland by being tenacious, accountable and the wise use of proceeds from privatized enterprises.

Adequate publicity is also important so that our people can be informed of the gains from privatization so that they can partake in it by being shareholders.

Assessment of enterprises marked for privatization needs a wider audience than the current NCP for reliability. This becomes a challenge when one considers the population size of the country that is currently estimated to be 120 million lest we see the exercise, in negative net worth.

The strategy of relieving workers of their jobs in course of privatization in this era of mass unemployment in the country needs to be re-addressed, such that we can accommodate them in the initiation and implementation of the exercise.

Conclusion

So far, the review has shown that privatization as a tool for economic management was embarked upon in Nigeria since 1988 to redirect our economic and social life, the need to relieve the federal government from the financial burden of the public enterprises so that government can effectively carry out her traditional functions. However, with privatization, the people, privatized companies and the government have been able to record some benefits necessary for the country's smooth take-of and development in general. For Nigerians to continue to enjoy the benefits from privatization now and in the future, accountability should be our watchword.

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