

Nigerian Economy and Privatization of Public Enterprises

Victor I. Lukpata (Ph.D), Dada A. Olurunfemi, Elimian Alexander, Adeshi
Christopher A

Department of History & Diplomatic Studies Federal University Wukari, Taraba State, Nigeria

Department of Political Science Federal University Wukari, Taraba State, Nigeria

Abstract: *Public Enterprises are business organizations set up and financed by the government to provide essential services to the members of the public. They may be set up by the Federal, State, or Local governments. The public enterprises are controlled by the government: Though the ministers and commissioners, the government appoints members of the board of directors, who then employ empty managers to run the business. Unlike most businesses which have the primary motive of making profit, public enterprises are set up to provide essential services to the public at affordable prices. In recent times, government has undertaken privatization of public enterprises perhaps because of the operational ineffectiveness that characterized public enterprises. The central question that begs for an answer is has privatization brought improvement in the Nigerian economy. The focus of this research is to attempt to answer such critical question with a view to proffering useful recommendations as way forward. Historical descriptive approach was adopted as method of data collection. The research findings reveals a contradiction of government action at privatization*

Keywords: *public enterprises, government, privatization, board of directors, essential services.*

I. Introduction

Privatization of public Enterprises is pre-determined by crisis in the Nigerian economy. The reality is that majority of the enterprises in which government holds full equity are mostly under-capitalised and managed with low capacity performance. In a bid to find a solution to this situation as a way forward toward economic development feasibility government decided to invite the Technical committee on privatization and commercialization to advise on the capital restructuring needs of enterprises to be privatized or commercialized in order to ensure a good reception in the stock Exchange market as well as to facilitate good management and independent access to the capital market. Taking the current Nigerian economic crisis into consideration, the issue of a proper capital base is fundamental to the success of the whole exercise of privatization. The question now is "how has privatization of public enterprises fared so far in tackling the Nigerian economic crises?"

WHAT IS PRIVATIZATION?

Privatization is a politico-economic concept which means the transformation of a public undertaking into a private enterprise organization. It can also serve as a means of rationalization.

It can also be defined as a process whereby government ownership of a public enterprise is transferred to private sector with government withdrawing its shares either partially or wholly.

In general, privatization involves the reduction of public sector intervention in economic activities such as:

- a. Reduction in state provision e.g selling of government shares, expansion of privately provided education, health care etc.
- b. Reduction in state subsidy e.g. Toll gates on Federal and state highways.
- c. Reduction in existing subsidy on petroleum, fertilizer,.
- d. Reduction of subsidy to parastatals e.g National Electric power Authority (NEPA), Nigerian port Authority (NPA) Nigerian Railway corporation (NRC) etc.
- e. Reduction in State regulation e.g. allowing private Airlines to operate, removal of rent and price control etc.
- f. Reduction of complex administrative control simultaneously with greater reliance on market forces. Adoption of appropriate pricing especially petroleum products. (Kaiser, 1970:50)

HISTORICAL ORIGIN OF PRIVATIZATION

Historically, privatization developed as a political action to de-nationalise industries owned and controlled by the State in the period when socialist ideology of public ownership was in vogue in Europe. The trend began in Germany in the late 1940s, at the time when the socialist government in the United Kingdom began its political action of nationalization. The German approach represents the view that government is established for the orderly regulation of the community and its direct involvement in business is a contradiction.

Therefore, nationalized industries or state enterprises of the Federal, State and municipalities were sold to private entrepreneurs. It is claimed that between 1949 and 1958, thirty-two public enterprises were sold. However, this practice in itself does not mean an end to state enterprises. According to Prof. Kaiser, "the transformation of private enterprises into public enterprises does not entail any particular problem if the enterprise retains the form of a private corporation. In that case the state buys a majority of the shares and consequently acquires a leading influence in the company.

In the United Kingdom where socialization has been the major political matter since 1940s, the element of privatization has appeared since a conservative government came to power 1979. It is said that fourteen large companies and many smaller ones have long passed from public ownership to private ownership. The decision to outrightly sell the state enterprise to the public is the introduction of holding companies to manage and establish private companies by the commission of state owned companies into joint ventures between government and private entrepreneurs. This is the approach adopted in Italy, Sweden, Canada and through investment organizations in Nigeria e.g. Odua Investment company and New Nigerian Development Company.

In USSR where there is a prevalent of socialist principle of central control in the management of state enterprises, it has now been found necessary to introduce changes to make them more efficient in operation and responsive to the needs of the community. The Government has while keeping in line with the philosophy of socialism decided to adopt a new pattern of organization and structure called "perestroika" which is designed to reduce and eventually eliminate direct central funding and control of state enterprises. This new programme of perestroika involves the democratization of all soviet organs and an economic reform.

Nigeria has equally adopted a programme of reform for state enterprises. Fuelled by the gloomy global economic out-look, the Nigerian Government introduced structural adjustment programme in 1986 to strengthen the economy by reducing the flow of public funds to unproductive state enterprises and providing needed funds for administration and development. This drive as you know involves the privatization and commercialization of state enterprises. In giving this programme a backing the government has promulgated the privatization and commercialization Degree 1988 which placed state Enterprises under its provisions. It lays down the degree of privatization of specified enterprises ranging from 30 to 100 percent. Existing government holdings in commercial and Merchant Banks varying from 5% (Merchant Bank of Africa) to the highest level of 51.67 percent (Union Bank of Nigeria Limited) were retained holdings by government and its agencies in agricultural, cooperative and development banks were reduced from 100 to 70 percent; government holdings in oil marketing companies, steel rolling mills, fertilizer, paper and sugar were brought down to 40%, in cement to 30 percent except in the Nigerian Cement company to only 10%, in motor vehicles and truck assembly to 35 percent and finally 67 enterprises with 100 percent government equity to be fully privatized. (Kaiser, 1970:70)

The analysis above shows that the measure is not total. This is so because there are still 68 fully-owned government enterprises which will retain their status, but undergo "partial" and "full" commercialization. It is provided in the Decree that they will be re-organised to ensure that they operate as profit-making commercial ventures without subventions from government(Kaiser, 1970:70).

OBJECTIVES OF PRIVATIZATION

The objectives of privatization are as follows:

- i. Leasing the dominance of unproductive investment in the public sector.
- ii. Improving the public sector efficiency
- iii. To generate revenue to the government in the form of funds from private, local and foreign equity buyers.
- iv. To intensify the growth potential of the private sector.
- v. To trim down the size of the public sector.
- vi. To contribute to the solution of the country's fiscal problem.
- vii. To tackle the problem of corruption existing in the public sector(Usman, 1987:15).

Nigerian Economic Crisis And Privatization Of Public Enterprises

Privatization of public enterprises have not succeeded in finding a solution to the Nigerian economic crisis. If any privatization has only succeeded in deepening the crisis of economic underdevelopment because of the following prevailing circumstances that stand tall against privatization:-

One issue under privatization is the entrenchment of retrenchment when an enterprise is sold out completely. There is no doubt that the owners will undertake re-organisation to meet their requirements and needs. With the unfortunate characterization of mismanagement which is the general image of government enterprises, new top and line management staff will be installed with consequence that a good number of staff will become redundant. With this development the present high rate of unemployment will further worsen.

The extend to which the private sector has enough management staff to absorb all enterprises to be privatized, and the prevalent assumption that managers in the private sector are more efficient and effective than

these in the public enterprises. This is doubtful taking into consideration the constraints under which the latter operate. In a developing economy like Nigeria with a high ratio population increase, there is virtually no competition in the area of consumer goods etc. In a situation of high and low capacity utilization of equipment manufacturers do dispose of their products with no apparent difficulty and declare huge profits at the end of year. In spite of this situation, many managers took panic measures at the onset of the Foreign Exchange Market and the Structural Adjustment programme by reducing staff and benefits.

It has been claimed as one of the reasons for privatization that as at 1986 the Federal Government had invested 36 billion as equity, loans and subventions in public corporations and government companies and realized less than N500 million annually from these investments. According to Tokunboh:90:94 over 79 Federal Parastatals are wholly or partially dependent on government funding. These include ASCON, Centre for Black and African Arts and Civilization, Citizenship and Leadership Training Centre, Law Reform Commission, National Universities Commission, Nigerian Pilgrims Board, Research Institutes, Universities, Industrial Training Fund, Teaching Hospitals, National Institute for policy and Strategic studies, Petroleum Training Institute, PRODA, River Basin Authorities etc. A sizeable chunk of money was sunk into these organizations by the Federal and State governments. As this organizations are more expressions of government policies they are not suitable for privatization. At best they are to be rationalized Tokunboh, 1990:17) .

Privatization evokes an air of finality in the life of a public enterprise. It gives the impression that the State has come so far and has no further intentions of worrying itself with entrepreneurial rule, preferring to move back to the traditional task of minimalist government. The problem with privatization in this view is that it exposes the State as an irresponsible agency. Thus, privatization contradicts the developmental aspiration enunciated in the past National Development plans and incorporated in the constitution of Nigeria as directive principles of state policy.

From the point of view of equity there is also a strong case against privatization. Not only does the policy deny the State its veritable tools of planning or National Development, privatization supports the capitalistic ideology in which every enterprise will be free to pursue its own selfish interest. This situation is sure to deepen the crisis of under-development. To privatize is to sustain and maintain this system. It is meant to encourage or produce or produce the coordination among producers and consumers. It is also a means by which jungle laws are strengthened among giant corporations each of which is to pursue its own interest as dictated by its personal greed leaving none in a position to harness its resources and distribute them as best as possible to serve the interest of the common man.

Privatization prepares grounds for the concentration of resources in a few hands and the perpetuation of exploitation of small and poor by the big and rich in the society. And by strengthening the influence of the capitalist class and its alliance with foreign capital it means that capital would have been given firm support to continue to dominate and control the basic economic policy of the country to the negation of public interest.

Privatization creates a situation of uneven distribution of services. This is so because distribution will now be based on the ability to buy as predetermined by *Laissez faire*, that is the forces of demand and supply (Tokunboh, 1990:25).

Suggestions For Improvement/Way Forward:

The above prevailing circumstances which are the aftermath of privatization has no doubt deepen the Nigerian economic crisis currently experience in Nigeria:-

Regarding government-owned companies – registered under the company Act, there are many of them which are independent of government funding. The constraints of a few of them are inadequate capital base and ministerial interference. If the application of the policy of commercialization as effected in the government owned companies, that is freedom to operate in the same manner as private companies is taken seriously, there is no doubt that, with the constraints removed, it would be possible to determine those which cannot subsist in the competitive market. It is in this area that the introduction of the system of “holding companies” can be a useful alternative. It has been suggested that until economic charges are imposed for the services of government undertaking government subsidies will continue surely. If the capital base are inadequate, charges for services particularly in the essential areas have to take into consideration, the low level of income of the majority of our people and therefore their ability to pay for the services. It is not an acceptable development to say that because Americans pay \$166.67 for air flight from New York to Washington a distance of 215 miles, a similar charges be made for a similar trip from Kano to Sokoto (230 miles). If this happens there may be no passenger to lift. This argument applies equally to other services such as water, electricity, transportation etc.

The privatization exercise has brought out the need for an in-depth study of industrial and commercial government enterprises to find out why they are inefficient in the provision of the services for which they are established. The problems of the Railways and Airways for example, cannot be isolated from the general issue of transportation for the whole country and the consideration of complementary and feeder arrangements. Government should endeavour to among others take seriously the advice of the Onosode presidential

Commission which government accepted in the white paper on its report that “an increased role by the private sector should be considered especially in those parastatals where security and other sensitive aspects of public policy are not as paramount as the satisfactory delivery of service to the people. In view of the fact that the number of Federal parastatals has grown to over 200, there is a real risk of available management capacity being over-extended. It is therefore, in the interest of the Nigerian economy and efficiency to role back the pontiers of government in this direction.

Privatization is bound to create a future political problem if some of the enterprises are within the area of essential services to the community and it protective conditions of public interest are not imposed from the onset. Considering the primordial instinct for maximum profit by the private sector, such services may be priced out of reach for many people, in which case the state might be forced by political pressures among others to take over the services or to introduce legislation for the control of such enterprises in the public interest. Privatization is an exercise that requires cautious effort by having as a priority the interest of the community which made the enterprises in their early stages to be developed and run by the state.

II. Conclusion:

Privatization of public enterprises in Nigeria has not help in providing a solution to the Nigerian economic crisis due solely to the prevalent cases against privatization as mentioned above. However, it is never too late to find a solution to the Nigerian economic crisis through privatization. The suggestions for improvement above will go a long way to proffering a solution, that will stand the test of thing to the Nigerian economic crisis if they are strictly adjoined to.

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