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Privatisation in Nigeria: A critical analysis of the virtues and vices

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Abstract

The twin-problems of mismanagement and corruption encountered by the state-owned corporations constitute the impetus for the recent privatisation of those corporations in Nigeria. Private sector seems, however, inseparable from public sector as viable public sector serves as guide for the private sector. It goes on to reason that a decaying public sector would give rise to inefficient private sector. Also, private sector has its own inherent contradictions as privatisation in itself is not an antidote to corruption and mismanagement of which the public sector is being accused. The controversy and the contradictions in this topical issue aroused the interest and concern of this paper. The focus of the paper, therefore, is to present the two sides of the arguments on the viability of privatisation. The paper adopted content analysis in driving home its points.

Keywords: Corporations, Corruption, Mismanagement, Private Sector, Public Sector

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1. Introduction

In Nigeria, the public service has not been productive. As a result, public service has become avenue for corruption and has impacted negatively on the economy, making it inevitably imperative to encourage the private sector to do business while the government provides infrastructural base for the private businesses to grow.

It is important to observe that for many developing countries like Nigeria, it was, perhaps, inevitable for the government, in an immediate post independent period, to be directly involved in national development efforts, especially when the private sector was almost non-existent. Unfortunately however, government later became so much engrossed in business that could be best handled by the private sector, so much that it could no longer perform its traditional functions of provision of infrastructure and security through maintenance of law and order as well as the promotion of an enabling environment for investments and wealth creation (Iheme, 1997).

The issue of privatisation has been a subject of intense global debate in recent years. In Africa, it has remained highly controversial as well as confusing. Privatisation in Nigeria has not been a popular and an accepted reform. It has received so much criticism from labour, academia and individuals. Granted the recent global financial meltdown that reared its ugly head in America and that has spread to parts of Europe, privatisation now becomes a victim of inherent contradiction that produces its own synthesis.

In Nigeria, the organised labour union had embarked on several strikes as well as issued threats of strike against privatising key government corporations. The most recent of which has been the current deregulation of the downstream oil sector. The Federal Government had announced removal of subsidy on fuel to allow forces of demand and supply to dictate the price of crude oil in the market and had increased the oil price to One Hundred and Forty Naira (N140) Nigerian money per litre of petrol (about $1 per litre) from the earlier price of Sixty Five naira (N65). There are different schools of thought on privatisation.

Following the announcement on January 1, 2012, there has been series of both peaceful and violent protests across the states of the federation including Abuja, the federal capital city.

The Nigerian Labour Congress (NLC), the Trade Union Congress (TUC) and their affiliates including plethora of Civil Societies Groups have embarked on strikes and protests chanting antigovernment songs. The Nigerian economy has since been paralysed and the unions and the Civil Society groups had told the Federal Government to reverse the price to its earlier Sixty Five Naira (N65) per litre.

There are different schools of thought on privatisation. The proponents of privatization perceives privatization as a means through which wealth could be created by allowing private sector to manage the economy. While the critics argue, however, that privatisation inflicts damage on the poor through loss of employment, reduction in income and reduction in access to basic social services as well as increase in prices of consumer products, making it unavailable and unaffordable to the poor.

This paper, therefore, examines the reasons for establishing public enterprises, the causes of its failures as well as presenting the different views of the various schools of thought. It concludes by summarising the views of the authors and recommends lasting solutions to the problems associated with privatisation.

2. Conceptual clarification

The concept of privatisation is shrouded with controversy, so also the results it is expected to deliver. This is because privatisation is synonymous with philosophy. The realities on ground vary substantially with the philosophical connotation of privatisation, and so actual result is at variance with philosophical tenets of privatisation. Iheme (1997) defines privatisation 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, in a strict sense, privatisation means the transfer of the ownership (and all the incidence of ownership, including management) of a public enterprise to private investors. The latter meaning has the advantage of helping one to draw a line between privatisation and other varieties of public enterprise reform. It is also the sense in which the term has been statutorily defined in Nigeria.*

In a similar vein, Starr (1998) conceives privatisation as 'a shift from the public to the private sector, not shifts within sectors'. According to him, the conversion of a state agency into an autonomous public authority or state owned enterprise is not privatisation, neither is conversion of a private non-profit organisation into a profit making form on its own connotes privatization (cited in Igbuzor, 2003).

Also, the Privatisation and Commercialisation Act of 1988 and the Bureau of public Enterprises Act of 1993 defined privatisation 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' (cited in Igbuzor, 2003). Privatisation can also be viewed as "the incidence or process of transferring ownership of business from the public sector (government) to the private sector (business)" (Ogundiya et al., 2011, p. 342). In a broader sense, privatisation refers to transfer of any government function to the private sector including governmental functions like revenue collection and law enforcement (Wikipedia, 2008). In the same trend, Nwoye (2007) conceives privatisation as 'the transfer of ownership and control of enterprise from the state to the private sector.'

From the definitions above, three assumptions are discernible. One, for privatisation to take place, public enterprises must be in existence to ensure the conversion. Two, there is assumption that the transfer of ownership to private individuals will propel better performance and three, the transfer of ownership and control or change of ownership is predicated on the belief that there are problems with public enterprises. Also the philosophical assumptions of privatisation are predicated on the connotation that there is transfer of assets or service delivery from the government to the private sector. It also connotes the sale of government-owned businesses to the private sector. Privatisation can be done by a sale of the entire business, or a controlling share in a business to a single company, or alternatively by sale through floatation of all parts of the share capital of the company.

3. The historical survey of privatisation in Nigeria

Privatisation programme is not a recent phenomenon. A number of countries have, in the past, adopted privatization; countries like Chile, United Kingdom, to mention but a few, have privatized a number of public corporations as a way of resuscitating their economies. As Iheme (1997) has argued privatization is a means of ensuring efficient management of the economy through the involvement and domination of the private sector in order to guarantee transparency through free competition. The earlier countries that strongly opposed privatization have embraced the policy as a way improving on their economic performance. Such countries include those in the eastern bloc like Russia, Romania, Czechoslovakia, e.t.c. 'It has been documented that more than 8,500 State-Owned enterprises in over 80 countries have been privatised in the past 12 years' (Igbuzor, 2003).

The private sector is the traditional structure of the world economies. The involvement of public sector in business was propelled by the need to provide essential services which require very huge financial outlay and to cater for the need of the citizenry. It was also considered expedient at that time as Nigeria was evolving from British suzerainty and needed to provide infrastructure for her fast growing population and as an impetus for civilization.

The Nigerian railway corporation was probably the first major example of public sector enterprise in Nigeria. At first, it was meant to satisfy the yearnings of colonial government in its unrepentant exploitation and exportation of Nigerian resources. The provision of rail lines was not for the infrastructural development of Nigeria but to aid the exploitation agenda of the colonial government.

Although for parochial tendencies, the colonial government laid the foundation for infrastructure in Nigeria by providing social amenities and social services but this were largely restrictive and segregated as the privileged few had access to these facilities (Nwoye, 2007). Government was directly involved in the productive sectors of the economy: the stone quarry at Aro, the colliery at Udi, sawmill and furniture factory at Ijora, Lagos (Anya, 2007, 4). The emergence of crude oil in the 70s, however, increased the pace and tempo of government involvement in the production of services and control of the national economy. The major motive behind it was to convert, as much as possible, the growing oil revenue into social, physical, economic and infrastructural developments. The motive was, however, defeated as the involvement and the oil boom introduced corruption into national life, as little or no effort was made to transform the boom into physical and concrete infrastructural development.

It was recorded that the number of public corporations grew substantially between 1975 and 1998 so much that Nigeria invested over $100 billion to provide more public enterprises. But there was policy departure with the advent of democracy in Nigeria in 1999 as the federal government embraced privatisation policy as a way of bringing about efficient management of the national economy.

4. Factors accounting for the establishment of public enterprises in Nigeria

Various factors have been identified to have accounted for the establishment of public enterprises in Nigeria. Six of these factors are examined in this paper. They include:

4.1. Development emphasis

Private sector in developing countries are faced with financial crunch to embark on the provision of certain services that require huge financial outlay. Such services include hydroelectricity generating plant, dam, e.t.c. In addition to this, the fact that those projects are long-term which take a long time for investment returns are realized discourages private sector involvement. This prompted the federal government to embark on such development project for the citizenry.

4.2. Political consideration

Development is synonymous with provision of certain welfare services and that government's performance is measured by its ability to provide these services to the people. Consequently, for government to be adjudged a performing one, it must be involved in the productive sector of the economy by owing and controlling public corporations. Governments in Nigeria also use this aspect as a way of securing second term in office.

4.3. Affordability and accessibility

Left in the hands of the private sector, the poor may not have access to social services like health services, education, water, etc; government, therefore, is propelled to intervene by the reason of making it affordable and accessible to the down trodden.

4.4. Consumer's protection

Government intervenes in the provision of some essential services like education to protect the motherless children, free health to protect the poor pregnant women, etc.

4.5. Indivisibility factor

Government's intervention in some services stems from the fact that such goods and services are indivisible, which can neither be divided nor partially provided. Such facilities include: bridges, tunnels, roads, streetlights, and waste disposal facilities. Either streetlights are provided for everybody in the community or they are not. It can not be discriminatorily provided.

4.6. National security

Certain facilities like the Nigerian Ports Authority and the Police, the Nigerian Armed Forces, etc, are too vital to be left in the hands of the private individuals.

5. Privatisation in Nigeria: a discourse

The issue of mismanagement and under-utilisation, which led to huge waste of resources and manpower potentials, spurred the government to pursue privatisation programme. There were about 600 public enterprises in Nigeria run or controlled by the Federal Government (Nwoye, 2007). These corporations took a sizeable portion of the federal budget and account for over 5000 appointments into their management and board. Government's intervention later became a source of political patronage (Akinrele, 2002).

The Bureau of Public Enterprises (BPE) carved up the privatisation into three phases. Phases I and II, which involved the privatisation of commercial and merchant banks such as FSB International Bank and NAL Merchant Bank, quoted cement companies such as West African Portland Cement Co. and Benue Cement Company, downstream oil companies such as Unipetrol Nigeria Plc., National Oil and Chemical Marketing Co. (NOLCHEM) and African Petroleum, amongst others, have been almost completed.

Phase III is ear-marked for the larger state-owned enterprises including the National Electric Power Authority (NEPA) now Power Holding Company of Nigeria (PHCN), Nigerian Telecommunications Plc. (NITEL), Nigeria Ports Authority Plc. (NPA Plc), Nigeria Airways, the Nigerian Security Printing and Minting Company Ltd (NSPMC), Nigeria Railway Corporation (NRC) and Petroleum Refineries, among others. The BPE is currently in the process of short-listing and selecting successful consortia for the privatisation of other companies in this phase, such as NPA Plc., the National Insurance Corporation of Nigeria (NICON), the Federal Airport Authority of Nigeria (FAAN) and the NSPMC (otherwise known as the Mint) (Akinrele, 2002).

Perhaps the single most significant occurrence in the nation's liberalisation process was the deregulation of its financial sector, particularly with the repeal in 1995 of the Exchange Control Act, the principal legislation then regulating foreign currency related transactions. The Act was replaced by the Foreign Exchange (Monitoring & Miscellaneous Provisions) Decree of 1995, which permits any individual or corporate body to invest in any Nigerian enterprise or security with foreign currency or capital imported into Nigeria through an Authorised Dealer (a bank or other non-banking organization so licensed by the Central Bank of Nigeria) either through telegraphic transfer, cheques or other negotiable instrument. This financial deregulation was coupled with other activities in the nation's economy, such as the establishment of export processing zones which allow manufacturing concerns to produce in those zones and export their products tax free for a given period, tax holidays and reliefs being granted companies with high capital investments and on the global platform, Nigeria's ratification and subsequent membership of the WTO as a mark of the nation's commitment to liberalisation and free trade. These incentives have boosted the deregulation of other key sectors of the economy such as telecommunications, energy, transport and power generation, thereby paving the way for the privatisation initiative.

At a point, Nigeria began to experience precarious fiscal and monetary posture as a result of the seeming incapacitation of the public sector to safeguard the economy. Consequently, the public sector outgrew the capacity of the federal government to manage and began to suffer from bureaucratic pathology, which included undue political influence and interference, ineptitude and corrupt practices (Egwu, 1998). "With the deep internal crises that included high rates of inflation and unemployment, external debt obligations, and foreign exchange problems, Nigeria and many other African countries were strongly advised by the world lending agencies, particularly International Monetary Fund (IMF) and the World Bank to divest government of public enterprises as one of the conditionalities for economic assistance" (Ogundiya et al., 2011, p. 342), with the major focus on economic liberalisation and democratisation. By this development, Nigeria became conscious that privatisation as an economic reform would help address public sector inefficiency, thereby allowing private sector involvement and participation in the national economy.

Consequently, a decree establishing the Technical Committee on Privatisation and Commercialisation (TCPC) was promulgated under the chairmanship of Dr Hamza Zayyad, with the functions to, *inter alia,* determine the operational guidelines for privatisation; determine the prices of privatized public corporations; ensure effective monitoring and supervision of the processes of privatisation; ensure that the newly privatized public corporations follow strictly the principles and guidelines of privatisation and determine the duration during of privatisation process. NCPC also has as its secretariat the Bureau of Public Enterprises saddled with the responsibilities of carrying out various policies on privatisation; nominating public corporations for privatisation; ensuring accountability and financial discipline in the privatisation dealings; giving advice to the council on the technical issues of privatisation; ensuring successful privatisation exercise; and providing secretariat support to the council.

6. The Virtues of privatisation

Despite the intense criticisms against privatisation, some schools of thought believed that privatisation has some benefits. Its benefits are a function of the objectives it wants to achieve. Some of the arguments advanced in favour of privatisation include:

1. It increases productive and operational efficiency; and reliability of public enterprises;
2. It stimulates national economy by providing job opportunities for the teeming unemployed youths.
3. It improves the financial health of public services with savings from suspended subsidies;
4. It creates more resources for allocation to other sectors of the economy that need urgent attention. For instance large sums of money hitherto used for subsidies could be used for rural development and provision of infrastructural facilities;
5. It widens and broadens market by increase in share capitalization and recapitalization. For instance in Nigeria, the sales of shares and assets has yielded over 3.7 billion naira as a profit of privatisation ;
6. Privatisation removes political interference and reduces government wasteful spending on inefficient public enterprises;

7. Privatisation encourages savings and investment through buying of shares by individual citizens. The programme has also intensified the operations of the capital market, created new awareness in the virtues of shareholding as a form of savings rather expenditures, thereby reducing level of inflation.

7. The Vices of privatisation

Arguments were rife against privatisation. Some of these critics hinged their arguments on the external inspiration of privatisation. According to them, the idea was not home-grown and as such, it is designed to serve the interests of its initiators. Resentment against privatisation is intensified because a good number of the larger enterprises being privatised are bought over by foreign interests. Several of the arguments are discussed below.

7.1. Exorbitant Prices

Those who oppose privatisation raise the fear of exorbitant prices that may prevent members of the public from having access to the goods if the private individuals are allowed to run the economy.

7.2. Creating poverty

At the heart of the criticism of privatisation is the perception that it has impacted negatively on the poor and made the workforce more vulnerable. While benefiting the rich, the powerful and the privileged, it increases the gap between the rich and the poor.

7.3. Factionalisation of unions

Workers are threatened with downsizing, rightsizing, rationalising and other terms that connote retrenchment of workers characterise privatisation regime. This divides the union as some are left while others are retrenched, thus creating ‘divide and rule’. The aim of privatisation is to maximise profits by reducing cost as much as possible through retrenchment of workers.

7.4. Corruption

It has been discovered that the private sector is also culpable of corrupt practices associated with public sector. Privatisation does not, on its own, remove corruption. Corruption, in the private sector, manifests in the form of collaboration and conspiracy. The private sector facilitates corruption in the public sector through financial crimes. For instance, in Nigeria, the banking sector has been accused of assisting the political office holders for money transfers, holding foreign accounts, etc (Arowolo, 2010). It is also discovered that banks facilitate money laundering and get involved in grand economic conspiracy by deliberately hoarding information on financial crimes.

7.5. Capitalist exploitation

Privatisation is seen as an imposition by foreign capitalist countries and agencies like the IMF and the World Bank. Privatisation, therefore, is designed to exploit the developing countries and further create world inequalities.

7.6. Corrupt process

The process of privatisation in Nigeria has always been pervaded by corruption. For instance, the recent probe of activities of BPE during Senate Public Hearing on the activities of BPE has opened cankerworm of shady deals and corrupt practices. It was reported that a former Deputy Director of the Bureau of Public Enterprises (BPE), Mr. Charles Osuji, said he collected a bribe from Globalcom Chairman, Mike Adenuga for Mallam Nasir El-Rufai, after the sale of National Oil. It was further said that Osuji brazenly admitted going to Adenuga on behalf of El-Rufai (El-Rufai was the head of the BPE at that time) for the bribe of Twenty Five Million Naira (N25m) and $100,000 even when the transactions on the sale of National Oil had been concluded.

8. Policy options

Having discussed elaborately the issue of privatisation, it is pertinent to suggest policy options for considerations:

- Government should study the implications of privatisation for the economy, ordinary people and the future of the country.
- Government should put in place mechanism to monitor and track the processes of privatisation with a view to removing shady deals and all other corrupt practices in the transaction.
- Promote consumer rights through government interventions in some key areas of national economy.
- Promote workers rights.
- Engender home grown reform rather than externally inspired policy of the foreign capitals.
- Government should ensure that strategies are put in place to prevent the few rich individuals from dominating the economy.
- Profits realised on the sale of government assets should be ploughed back into the economy for capital projects.
- There should be placing of ceiling to the number of shares individuals or corporate organisations can buy.
- The process should be made to be open and the bidding should be transparent to allow merit and technical competence dictate the tone and tenor of the exercise.
- Government should not completely relinquish its enterprises by having equities.
- There should be correct and proper evaluation of the assets and liabilities as well as establishing regulatory agency that will monitor the activities of the BPE.

- Governments at all levels should cut down their recurrent expenditure and wastages to allow more money for capital expenditure.
- Government should identify, arrest and prosecute cabals that are alleged to be diverting petroleum products in Nigeria.
- Nigerian government should tackle corruption with all sense of patriotism and seriousness.

9. Conclusion

This study has evaluated the virtues and vices of privatisation. It presented various standpoints on privatisation and concluded that privatisation on its own cannot solve the problems of inefficiency and corruption facing public enterprises. This is because the private sector is not free from the evils associated with the public sector. It is also infested with the problems of corruption, inefficiency and lack of direction. As a matter of fact, it is the public sector that sets the parameter for direction in the private sector and if the public sector is incapacitated, it is naturally expected that there will be a carryover effect on the private sector.

Although there are gains in privatising public enterprises, such exercise would remain futile if certain measures are not put in place before privatisation. It has been discovered that privatised public corporations in Nigeria are not performing better than the way they were, prior to their privatisation. As a matter of fact, the wave of privatisation in the world is experiencing serious retrogression arising from its own contradictions as a result of global financial crisis.

The recent global financial meltdown in America and that is gradually spreading to parts of Europe is a point of note. America that was hitherto regarded as father of capitalism is retracing her step on privatisation as government of America is considering massive government intervention in the key areas of national economy to the tune of $700 billion (Grier, 2008). Capitalism in America had led to massive loss of jobs; financial crash; unaffordable and inaccessible healthcare service; homelessness, etc.

Generally, privatisation has multi perceptions, depending on the side of the coin on which one stands. From the government's perspective, privatisation is the best option for the revival of Nigeria's ailing public enterprises. On the other hand, employees of such public enterprises have taken a belligerent stance against the process, as can be seen from the alleged proposed privatisation of Nigerian National Petroleum Corporation (NNPC). Employees of NNPC believed that privatisation of the corporation and the refineries is not in the best interest of Nigeria and Nigerians.

The Federal Government of Nigeria has identified some cabals that collected N1.3tr of subsidy amount and later diverted the fuel to neighbouring countries and that such colossal amount that is going to private purses can be used for infrastructure through increase in the pump price of petroleum product.

But the labour unions and civil societies are insisting that Nigerians should not pay dearly for the offences committed by few Nigerians. They argued that the Federal Government lacks the capacity and the political will to identify, arrest and prosecute the so-called cabals.

That there are enormous wastages in the three tiers of Government. According to the labour unions, the President and his family members spend N1b yearly on food, the President and State Governors embark on unnecessary travels with retinue of aides who will collect scandalous allowances and estacodes.

Also, Nigeria Telecommunication (NITEL) that has been privatised some five years ago has been in the state of comatose even in privatisation. Privatisation process in Nigeria is also being carried out in a shady manner thus calling the sincerity of government into question.

As part of its conclusion, the study has also discovered that privatisation of public corporations will allow governments at all levels in Nigeria to focus more on issues of good governance through creation of environment (economic, social and political) and necessary legal framework backed up by legislation conducive for private sector to thrive thus stimulating infrastructural growth and promoting employment opportunities for the teeming unemployed youths.

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