Ehiorobo, Abraham

Article

Privatization of public enterprises in Nigeria : recipe for sleaze or national development?

Academic Journal of Economic Studies
Vol. 4, No. 1, March 2018, pp. 68–73
ISSN 2393-4913, ISSN On-line 2457-5836

Privatization of Public Enterprises in Nigeria: Recipe for Sleaze or National Development?

Osa Abraham Ehiorobo

Department of Business Administration, University of Lagos, Nigeria,
E-mails: abrahamehiorobo@gmail.com, newdawnabraham@yahoo.com

Abstract *This paper evaluates privatization of public enterprises in Nigeria with a view to determining whether it is a mere recipe for sleaze or that it impacts positively on national development. The study examines the efforts made by both the federal and state governments in Nigeria to divest their interests in running businesses which are assumed to be better handled by private investors. The paper compares privatization in some other countries to assess how the programme is being handled and the kind of results they deliver with a view to replicating such measures in Nigeria. The research made use of a qualitative approach through intensive content analysis. Data for the study were obtained from books, journal articles, published materials from the internet and other public sources. Findings from the study reveal that privatization of public enterprises which is supposed to provide revenue to the government through the sale or concession of such corporations, improve operational efficiency as well as save costs from poor non-regenerative investments have neither helped to improve government revenues nor impact positively on the lives of Nigerians.*

Key words Privatization, public enterprises, transparency, sleaze, divestment

JEL Codes: L33

1. Introduction

Privatization of public enterprises has taken centre stage globally due to the collapse of communism in Eastern Europe and the reforms to accommodate private ownership of business in China. Nigeria had hitherto, practiced a mixed economy that creates opportunity for the co-existence of private initiatives and government ownership of business. But with the poor performance associated with public enterprises in Nigeria, the federal and state governments have recently embarked on a massive privatization programme to divest their interests from such ailing companies and allow the more efficient private sector to run them. With the return to democratic rule in Nigeria on 29th May, 1999, the Bureau of Public Enterprises has been very active in the sale of public enterprises to local and foreign buyers. This is anchored on a deliberate government policy to free the state of huge subsidies spent to keep inefficient firms alive. The administration was convinced that such funds could be channeled to provide other social infrastructure and make the economy private-sector driven.

The Nigerian Enterprises Promotion Decree of 1972 which took effect on 1 April 1974, with its subsequent amendment in 1976, provided a concrete basis for government's extensive participation in the ownership and management of business. Inspired by Marxian philosophy, wherein capitalism was seen as a mere historical phase, some countries opted for its abolition, even at its incipient stage, in favour of socialism. "The prognosis was that the market system, after having improved upon the economic performance of its preceding feudalistic order, itself became an obstacle to the further growth of the economy" (Agrawal and Kundal, 1980).Thus, a variety of enterprises- with public interest in terms of majority participation or fully-owned by the state and local government as well as other governmental entities- became visible in various parts of Nigeria. Between 1975 and 1995, it was estimated that the Federal Government of Nigeria had invested more than $100 billion in public enterprises (Iheme, 1997).

Privatization has long been touted as panacea for the poor performances of public enterprises in order to allow the private sector run such businesses for greater efficiency and profitability. Despite, this excuse for selling off many of such public enterprises in Nigeria, the private investors that acquired them have not fared better as most of the enterprises are either comatose or just struggling to exist. There is no gain-saying the obvious that privatization programme in Nigeria has not yielded the desired results of promoting efficiency, good governance practices and profitability among the privatized companies. Whereas privatization has contributed immensely to higher industrial output, efficiency and profitability in some other countries, the privatized companies in Nigeria either collapse a few years after or become a liability to the investors. This study therefore attempts to answer such questions as why do privatized public enterprises not succeed in Nigeria compared to their counterparts in other countries, and what is the actual motive behind the whole privatization programme?

The aim of this study is to evaluate the essence of privatization of public enterprises in Nigeria in order to determine if the motive is for sleaze or for national development. But more specifically, the research will examine why privatization is a failure in Nigeria, compare privatization exercise in Nigeria with similar programmes in some other countries, and identify the benefits of privatization programme and its contributions to national development.

2. Literature review

2.1. The Concept of Privatization

The concept of privatization connotes different meanings and interpretations to different people depending on the interest being served. But for the purpose of this paper, a few definitions as contained in the literature can be examined. Begg *et al.* (1994) defined privatization "as the sale of public sector companies to the private sector".

The Bureau of Public Enterprises Act of 1993 defined privatization as the relinquishment of part or all of the equity and other interests held by the Federal government or any of its agencies, in enterprises whether wholly or partly owned by the federal government, The Federal Government Handbook on Privatization (2001).

Iheme (1997) sees privatization as "any of a variety of measures adopted by government to expose a public enterprise to competition or to bring in private ownership or control or management into a public enterprise and accordingly to reduce the usual weight of public ownership or control or management".

However one looks at privatization in its broad sense, it connotes the application of the principles of commercialization or the bringing of enterprises under the discipline of the market. It involves a shift towards a market-oriented management of assets held within the public sector. Privatization has two major dimensions which include:

a. Divestiture: this may take three forms like partial, full divestiture or outright liquidation.

b. Enterprise Restructuring or Corporatization: this also involves partial or full commercialization.

Privatization in Nigeria was formally introduced by the Privatization and Commercialization Act of 1988, which later set up the Technical Committee on Privatization and Commercialization (TCPC) headed by Dr. Hamza Zayyad with a mandate to privatize 111 public enterprises and commercialize 34 others. Based on the report submitted to the Federal Government, after successfully privatizing 84 enterprises, the TCPC recommended the establishment of the Bureau of Public Enterprises. The Federal Government then repealed the 1988 Act and promulgated the Bureau of Public Enterprises Act of 1993 to implement the privatization programme in Nigeria. In 1999, the Federal Government enacted the Public Enterprises (Privatization and Commercialization) Act, which created the National Council on Privatization chaired by the then Vice President, Alhaji Atiku Abubakar with a mandate to:

a. Making policies on privatization and commercialization.

b. Determining the modalities for privatization and advising the government accordingly;

c. Determining the timing of privatization for particular enterprises;

d. Approving the prices for shares and the appointment of privatization advisers;

e. Ensuring that commercialized public enterprises are managed in accordance with sound commercial principles and prudent financial practices; and

f. Interfacing between the public enterprises and the supervising ministries in order to ensure effective monitoring and safeguarding of the managerial autonomy of the public enterprises.

The 1999 Act also established the Bureau of Public Enterprises (BPE) as the secretariat of the National Council on Privatization. The functions of the bureau include among others to do the following:

- Implement the council's policies on privatization and commercialization;
- Prepare public enterprises approved by the council for privatization and commercialization;
- Advise the council on capital restructuring needs of enterprises to be privatised;
- Ensure financial discipline and accountability of commercialized enterprises;
- Make recommendations to the council in the appointment of consultants, advisers, investment bankers, issuing houses, stockbrokers, solicitors, trustees, accountants, and other professionals required for the purpose of either privatization or commercialization; and
- Ensure the success of privatization and commercialization implementation through monitoring and evaluation.

Privatization of public enterprises is a global phenomenon in both developed and developing economies of the world. Privatization in the UK started with the sale of over 600,000 houses and flats between 1979-1983 to incumbent tenants. In 1984, British Telecom, British Gas, British Airways, British Steel and the water and electric companies were privatized. By 1993, privatization revenues had exceeded £60 billion in the UK (Begg *et al.*, 1994). "Privatization revenues in developing countries have increased from 17 percent in 1990 to 37 percent in 2006, of total global earnings from the sale of state-owned enterprises" (Anya, 2007).

2.2. National Development and Privatization

National development is measured by improvements in human development indices including health, education, infrastructure, food, housing, lower mortality rates, employment levels, clean and healthy environment and overall improvements in quality of life. Nations that score high on these factors are said to enjoy a high levels of national development. Nigeria cannot be said to have made any meaningful national development since attainment of independence in 1960 judging by the above indices as infrastructural decay characterize the national landscape, poor educational and health facilities, unacceptable unemployment levels, massive poverty and low quality of life.

It is instructive to note that the Federal government, after the attainment of self-rule, embarked on huge investments in corporations where private equity was not available to fast-track national development. These investments cut across every sector of the economy to include transportation (Nigeria Airways, Nigeria Railway Corporation, Nigeria National Shipping Line, etc.); industrial manufacturing (Iwopin paper mills, Ajaokuta Steel Company, Delta Steel Company, Oshogbo Steel Rolling Mills); oil and gas, (Nigerian National Petroleum Corporation, Nigeria Petrochemicals and Refineries Ltd, Nigeria Gas Company, Integrated Data Services Ltd); research centres, (Nigerian Institute for Oil Palm Research, Cocoa Research Institute, National Rubber Research Institute); fishing, (National Fishing Company); electricity (Electricity Corporation of Nigeria); broadcasting, (Federal Radio Corporation of Nigeria, Nigeria Television Authority), to mention just a few. The very idea of establishing public corporations to stimulate economic growth and development was contained in various development plans. In the 70s and 80s, these corporations were regarded as national pride and eligible employees sought to work in any of them. But decline began in the 1990s as most of the public enterprises like National Bank, Allied Bank, Africa Continental Bank, Castel Brewery and the Nigerian National Supply Company, to mention just a few, collapsed (Omoleke, 2008).

Former Nigerian president, Olusegun Obasanjo, had on July 20 1999, during the inauguration of the National Council on Privatization noted that successive governments in Nigeria had invested over N800 billion on public enterprises with unacceptably low returns, and with their inefficiencies and losses charged against public treasury. With this strong argument to support his view, the president embarked on a systematic and gradual process of transferring the ownership, control and management of erstwhile public corporations to private entrepreneurs (Oji *et al.*, 2014).

Privatization is capable of bringing about great positive change in the economic sector of a country (Popoola, 2016). Ogunyemi (1998) cited in Popoola (2016) summarized the benefits of privatization to include increased efficiency, injection of large capital, technical and managerial expertise, reduced government subsidy and improved customer orientation. Other probable arguments in favour of privatization include expansion of production, increased employment opportunities, deepening entrepreneurial orientation, breaking of monopolies, encouragement of competition and market determined prices as well as government generating revenue from the proceeds of privatization. Ikechukwu (2013) noted that the major argument in favour of privatization is in terms of efficiency resulting in the adoption of more precise and measurable objectives on the part of the owners which drives improvements in management and control.

2.3. Privatization and Sleaze

Sleaze is defined by the Oxford Advanced Learner's Dictionary (2001) as dishonest, immoral or dishonest behaviour especially by politicians. It is an act of corruption by which those in position of authority misappropriate public goods for private use. It equally entails rendering undeserved favours through corrupt means to friends, relations and political associates. The entire privatization process in Nigeria is shrouded in questionable deals as most public assets are sold for peanuts to people that are alleged to have pillaged the public treasury. Popoola (2016) opines that privatization could have positive impact on national development if sharp practices are checked.

2.4. Privatization of Public Enterprises in other Countries

Privatization of state-owned enterprises is a global phenomenon. Governments worldwide have been trying to relinquish state control of corporations and allow the more experienced private investors to manage them. Iheme (1997) opines that the government of Margaret Thatcher in the United Kingdom did not embark on privatization due to inefficiency but with a view to reducing government subsidy of public enterprise. Argentina privatized Aerolineas in 1990 but was renationalized in

2009. EnTel, the country's telecommunications company, was sold to France Telecom (Orange) and Spanish Telefonica. Empresa Nacional de Correos y Telegrafos (ENCoTel) was initially given under concession as Correo Argentino but was re-nationalized in 2003. Similarly, Obras Sanitarias (Water Corporation) was given under concession to a French conglomerate, Suez, but was re-nationalized in 2006. The same story goes for Yacimientos Petroliferos Fiscales (YPF) which is the national oil corporation, was sold to Spanish oil giant, Repsol, but in 2012, the Argentine government expropriated 51 percent of its shares.

Australia privatized the Commonwealth Oil Refineries in 1952 while the Commonwealth Bank of Australia was sold in 1991. Qantas, the national carrier, was privatized in 1993 while electricity and natural gas supply companies in Victoria were sold in 1995. Sydney Airport was privatized in 2002 while Medibank Bank of Australia was sold in 2014. Bahrain Telecommunications Co was sold for $800 million in 2005. The Shebin spinning and weaving company in Menoufia, Egypt, which was earlier sold to an Indonesian/Thai conglomerate around year 2000 was being considered for re-nationalization by 2011. It is noteworthy that one of the largest textile companies in the world, the El Nasr Wool & Selected Textiles of Alexandria, Egypt is still owned by the state. In France, some privatized companies include Total, Union des Assurance De Paris (1994), Renault (1996), SEITA (1995), Credit Lyonnais Bank (2001), France Telecom now Orange (1998), Societe Generale Bank (1987) while Electricite de France had 30 percent of its shares sold in 2005. In Germany, Deutsche Bundespost was sold in 1995 while Deutsche Telekom had 32 percent of its stocks sold with the state retaining 68 percent. Deutsche Bundesbahn which became Deutsche Bahn in 1994 is still 100 percent owned by the German government. In Greece, Olympic Airways which had earlier survived five privatizations finally got sold in 2012 due to pressures from the European Union and International Monetary Fund (IMF) creditors (wikipedia.org). In Ghana, the privatization of public water supply has been in the pipeline since 1990. After many tribulations, a 5-year management contract was awarded in 2006. When the contract expired in 2011, the government decided not to extend it due to poor performance (wikipedia.org).

3. Methodology of research

The paper is a conceptual study that leans on the interpretivist philosophy as intentions are value-laden. It therefore behooves on the feelings of the researcher to explain the whole essence of privatizing public enterprises in Nigeria and to establish whether it is based on sleaze or geared towards national development. The ontological position of the research is subjectivism and this view is supported by the fact that privatization of public corporations in Nigeria is open to debate as to what the actual intentions are, and these are subject to individual opinions as most public office holders see it as an opportunity to acquire personal wealth. The study attempted to analyze and explain phenomena from the literature obtained from written texts including textbooks, journal articles, government publications and internet sources. These were then subjected to a vigorous content analysis.

4. Discussions

4.1. Privatization in Nigeria as Recipe for Sleaze or National Development?

Privatization in Nigeria has not been a popular reform programme (Oji *et.al*, 2014). Other critics of the programme argue that privatization inflicts damage on the poor through income reduction, loss of employment, higher prices for, and reduced access to social services among other ills. According to Carl Marx, (cited in Oji et al, 2014), the whole essence of primitive accumulation is to privatize the means of production thereby transferring what belongs to all to a few privileged people. Government policies to privatize are generally anti-workers and at best to further impoverish the vast majority of people in the country (Oji *et al*, 2014). Popoola (2016) notes that privatization, if properly managed, could foster rapid economic development. But regrettably, the public hope and expectations from privatized public enterprises in Nigeria has been dashed due to the shoddy and dubious ways the whole exercise had been handled overtime. Most of the public enterprises were sold to powerful military and political office holders at below market prices. Again, proceeds from the sale of these enterprises are usually under-declared. For instance, it was alleged that Transnational Corporation (Transcorp) privatization proceeds of N301 billion had only N146 billion remitted into the Privatization Proceeds Account (Popoola, 2016).

To many Nigerians, the whole privatization programme is a rip-off and a dubious exercise that places the common wealth of the nation in a few privileged hands. The so-called investors buy these public corporations for the sole purpose of profit maximization. As soon as the companies are bought, the owners reduce overhead costs by retrenching staff thus creating untold hardship for such workers and their dependants. After that, prices are disproportionately increased thus fuelling inflation and making it impossible for the poor to access social services at affordable rates. Privatization in Nigeria is seen as a further means of widening the gap between the rich and the poor rather than the economic and social transformation arguments advanced by the government.

Some other critics of the privatization exercise believe that most of the buyers of the corporations neither have the managerial nor technical expertise to run the businesses. They only go into such ventures with the sole aim of amassing wealth. But due to their managerial and technical deficiencies, such companies have experienced abysmally high levels of poor performance and early mortality rates. For example, Tony Elumelu, a retired banker acquired the Ughelli GenCo for $300 million, while retired Col Sani Bello, former military administrator of Kano State bought the Kainji/Jebba Hydro GenCo for a paltry $170 million. Others include the sale of Shiroro GenCo for $111.7 million to XS Energy Ltd, China International Water Electric and China Three Gorges Corporation. Tope Sonubi and Tonye Cole of Sahara Energy Resources Nigeria acquired Egbin GenCo for $407 million to produce 1000 mw of electricity but can only generate 171 mw. Emeka Ofor acquired Enugu DisCo for $106 million while Ibadan and Yola DisCos were acquired by former head of state, Gen Abdulsalami Abubakar. Former managing director of Union Bank, Funke Osibodu and her husband acquired Benin Disco while Eko DisCo was acquired by Charles Momoh for $135 million (http://www.nigeriabulletin.com). Looking at this list of buyers of the power companies, it is obvious that they are all greenhorns in energy matters and the ridiculously cheap rates at which the monumental national assets were sold to them call for questions.

The story of dubious privatization is not limited to Nigeria alone. Rongli (2010) in his landmark article titled "Forging a new path for state enterprises reform" focused on the corrupt privatization practices in China. In the Tonghuasheng factory where he worked, ownership of the company was transferred to a few government cronies for peanuts. In Russia, the whole privatization process is alleged to be shrouded in secrecy as corrupt moneybags easily hi-jack state owned enterprises. Similarly, the track record of privatization in India is abysmally poor. Between 1991/92 to 1997/98, the actual proceeds from privatization were Rs 11, 000 crore. From 1998/99 to 2001/02, the amount realized was put at Rs 14,856 crore representing just 10 percent of the expected yield of Rs 66,000 crore. "So, since 1991-92, the government of India could only raise Rs 51,608 crore through divestment by 2006-07" (Sethy, nd).

Starr (1988) in an article titled "The Meaning of Privatization" is of the view that privatization is a fuzzy concept that evokes sharp political reactions. He sees privatization as an idea, as theory and rhetoric and as political practice. To him, the normative theories justifying privatization as a direction for public policy draw their inspiration from several different visions of a good society. "By far the most influential is the vision grounded in laissez-faire individualism and free-market economics that promises greater efficiency, a smaller government and more individual choice".

There is no universal acceptance that privatization is the only panacea for ailing state enterprises. Even where state enterprises are generally agreed to be highly inefficient, it is not necessarily clear that privatization will be a remedy. Moreover, the performance of some state owned enterprises- for example, in Malaysia and France – has been excellent, and it is simply not true that as public sectors grow rates of economic growth falls. The retention of majority shares in some French companies such as Eletricite de France where the state still retains 70 percent stake is quite evident. In Germany, the state retaining 100 percent stake in an important public enterprise like Deutsche Bahn is supportive of this assertion.

Recently in Nigeria, the Director General of the Bureau of Public Enterprises (BPE), Dr Christopher Anyanwu had in May 2017 opined that of the over 400 privatized companies in the country, only 10 are performing well representing a dismal 2.5 percent success rate (www.proshareng.com). The question remains, if just an average success rate of 2.5 percent is what previous privatization efforts can guarantee, what attraction does such an exercise hold for the country in considering further privatization of state owned enterprises such as the Nigerian National Petroleum Corporation (NNPC) and the nation's refineries? The only sound reason for this is perhaps another opportunity for sleaze as only dubious government officials who have pilferage the national treasury will buy these national assets with their ill-gotten wealth not to improve performance but as an avenue to spend some of their stolen public funds to further impoverish the masses.

5. Conclusions

This paper examined privatization of public enterprises in Nigeria with a view to determining if the exercise is a mere opportunity for sleaze or whether it is actually intended to improve efficiency and thus, national development. It considered the story so far in respect of privatization in Nigeria and also analyzed how the programme has fared in some other countries. From the study, it was deduced that privatization has not in any way proved to be a better option for achieving national development as even such developed countries like France and Germany still retain some state-owned enterprises for strategic reasons. Again, if the success rate of privatized companies in Nigeria is less than 2.5 percent, what then is the superior argument that can convince Nigerians that the exercise will prove beneficial to them?

Sethy (nd) notes that many studies conducted in different countries have revealed that public corporations can be efficiently managed too and can equally experience higher productivity growth compared to private enterprises. It is also worthy of note that rather than outright privatization, the Chinese government encourages competition among state enterprises. From the foregoing, it thus appear that privatization of public enterprises in Nigeria is only beneficial to a few privileged individuals who use their ill-gotten wealth to acquire national assets to the detriment of the vast majority who are further impoverished by these bourgeoisies through increases in prices of vital goods and services. Sumit (2009) submits that a state that privatizes well will also have managed its enterprises well. Thus, a relatively incompetent government will manage its privatization in a shoddy manner as we continue to experience in Nigeria.

Recommendation

Due to the fact that privatization of public enterprises in Nigeria is shrouded in secrecy and often hijacked by moneybags, it is hereby recommended that the exercise should be suspended henceforth until a better mode of ensuring public confidence in the process is established. The voucher privatization method that enhances inclusiveness and the management buy-out options should be explored as more genuine means of distributing national assets rather than allowing a few privileged individuals to expropriate key national assets.

References

Agrawal, K.L. (1980). *Economic Planning*; (2nd ed.) Vikas Publishing House, Pvt Ltd, New Delhi.

Anya, O.A. (2007). "Privatization in Nigeria". A paper delivered at the Netherlands Congress Centre (NCC), The Hague, as part of Independence day celebration by the Nigerian embassy. http/www.nigerianembassy.nl/prof.%20Anya.htm. Accessed 12th October, 2017.

Anyanwu, C. (2017). "Only 10 privatized firms are doing well". http://www.proshareng.com/news/Nigeria-economy/only-10-privatized-firms-are-doing-well, says-BPE-/7585. Accessed 18th December, 2017.

Beggs, D., Fisher S. and Rudigar D. (1994) *Economics:* (4th ed). McGraw Hill, Berkshire England.

Bureau of Public Enterprises (2000). Excerpts from the consultants' report of the 1999 Privatizationand Commercialization Transaction (Abuja, May 2006).

Federal Republic of Nigeria: *Privatization handbook* (Abuja-Nigeria; The Presidency, Bureau of Public Enterprises, 2001 p.26).

http://en.m.wikipedia.org/wiki/list_of_privatizations_by_country. Accessed 19/12/2017.

(http://en.m.wikipedia.org/wiki/Water_privatization_in_Ghana Accessed 19/12/2017.

http://www.nigeriabulletin.com/threads/list-privatized-power-companies-in-nigeria-and-their-owners.239210/Accessed on 13thDecember, 2017.

Iheme, E. (1997). *The incubus: The story of public enterprises*, Lagos Nigeria. The Helsmen Association Press.

Ikechukwu, O.I. (2013). Privatization of public enterprises in Nigeria: Developing country studies, www.iiste.com 3(3). Accessed 16th November, 2017.

Obasanjo, O. (1999). An address delivered at the inauguration of the National Council on Privatization and Commercialization. Aso Rock Villa, Abuja, 20th July, 1999.

Oji, R.O., Nwachukwu, E.C. & Eme, I.O. (2014). Privatization of Public enterprises in Nigeria: A thematic exposition, *Singaporean Journal of Business, Economics and Management* 3(2), 182-197.

Omoleke, I.I. (2008). *Emergence and collapse of public enterprises in Nigeria*, Ile-Ife. Obafemi Awolowo University Press.

Popoola, O.O. (2016). Privatization of public enterprises in Nigeria: Critical success factors, *Journal of Law, Policy and Globalization*, 49, 83-94.

Rongli, L. (2000). Forging a new path for state enterprises reform http//www.clntranslation.org/file-download/107. Retrieved 20/08/2017.

Sethy, V. (nd). http://www.yourarticlelibrary.com/india-2/privatization/privatization-in-india-meaning-critical-analysis-and-other-details/62916 Assessed 23rd December, 2017.

Starr, P. (1988)."The meaning of privatization" *Yale Law and Policy Review* (6): 6-41.

Sumit, K.M. (2009). Why privatization fails in India. http://www.slideshare.net/pradeepchoudhary/why-privatization-is-failing-in-india. Accessed 13th December, 2017.