A reflection on public enterprise sector in Nigeria

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Abstract

A great deal of comments have been made on the controversies surrounding the existence of public enterprise in Nigeria that there is the need to have a reflection on the sector. This study, therefore, attempted to reflect on the performance of the public enterprise sector and the reasons for scaling it down. Secondary sources of data were employed for this research. The study revealed that public enterprise sector in Nigeria is characterized by poor performance, mainly as a result of political interference and corruption. It was therefore recommended that fixing precise and realistic targets to be achieved within specified time-frames, adopting efficiency maximization as the indicator of rational use of resources should be put in place to avoid conflict of expectations. Actual measurement of performance should be based on returns on assets and labour productivity.

Keywords: Public enterprise; Corporation; Management; Economic reform; Market

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1. Introduction

Public enterprise (PE) has long been an important part of public sector in most developed or developing countries of the world. In other words, besides the civil services there has been, in virtually every modern state the emergence and development of public enterprises that combine the characteristics of public administration with some key attributes of a private enterprise. These entities are usually created because of the desire to infuse more flexibility and more efficiency in the organization of some government activities (Laleye, 2002, p.28). Another reason for establishing public enterprises, especially in developing countries, has been to stimulate and accelerate national development under conditions of chronic shortage of capital and structural defects in capital markets. Under these conditions private ownership would necessarily mean foreign ownership. Therefore, in an attempt to preserve their independence, national pride and sovereignty, these countries foreclosed market liberalization option and adopted centralized planning using the vehicle of public enterprise. The need to establish large-scale and complex bureaucracies in form of public utilities, corporations, and commissions became self-evident and inescapable.

The Nigerian government has therefore, been an active player on the economic scene since independence. It has been investing directly in all strategic areas of economic activities, given the low capital formation capacity of the private sector. In the 1970s the reconstruction and development efforts as the aftermath of the civil war even led to an increased level of government involvement in economic activities, such that by 1987, the federal government was in no less than 1,500 enterprises spanning transport, aviation, shipping, oil, vehicle assembly and manufacturing (Anyebe, 2012, p.7). This sector, however, has been facing serious challenges from privatization movement since the mid-1970 as its theories and assumptions came under severe attack. The size and importance of the sector has since been declining. It now seems in some danger of disappearing altogether as Nigeria is moving away from government production through public enterprise. For example, the Bureau of Public Enterprises charged with privatization of public-owned companies had by 2010 raked in ₦510 billion (local currency) after selling off government stake in 145 firms (Imimole and Izuagie, 2014, p.478).

It is against this backdrop that the researcher poses this research question: What has been responsible for the scaling down of the public enterprise sector in the country?

2. Literature review

There are two reasons for looking at public enterprise as part of public sector management. First, the sector is particularly important for arguments about the scope of government activity. Second, public enterprises pose particular management problems even compared to the rest of the public sector, most noticeably the control and accountability of government organisations aiming to make money (Hughes, 1998, p.46).

Public enterprises (PEs), therefore, were the first target of those countries aiming to reduce the size of the public sector in the 1980s. Even though major public enterprises still exist in Western countries as well as developing countries there seems little doubt that the idea of government-owned organisations selling goods
and services to the public has passed its heyday. The public enterprise sector was a large part of most Western economies, with the notable exception of the United States, but its activities formed only a minor part of political discourse. The sector has since become a focus of political controversy, with its very existence now in question. Whether or not governments should retain enterprises and the circumstances and methods for disposing of them are certainly the main issues at present. One of the key and quite unresolvable, political questions concerns the allowable limit of government activity. Matters of ideology about the overall role of government have become bound up with the ownership of public enterprise (Hughes, 1998, p.96). As public enterprises operate at the boundary of public and private sectors in mixed economies, arguments about them are often about the role of government itself.

2.1. Definitions of public enterprise

Generally speaking, public enterprise has two dimensions—public dimension which usually refers to public ownership and control for public purpose: and enterprise dimension which refers to the business aspect. There is no authoritative and universally accepted definition of public enterprise because it is a vague concept. However, attempts have been made by some scholars to define it.

According to Laleye (2002, p.28) a public enterprise is an organization set up as a corporate body and as part of governmental apparatus for entrepreneurial or entrepreneurial-like objective. The enterprise is essentially commercial, requires greater latitude than would be typical, and would acquire at least a portion of its funding in the marketplace. It is an enterprise created by law or act of parliament or a decree. The law defines its structure, functions and powers. In other words, we can define public enterprise as a state-owned enterprise created by law for the purpose of national development.

Freidmann (1954, p.576) views public enterprise as

“an institution operating a service of an economic or social character on behalf of the government but has an independent legal entity, largely autonomous in its management, though responsible to the public through government and parliament and subject to some direction by the government, equipped on the other hand with independent and separate fund of its own and the legal and commercial attributes of a commercial enterprise”.

This is a comprehensive, overarching definition, putting within public enterprise sector every conceivable feature of public enterprise, hence adopted for this paper.

2.2. Features of public enterprise

The features of public enterprise include creation by a statute or law, ownership by the general public, it can sue and be sued, profit is not its sole motive and its employees are not civil servants. The combination of financial and economic objectives with social and political aims makes it difficult to design appropriate performance measurement instruments. Also, accountability is a major problem in public enterprise sector because the enterprises are owned by government, and engaged in the production of goods and social services. This was well explained by Laleye (2002, p.29) when he declared that the motivations for
establishing public enterprise are essentially different from those behind private sector organisations and this makes accountability difficult.

2.3. Rationale for establishing public enterprises

The justification for the establishment of PEs may be derived from various theories and three of such are:

i. Classical or laissez-faire theory;
ii. Keynesian School; and
iii. Marxist School.

2.3.1. The Classical Theory

Adam Smith wrote 'The Wealth of Nations' in 1776, one of the greatest and most influential of theoretical texts, in which he argued for a greatly reduced role for government. According to him, the 'duties of the sovereign' (in other words, the role of government) were as follows:

The desirable role for government in Smith's view was to simply stay out of economic life as far as possible (Smith, 1776, p.208). The term laissez-faire, advocated by him and his followers means that government should abstain from interference in commerce. Smith certainly envisaged a smaller role for government than that in place at the time. Government should be simply the facilitator for the market and should step in reluctantly and only as a last resort. According to the classical theory public enterprises could be necessary as exceptional measure taking on a one-time basis when there is market failure, arising especially from the absence of perfect competition where the 'invisible hand' cannot intervene to restore the system back to normality.

The Great Depression of the 1930s, also called the 'World Economic Crisis' badly affected many countries of the West. The market system of these countries collapsed. There was over production; stock of unsold goods piled up; factories were shut down; share markets collapsed; unemployment soared up (Anyebe, 2014, p.19). This was a clear case of mismatch between production and market demand. The governments of the affected countries intervened in the market system by undertaking public works and financing them by money creation which helped to push up market demand. In course of time, normality was achieved.

This is a major submission of the Keynesian doctrine which believes in the need to make the state a key actor in bringing about macro-economic balance and dealing with market imperfections and failures in capitalist economies. A critical feature of Nigerian economy was the permanent lack of perfect competition, which eventually might explain government intervention.

2.3.2. The Keynesian school

The Keynesian school of thought suggests that the public enterprise is a necessary instrument of public policy, as government intervention is dictated by the need to influence macro-economic indicators (increase revenues and incomes, increase consumption, lower the interest rate, increase public investment, etc.) with a view to averting crises of production and employment. This analysis opens the way to government
intervention in countries where it has influenced policy makers. Many scholars of this intellectual persuasion have argued that public enterprises are a necessity in African countries by virtue of the very state of underdevelopment (Aboyade, 1976, p.70). Consequently, development plans were designed to articulate deliberate government intervention through the instrumentality of public enterprises.

2.3.3. The Marxist school

The Marxist school of thought contends that in circumstances in which the prospects for profits are low, capitalists would be unwilling to invest, because of the high risks involved. In such cases public investments and subsidized goods and services become necessary as a way of socializing risks and costs. Although this viewpoint has not significantly influenced policy in Nigeria, it has been used to explain the role of the public enterprise sector (Layele, 2002, p.37).

2.4. Reasons for establishing public enterprises

Governments establish public enterprises for a variety of reasons. One reason could be inadequate private supply of goods and service. Hood notes that the Japanese tobacco and salt monopolies were established to pay for the war with Russia in 1905 and that mail services were set up as government monopolies to facilitate spying on correspondence (Hood, 1994, p.37). Renault was nationalized by the French government after World War II because of wartime collaboration by its owners. Some developing countries prefer having public enterprises to having foreign ownership of important services. There are many other reasons; indeed so many that government ownership is the only point in common (Hughes, 1998, p.76).

Rees (1984, p.2) argues that there are four reasons for the existence of public enterprises:

i. To correct market failure.
ii. To alter the structure of pay-offs in an economy.
iii. To facilitate centralized long-term economic planning.
iv. To change the nature of the economy from capitalist to socialist.

In the post-independence period, government in the new nations became the social engineer on the economic scene via public enterprise. Developing countries used public enterprises to a greater extent than most western countries. For example, in 1977, Tanzania’s 400 state-owned enterprises accounted for 38% of gross fixed capital formation (Anyebe, 2012, p.84).

There were some justifications for this large-scale use of public enterprise. The exigencies of national sovereignty, national independence and national pride made the countries foreclose the option of leaving their economies open to foreign competition, given the chronic shortage of capital and capital markets. Private ownership under this circumstance would necessarily mean foreign ownership. Also, in many cases, no one from the private sector was interested in providing utility service for nation building and for the nation to develop, these facilities must be put in place. In addition, at the time of decolonization, in the 1950s and 1960s, public enterprises were considered an appropriate form of organization. It was also not surprising that Tanzania or Bangladesh would develop a large public enterprise sector as they were trying to
imitate their former colonial masters. Indonesia even gave public enterprise a protected role in its constitution (Hughes, 1998, p.107). India saw industrialization as the key to reducing poverty and state ownership of industry as the means of controlling industry.

Right from the beginning the Nigerian government tried to articulate the philosophy guiding its involvement and the degree of that involvement in national development. The government was quite specific on the role of public enterprises in national development. It underscores the rationale for the establishment of public enterprises.

Most of the projects embarked upon in the Third National Development Plan used the policy statement of the Second National Development Plan as their foundation, though slightly modified. However, by the mid-1970 the popularity of using PE as an instrument for national development in Nigeria was in decline, particularly in the light of perceived poor performance of the sector.

Much of the reliance on public enterprise for accelerated economic development was disappointing. In 1991, public enterprises accounted for 23% of employment in Africa and only 3% in Asia, while the poorer the country the larger the relative size of the sector (Tuner and Hulme, 1997, p.176).

In general, the strategy failed as the World Bank argues: The quantifiable return on the large volume of investment in the public enterprise sector in Nigeria, for example, was not seen as satisfactory in the light of the realities of the country's economy in the 1980s. Almost all the enterprises operated at sub-optimal levels. There were huge losses in many cases, and these losses were charged against public treasury.

According to Anyebe (2012, p.96), in some of these organizations, cases of large-scale mega corruption were rampant. Permanent officials colluded with political executives to engage in corrupt practices. Merit-based recruitment and promotion were usually replaced by appointments and promotions based on patronage and clientelism and other forms of favouritism which in most cases involve corrupt practices.

Following the end of the cold war and a global turning away from statist and socialist ideas, Nigeria, like other sub-Saharan African (SSA) countries started to adopt principles of free markets and participation in the world trade system. As part of these changes and under the direct encouragement of international financial institutions such as the World Bank and the International Monetary Fund (IMF), Nigeria started adopting principles of market liberalization, including scaling down the public sector and restructuring to conform to the principles of the new approach to the management of public affairs. Privatization was one of the reforms undertaken to overcome defective capital structure, excessive bureaucratic control, inappropriate technology, incompetence, mismanagement and monumental corruption. This, it was hoped, would enable government to concentrate resources on its core functions.

3. Research method

The data employed in this study were obtained mainly from the following sources:


ii. Daily Trust, December 27, 2010: Available at: www.dailytrust.com,
iii. Daily Trust, October 28, 2008: Available at: www.dailytrust.com
iv. Leadership, Friday December 26, 2014. Available at www.leadership.ng

4. Results and discussion

4.1. Autonomy issues

The phenomenon of external control or interference rarely ever escapes mention in studies and writings on PEs. This is because hardly any senior official in a PE fails to point at it, openly or anonymously, whenever an opportunity avails itself. The way it is expressed depicts it as contrary to the principle of autonomy granted to a PE at birth. For example, Fabura (1984, p.10) states that, in most government-owned public companies:

*In a study of 'Power Behind the Veil' of Policy Processes in Nigerian Public enterprises, Fabura (1984, p.15) explains how informal mechanisms are used by the board to coerce executive actions towards their favoured positions. Tokunboh (1979 as quoted by Ojobo, 2010, p.22) resents the action-stiffing interference of government agencies to which parastatals are responsible.*

The Federal Government of Nigeria sought a consultancy study of management problems of public enterprises and parastatals from the Administrative Staff College of Nigeria (ASCON). The Report (1983, p.10) indicates that: Tokunboh, a one-time chief executive of aparastatals, complained that it became impossible to manage with firmness: capital development projects approved by the board, after unnecessary haggling, took months to gain ministerial approval; appointment were controlled by politically appointed board members; and controlling ministries interfered practically in everything (Ojobo, 2010, p.24). She further stated that the situation led to public enquiries into almost all the country's major corporations. A study of NEPA drew attention to how long-range plans submitted to its controlling ministry were subjected to so much delay that plans became overtaken by environmental events and changes.

4.2. Return on investment

Questions are naturally asked about the return on the investment in various public enterprises, the opportunity costs and priorities in view of new economic realities. From the stand-point of 'return on investment', there is sufficient evidence that in the main, public enterprises have proved a massive failure compared with results from similar investment in the private sector. In terms of their social objectives, including the provision of employment opportunities and the modernization factor, their general inefficiency has made it almost impossible to achieve any meaningful result. One thus finds scattered across the country the skeletons of general government companies whose birth-days were marked with fun-fare several years earlier.
The performance of public enterprises in Nigeria at both the sectoral and sub-sectoral institutional levels has therefore been a subject of considerable discussion by scholars. For example, Ayodele (1996, p.37), and Iwayemi (1990, p.13) provide comprehensive analysis of the dismal performance of public enterprises especially before the introduction of Structural Adjustment Programme (SAP) in Nigeria. This dismal performance reflects public enterprises failure to meet public aspirations in terms of the quantum of output as well as the quality of services, generation of any reasonable rates of return to investment capital expenditure and the provision of adequate and reliable services.

Some scholars such as Iwayemi (1990, p.18) and Ayodele and Sesan (1995, p.27) observe the voltage peculiarities of electricity utility to explain inadequacies in the production systems of utilities in Nigeria in the 1960s through the first half of the 1980s. The situation in the 1989/90 fiscal year is nowhere different from the past trends shown in these previous studies. For example, total installed capacity in 1989/90 as shown in NEPA Plc's records was about 5,702 mw. The composition of this capacity is as follows: total hydro-power capacities in Kainji (760 mw), Jebba (540 mw), and Shiroro (60 mw); thermal capacity at Egbin (1320 mw), Sapele, (120 mw), Afam I III (580 mw) and Delta I III (840 mw).

Available capacity from this installation was roughly 3,000 mw (53%). However, the effective capacity was about 40% of installed capacity. That is, of an installed capacity of about 5,702 mw in 1989/90, only 2,280 mw was effective for electricity generation (News Watch Magazine, May 30, 1989: 14-19). In other word, there is capacity under-utilization. In fact, the situation was the same in the NRC, WCN, NAL, etc., due to reasons connected with unavailability of spare parts, frequent breakdown of machines because of irregular servicing and inadequacy of maintenance and hydraulic problems in the cases of hydro projects.

The overall effects of these inadequacies result in serious supply-demand imbalances reflecting supply shortages. These shortages are usually met with load shedding, rationing and demand suppression devices. This situation remained the same for the transport and telecommunications services where demands overrode supplies. In other words, the provision of infrastructures in Nigeria remains weak (Iwayemi, 1990, p.19).

The World Development Report (1990, p.150) reveals that the costs of this weak infrastructure, particularly for manufacturing enterprises, are very high. The Report stated that for every firm of more than 50 employees under surveillance, there was privately owned stand-by generator despite being connected to the national power supply. Such firms, according to this Report, had altogether invested an average of $130,000 each in their own private supply systems.

Similar investments were also made in private bore-holes due to unreliable water supply. The situation was the same in communication services where employment of messenger motor-cycles or radio transmitters was put in place because of weak telephone and postal systems. The Report concluded that Nigeria’s weak infrastructural development had clearly reduced productivity of firms while accelerating inflation rates in the country.

The declining trend in the industrial electricity consumption by manufacturers is certainly the response of private industrialists to the poor quality of the public electricity supply. For example, industrial electricity consumption accounted for about 53% of total consumption in 1965/66. This share persistently declined...
overtime with weaker performance of NEPA Plc to 40% in 1970/80; 37.2% in 1980/81 and 30% in 1989 (Ojobo, 2010, p.25). Thus, the demand responses of many industrial and commercial electricity consumers to poor services has been to render NEPA Plc as a stand – by power supply source as they attempted to substitute a more expensive captive supply to minimize the economic cost of their production and consumption activities.

The market situation in the other utilities sub-sector of transportation, communication and water equally presented a dismal performance story as in electricity. This was confirmed by government in the 1975-80 National Development Plan that public enterprises produced “intolerable poor service” (1975-80 Plan Document, Vol. 1: 229). This was clearly illustrated by an unimpressive probability of calls connecting, mails tampering or mails not reaching their destination except after considerable delay or not at all, which characterized the communications industry within that plan period and still obtained to a large extent in the 1980s particularly before the introduction of SAP. For example, there were series of unfulfilled demand reaching about one – third of NITEL’s installed capacity of about 300,000 line up till 1986. Private substitution of transportation, radio and courier service for NITEL and NIPOST services were testimonies that things were not well with these public enterprises in terms of production to meet demand of consumers(Iwayemi,1990, p.20).

CEAR/NIDB Report (1991, p.11) provided a comprehensive discussion on the poor state of the provision of water to most urban centres in Nigeria. These studies revealed the fact that bore-holes, wells and tanker supplies provide expensive alternatives for higher income consumers while lower income households resort to less healthy alternatives with ailment consequences.

In recognition of the commercial objectives of public enterprises, it would be economically desirable for public to embark on the simultaneous determination of investment finance and pricing decisions. Contrary to this desire, pricing and investment decisions were treated under statutory guidelines as two unrelated variables. Thus, under ministerial directives, tariffs (user-charges) were statutory fixed below production costs under the pretext of the subsidization policy. Hence such tariffs did not reflect the scarcity values of utilities inputs.

### Table 1. Electricity Total Operating Cost, Average Cost and Average Revenue 1983

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Operating Cost (N Million)</th>
<th>Average operating Cost (Kobo/KWH)</th>
<th>Average Operating Revenue (Kobo)</th>
<th>Operating Surplus/Losses (N Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>370,307</td>
<td>6.8</td>
<td>7.0</td>
<td>-37.27</td>
</tr>
<tr>
<td>1984</td>
<td>365,102</td>
<td>5.9</td>
<td>7.4</td>
<td>-11.92</td>
</tr>
<tr>
<td>1985</td>
<td>410,142</td>
<td>5.6</td>
<td>7.4</td>
<td>-58.63</td>
</tr>
<tr>
<td>1986</td>
<td>544,835</td>
<td>7.3</td>
<td>7.0</td>
<td>-26.73</td>
</tr>
<tr>
<td>1987</td>
<td>651,053</td>
<td>8.7</td>
<td>7.1</td>
<td>-81.04</td>
</tr>
</tbody>
</table>

*Source: NEPA Headquarter, Lagos*
Given the financial procedures, substantial financial losses characterized the operations of these public enterprises. Table 1 illustrates the case of NEPA Plc for the 1978/83 and 1983/87 periods for which data exist. Apparently in all the years NEPA Plc incurred significant losses. Incidentally, the NRC, NAL, Water Board, NITEL and NIPOST were all treated the same identical financial losses.

Public enterprise’s inability to live up to expectation in terms of their physical and financial performance has created a crisis of confidence which has been one of the reasons for the call for public enterprises’ institutional reforms. In fact, the cumulative effects of this crisis, illustrated by the poor quality of services and financial losses earlier mentioned, have kept industrial growth and socio-economic development much below what is attainable by the economy (Iwayemi, 1990, p.18; Ayodele, 1996, p.37). Therefore, the need to improve the performance of public enterprises underpins the privatization and commercialization policy embodied in the public sector reform programmes under SAP.

In some PEs, cases of large-scale mega corruption were rampant. Permanent officials colluded with political executives to engage in corrupt practices. For example, in 2014 it was alleged by the Governor of the Central Bank of Nigeria (CBN Governor) that out of $67 billion worth of crude oil shipped by the NNPC between January 2012 and July 2013 only $47 billion was recorded by the CBN, leaving $20 billion unaccounted for.

After a series of verbal outbursts which generated a lot of controversies among industry operators including labours, organized private sector operators and financial experts the CBN governor appeared before the legislature and quoted another figure ($12 billion) – to the consternation of many Nigerians. For this singular act the CBN governor (who later became the Emir of Kano), was placed on indefinite suspension and a forensic audit was ordered. What the Government and the NNPC later said was that it was only $10.8 billion that was unaccounted for, which is still a huge sum of money. According to Imimole and Izuagie (2014, p.479) the Academic Staff Union of Universities’ protracted strike of 2013 could have been averted if this amount was released to them.

5. Conclusions and recommendations

One major challenge in the discussion of the performance of PEs is the difficulty of stating in measurable terms the results that the PEs are expected to achieve. This difficulty is linked partly to the rather broad objectives of the public enterprises (they are not easily amenable to clear and specific targets within a given time frame) and partly to the inadequacy of the resources put at their disposal. In addition to lack of clarity in the objectives, some of them conflict or raise conflicting expectations. Conditions that would facilitate the assessment of Public Enterprises would include the following: fixing precise and realistic targets to be achieved within specified time-frames, adopting efficiency maximization as the indicator of rational use of resources; and building consensus are the objectives and targets so that conflict of expectations can be avoided. Actual measurement of performance can focus on return on assets and labour productivity.

The area of accountability should be defined in terms of objectives of the state, and the agencies to which the PEs are accountable should be, to the extent possible, unified.
References


Iwayemi, A. (1990), Oil and Nigeria: The Good, the Bad and the Ugly, 5th Distinguished Faculty of Social Science Annual Lecture, University of Ibadan, September 26, pp.13, 18, 19 and 20.


