

RE - POSITIONING PRIVATIZATION IN NIGERIA

Amaechi Nguma Iroegbu

Abstract

The issue of privatization is an important one, especially in developing countries such as ours. Pushed by international organizations, such as the IMF and the World Bank, privatization was propelled into the fore-front of public policy in 1980s. The primary aim is to reduce the size and expenditure of government, and the promotion of efficiency and effectiveness in the economic sector of the country. This paper, therefore attempts at re-positioning privatization in Nigeria. Also discussed are the "privatization policy in Nigeria; aims and objectives of privatization in Nigeria, arguments for privatization, arguments against privatization and the problems of privatization in Nigeria. Recommendations as to the possible ways of re-positioning privatization in Nigeria were proffered. The paper concludes that efficiency and performance will increase when the privatization of publicly owned enterprises in Nigeria are re-positioned. Again, if re-positioned to extend across additional sectors, privatization is expected to produce a substantial boost to the Nigeria economy.

Introduction

The issue of privatization is an, important one especially in developing countries such as Nigeria. Pushed by International Organizations such as the International Monetary Fund (IMF) and the World Bank, privatization was propelled into the forefront of public policy in 1980s. There is a consensus in Nigeria that public enterprises are inefficient, that they have served as a means of enriching unscrupulous public officials and politicians, that this has fueled corruption and contributed to political instability in Nigeria. As a result, the Nigerian government is committed to privatizing some publicly - owned enterprises, (Ilokwu, 2005). According to the privatization and commercialization Decree No. 25 of 1988, privatization is the relinquishment of part or all of the equity and other interests held by the Federal Government or its agency in enterprises whether wholly or partly owned by the Federal Government (FGN - supplement to official Gazette Extraordinary, 1988). This decree of 1988 also outlined how the policy of privatization shall be executed in Nigeria.

The primary aim is to reduce the size and expenditure of government and the promotion of efficiency and effectiveness in the economic sector of the country. However, this is against what people think that since 1960 when Nigeria attained political independence, the government and its public agencies expanded the role and size of the public sector in the economy. Specifically, the state acquired commanding control and management in such important activities as banking, insurance, agriculture, manufacturing, mining and other forms of mineral extraction, commerce, construction, provision of health facilities, supply of energy, communication, transportation and other basic goods and services (Ogbuagu, 2000). To illustrate this point, there were prior to the privatization programme about 70 non-commercial and 110 commercial state - owned enterprises which depended on public funds and management for their operations. In monetary terms, the Federal Government invested or held equity shares of over N36 billion in about 500 enterprises. A good number of them were inefficient and unprofitable ventures that depended on state funds. The direct consequences of this and scope of public involvement in the economy was that about 40 percent of the country's annual capital expenditure was expended on public enterprises (Usman, 1986).

The purpose of this study is to re-position the programme of privatization in the Nigerian Society. The work argues that though, major changes and shifts have taken place in the economy as a result of the introduction of (he policy of privatization, the changes have proceeded in such a way that the dominating role and influence of the government in the economic sector have not undergone profound changes. It is relatedly argued that although in some cases, the state is performing fairly different roles in the post-privatization era, it remains a formidable force to reckon with in the control of the economy, hence, the call to re-position privatization in Nigeria.

Privatization Policy in Nigeria

This same 1988 privatization Decree as afore-stated, set out 92 public enterprises to be privatized. It listed the affected enterprise's under 4 categories, see the table below. There are those for full privatization and partial privatization, (Technical Committee on Privatization and Commercialization, TCPC, 1988). The guidelines according to the TCPC define what these categories represent. Full privatization refers to the enterprises or firms in which the Federal Government will give up 100% of its ordinary share holding for sale to individuals and groups. Partial privatization means divestment by the Federal Government of part of its ordinary shareholdings in the designated enterprises.

Table 1
Privatization: Affected Enterprises

Enterprises	No of Companies
For Partial Privatization	
Development Banks	4
Oil Marketing Companies	3
Steel Rolling Mills	3
Air and Sea Travels	2
Fertilizer Companies	2
Paper Mills	3
Sugar Companies	3
Cement Companies	5
For Full Privatization	
Hotels and Tourism	3
Textile companies	3
Transportation Companies	4
Food & Beverages Companies	6
Agric & Livestock Production	18
Salt Companies	2
Wood & Furniture Companies	2
Insurance Companies	14
Films Production & Distribution	2
Flour Milling	1
Cattle Ranches	2
Construction and Engineering Companies	4
Dairy Companies	2
Others	4
Total	92

Source; FGN: Office of the presidency: Technical Committee on Privatization and Commercialization (TCPC) Annual Report and Audited Accounts 1988/89

For full privatization: This means that the disinvestments of the Federal Government of all its ordinary shareholding in designated enterprise. What this means is that the enterprises affected are those which produce goods which are more private - consumptive, than public - the essential in nature.

For partial privatization: This means that the disinvestments by the Federal Government of parts its ordinary shareholding in a designated enterprise. Those enterprises involved are ones which the government considers strategic because of the greater public - essential, nature of their goods or services, hence the government still exercise some influence over them to the extent of its representation on the Board of Directors.

Privatization Involves

- a. Reduction in state provision such as the sale of government shares, expansion of privately provided education, health-care, etc.
- b. Reduction in state subsidy such as the introduction of user charges where they did not exist (e.g. tolls on Federal and State highways) reduction in existing subsidies (e.g. those parastatals like NEPA, Nigerian Airways, NITEL, Nigerian Railway Corporation, etc).
- c. Reduction in state regulation such as allowing private airlines to operate, removal of rent and

- price controls, deregulation of interest rates etc.
- d. A combination of (a) - (c) above - such as allowing private generators and distributors, or selling of government shares in banks, allowing new banks to operate as well as deregulating the environment under which banking is conducted.

In all the same, privatization, therefore, means the relinquishment of part of all of the equity and other interest held by the Federal Government or its agency in enterprises whether wholly or partly owned by the Federal Government (Anyanwu, 1993).

Aims and Objectives of Privatization in Nigeria

The aims and objectives of privatization in Nigeria, according to Technical Committee on Privatization and Commercialization (TCPC) (1988) include:

- a. To restructure and rationalize the public sector in order to lessen the dominance of unproductive investments in that sector.
- b. To re-orientate the enterprises for privatization towards a new horizon of performance improvement, viability and overall efficiency.
- c. To ensure positive returns on public sector investment in commercialized enterprises,
- d. To check the present absolute dependence of commercially oriented parastatals on the treasury for funding and to encourage their approach to the Nigerian Capital Market.
- e. To initiate the process of gradual cession to the private sector of such public enterprises that by their nature of operations, and other social-economic factors are best performed by the private sector (TCPC, 1988).

Arguments for Privatization

- a. It is argued that economic efficiency results from privatization. Public enterprises are said to be inefficient because their services are offered at minimum cost, and operate without a profit motive and accountability. Privatization will therefore result in higher profit maximization.
- b. The second argument for privatization is that of equity, that is, the private market system will create a distribution of goods and services that closely reflects the market distribution of private income and wealth. This is more so in services as hotels, breweries, etc.
- c. The other argument borders on ideology. To its proponents, public provision interferes with the individual's freedom to choose while the taxation necessary to fund public provision is also seen as coercive hence a support for the capitalist mode of production.
- d. The other argument especially in Nigeria is the revenue argument, that is, that privatization will reduce the burden on the dwindling resources of the Government.
- e. There is also abundant evidence of the poor or non-performance of public sector enterprises manifesting in the drain on government resources.
- f. It is argued that privatization will result in better rewarding system, organization and management - through incentives, communication, consultation, collective bargaining and creativity.
- g. *It will* help reduce government regulation of the economy making room for greater deregulation and operation of market forces.
- h. It is direct attainment of one of the IMF pre-conditions and hence a reduction in government expenditure thus making room for successful negotiations on external debt rescheduling, restructuring and refinancing.
- i. It will increase liberty and increased private industries thus enhancing competition.
- j. It is also argued that privatization will help restructure the Nigerian economy reallocate public fund to efficient users, create a self-sustaining culture, attract foreign investors, while goods and services will reflect real values. Other arguments include a shift in emphasis from consumptionist to productionist objectives, motivations of the work force, and instilling of work ethics and greater discipline.

Arguments Against Privatization

- a. It has been clearly established theoretically that where a firm or industry is subject to lack of full information, increasing returns to scale, externalities (as are public enterprises), the efficient outcome will not be achieved irrespective of whether the firm is run as in the supply of such services as water, electricity, telecommunications, and rail transport.
- b. The second argument involves equity, Government intervention influences the distribution of income and wealth in a desired fashion especially in the provision of such goods and services as education, health etc. In these instances, private provision may not only be inequitable but may also be subject to economic inefficiencies.
- c. The third argument borders on ideology. Privatization is undesirable because it would enthrone the unabashed pursuit of private (or selfish) interests, in place of community, where everybody is everyone else's keeper. Under privatization, distribution is highly unequal and some individuals are denied the opportunity and liberty to choose because of their lack of economic resources.
- d. There is also the argument that unemployment will aggravate following consequent retrenchment or lay-offs.
- e. It is a threat to the commanding heights of the economy since most of these activities will now be in private hands.
- f. It will result in the concentration of wealth in a few rich hands hence widening (the income gap between the rich and the poor.
- g. It results in diminishing sense of national cohesion especially as employment will now be discriminatory hence promoting ethnicity.

Problems of Privatization in Nigeria

- a. There is the problem of drawing up an effective time-table for implementation. Of major concern is the issue of the nature of the sale of government assets (whether by private arrangement or by private or public placement on the Nigeria Stock Exchange, NSE), how many such assets are to be sold at any one time, etc.
- b. There is the problem of the institutional framework under which implementation will take place, that is specification of the role of NSE, the securities and financial institutions; and the question of insider dealing.
- c. There is the fear that some elite groups or geographical sections of the country will corner or hijack the sale of the companies to be privatized.
- d. There is also the problem of bureaucratic delays as civil servants procrastinate over privatization and commercialization to prevent the erosion of their power base.
- e. There is the problem of deciding what percentage share-holding should be retained in partially privatized enterprises.
- f. There is the issue of putting the affairs of most enterprises in order - auditing their accounts and restructuring their finances.
- g. There is the problem of how to ensure optimal publicity such that the widest participation results leading to grassroots participation in discussion of the whys, ways of, hows of privatization, as well as the purchase of any government assets put up for sale.
- h. There is the serious problem of what will be the fate of those to be rendered unemployed, even if temporarily as a fallout of privatization,
- i. There is also the issue of how to utilize revenues generated from privatization as similar previous experiences do not point to anything good to show.
- j. One also questions the extent of weight to be given to achieving a widespread dispersal of the equity ownership without compromising on efficient management.
- k. There is also the issue of foreign participation in view of the indigenization programme.

Conclusively, if thorough, painstaking analysis is not adopted in the implementation of privatization in the country, we may end up with worse economic crisis and distortions that those that the police was designed to solve in the first instance.

Recommendations

Based on the above listed problems of privatization in Nigeria, the following recommendations are proffered as ways to repositioning privatization in Nigeria. They are:

1. An effective time-table for implementation of privatization in Nigeria should be drawn, at least to tackle the problem of the sale of government assets.
2. The role of the Nigerian stock Exchange on privatization should be spelt out.
3. The privatization of companies in Nigerian should be such that will have equal representation of all the geographical zones of the country so that citizens will not think that a particular section of the country wants to hijack the sales of the companies.
4. There should not be any delay in carrying out full privatization of companies.
5. The revenue generated from privatization should be utilized effectively.
6. The fate of those to be rendered unemployed, as a result of privatization should be determined.

Conclusion

This paper is of the conclusion that efficiency and performance will increase when the privatization of the publicly-owned enterprises in Nigerian are re-positioned. If re-positioned to extend across additional sectors, Privatization is expected to produce a substantial boost to the Nigerian economy.

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