

# Nigeria's Privatisation Programme: Structures, Strategies and Shortcomings

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## Abstract

*This study examines the unintended consequences (otherwise called the dark side) of privatisation of Public Enterprises (PEs) in Nigeria. Nigeria's PEs were faced with myriads of problems which made government to embark on PEs sector-wide reforms via privatisation with the hope of giving more efficient structure to the Nigerian economy with attendant benefits accrue to most of the people. Exploratory method was used in the conduct of the study. It was discovered that privatisation of PEs in Nigeria led to a number of unintended social consequences such as unemployment due to mass retrenchment of staff, low standard of living resulting from exorbitant prices of products and/or services from privatised enterprises, overconcentration of income and wealth in a few hands, and corrupt practices among others.*

**Key words:** privatization, public enterprises, public sector, divestment, economic reform, government

**JEL Classification:** L31, L32, L33

## Introduction

The variety and depth of Public Enterprises (PEs) problems with their causal factors differ from one country to another, and also from one sector of the economy to another, especially in the African region (Obadan and Ayodele, 1998). The problems of PEs in Nigeria are generally discussed by some analysts under poor physical and financial performance (Ajakaiye, 1990; Ayodele, 1995). The undesirable physical and financial performance and other problems of the PEs have made Nigeria to embark on the PEs sector-wide reforms via the privatisation policy. In the light of government's precarious fiscal position, there has been a growing consensus among professionals, policy makers, and economic development planners that privatisation of PEs, especially in developing countries, can yield substantial benefits relating to greater efficiency, renewed investment, budgetary savings, and preservation of scarce resources for the improvement of a nation's economic condition (World Bank, 1995).

A number of studies have been conducted on the subject of privatisation of public enterprises both in the developed countries and developing or underdeveloped countries. Adegbite (1991) examines the rationale for privatisation in Nigeria. Obadan and Ayodele (1998) look at commercialisation and privatisation policy in Nigeria. Jerome's (1996) study was based on general appraisal of privatisation in Africa. Bortolotti, Fantini, and Siniscalco (1998) had a look

at privatisation around the world. Boubakri and Cosset (1998) examine the financial and operating performance of newly-privatised firms, while Martin and Parker (1995) examine privatisation and economic performance throughout the UK business cycle. However, none of these studies was devoted to the examination of the side effects or the dark side of privatisation of public enterprises in Nigeria.

Over the years, a lot has been written on the subject of privatization. In addition, so many enterprises have been privatised by the governments of many nations. In this paper, we do not intend to examine the whole gamut of privatisation in Nigeria. Such an exercise cannot possibly come within the ambit of a single research paper. However, no single piece has satisfactorily put forward the politics, intrigues, realities and practical details of privatisation in Nigeria to enhance people's understanding of the dark side or unintended social consequences of privatisation on the government and people of Nigeria. This study fills this gap. In other words to achieve this lofty objective, a number of issues are discussed.

This study is of utmost importance in the sense that it will throw light on the dark areas of privatisation of public enterprises that are not discussed in other studies. As such many people will benefit from the result of this study. These include professionals, policy makers, economic development planners, practicing managers, the public, and academics who are interested in furthering their knowledge of privatisation and its usefulness in managing business organisations.

The methodology employed by the researchers in the course of this study is the exploratory research method. Since the main focus is to have a better understanding of the what, how and the shortcomings of privatisation programme, the method of analysis will be eclectic in nature; descriptive, analytic and qualitative. This method was deemed relevant given the contextual nature of the research problem. In this case, the researchers conducted preliminary interviews with the management and staff of randomly selected privatised public enterprises in Nigeria to discover the dark side of privatisation of public enterprises in Nigeria. Since it is a study about understanding public enterprises reform, analytical evidence shall also be provided about people's perception of the side effects of privatisation of public enterprises in Nigeria.

## **Conceptual Framework and Literature Review**

There appears to be no generally accepted definition among scholars regarding the conceptual meaning of public enterprises. One reason according to Sosna (1983) for the inability to have a single standard definition of public enterprises was that public enterprises were established at different periods, and each epoch naturally brought forth the types of public enterprises most clearly matching its own conditions. It is therefore believed that the variation in definition are informed by the ideological, values, interests, dispositions and circumstances that brought public enterprises into existence (Adeyemo and Salami, 2008).

In spite of the above, we shall examine and review a number of definitions as given by renowned scholars of public enterprises. Efang (1987), for instance, defines public enterprises as institutions or organisations which are owned by the state or in which the state holds a majority interest, whose activities are of a business in nature and which provide services or produce goods and have their own distinct management.

Obadan (2000), Obadan & Ayodele (1998) define public enterprises as organisations whose primary functions are the production and sale of goods and/or services and in which government or other government controlled agencies have no ownership stake that is sufficient to ensure their control over the enterprises regardless of how actively that control is exercised.

The basic reason for establishing public enterprises in all economies has been to propel development. Hanson (1972) reflecting on Turkey, Mexico, India and Nigeria noted that the

establishment of public enterprises is premised on what he considered as obstacles to economic development in the post independence states. It is also instructive to note that in Nigeria like many other developing countries, public enterprises are used as employers of last resort. According to Hemming and Mansor (1988a) it is noted that state owned enterprises enable governments to pursue goals of social equity that the market ordinarily ignores. Similarly, Ugorji (1995) observes that public enterprises have also been established for political reasons. Many government undertakings are used to provide jobs for constituents, political allies, and friends. The location of public enterprises in Nigeria and the distribution of government employment have further been defended on the need to maintain “federal character” and promote national integration.

In spite of the impetus given to public enterprises especially in Nigeria some criticisms are leveled against them. Their problems are so enormous that even left the Nigerian public in a state of great disillusionment. These criticisms vary from lack of profitability and reliance on large government subsidies. Ogundipe (1986) once argued that between 1975 and 1985, government capital investments in public enterprises totaled about ₦23 billion (about US\$22,701,000.00). In addition to equity investments, the government gave subsidies of ₦11.5 billion (about US\$11,350,500.00) to various state enterprises. All these expenditures contributed in no small measure to increased government expenditures and deficits. Similarly, public enterprises suffer from gross mismanagement and consequently resulted into inefficiency in the use of productive capital, corruption and nepotism, administrative bottleneck, and red tapism which in turn weaken the ability of government to carry out its functions efficiently (World Bank, 1991). A number of researchers have pointed out the problems of public enterprises in Nigeria. These include Ayodele (1988), Ajakaiye (1990), Okigbo (1998), Obadan (2000), and Sanusi (2001) among others. All these scholars have developed growing interest for the need for the reform of public enterprises in Nigeria. As mentioned in the first paragraph, the undesirable physical and financial performance and other problems of the PEs have made Nigeria to embark on the PEs sector wide reforms via the privatisation policy.

Thus, privatisation has become an important instrument for streamlining the public sector and promoting economic development in countries all over world. It is a strategy for reducing the size of government expenditure and transferring assets and service functions from public to private ownership and control. Privatization is based on four core beliefs according to Ugorji (1995):

1. Government is into more things than it should be. It is intruding into private enterprise and lives;
2. Government is unable to provide services effectively or efficiently;
3. Public officials and public agencies are not adequately responsive to the public; and
4. Government consumes too many resources and thereby threatens economic growth.

However, attempting to review the literature on privatisation the first hurdle one runs across is that of terminology. Heald (1988) maintained that there is a very wide range of initiatives usually discussed under the term privatisation. Such initiatives include: the substitution of user-charges for tax finance, the letting of management contracts while retaining ownership, and liberalization for the promotion of competition in markets previously reserved for statutory monopolies. Discussing privatisation policy in Britain, Pirie (1988) lists twenty-one initiatives under privatisation. Cook and Kirkpatrick (1988) maintained that the drive towards privatisation is merely a result of the confusion arising from the role of the price mechanism and of the private sector in a mixed economy. The shift from the ‘more-government’ attitude of the 1940s to the ‘more-market’ attitude in the 1980s is merely a shift in paradigm, rather than in ideology. Thus, all initiatives that emphasize more use of the market or more use of the ‘private-sector-culture’ are termed privatisation. Hence the entry of more firms into a previously monopolistic

field is privatisation; and exposure of enterprises to bankruptcy and take-over is privatisation. In short, Cook and Kirkpatrick (1988) define privatisation as the transfer of productive asset from public to private ownership and control. Boachie-Danquah (1988) defines privatisation as the transfer of ownership of public resources or assets to private individual and firms through various *options*:

- "... sale of state-owned enterprises to the private sector through private placement, public offerings or competitive bidding by strategic investors.";
- allowing private operators to compete in sectors that have been the exclusive domain of PEs;
- breaking up a monopoly into various branches of activities to stimulate competition;
- transferring the management of PEs from public to private through contracts, leases or concessions.

In a broad sense, privatisation involves not only the sale or other form of transfer of state assets, but also the transfer of the management of state enterprises to the private sector (Agada, 2002). This is accompanied by a radical reallocation of available productive resources, restructuring of existing institutional setting in which production takes place, and the introduction of new methods of corporate governance devoid of political interference (Jerome, 1996).

Although, most people associate modern privatisation programme with Margaret Thatcher's government, which came to power in Britain in 1979, the first large-scale privatisation programme then termed 'denationalization' programme was launched in the Federal Republic of Germany by the government of Konrad Adenauer almost half a century ago. As far back as 1961, the German government sold a majority stake in Volkswagen in a public share offering which heavily weighted in favor of small investors. It was almost two decades before another nation chose privatisation as core economic programme; it is without doubt the most important historically. Privatization was embraced by the British government and the term privatisation was coined by Peter Drucker and was adopted to replace the term denationalisation (Yergin and Stanislaw, 1998).

It is important to note that the objectives set for the British privatisation programme were virtually the same as those listed by every government that has adopted privatisation more than two decades ago. Waterhouse (1989a) says these goals are to: (1) raise revenue for the state, (2) promote economic efficiency, (3) reduce government interference in the economy, (4) promote wider share ownership, (5) provide the opportunity to introduce composition, and (6) expose PEs to market discipline. The other major objective is to develop the national capital market (Menyah and Paudyal, 1996).

Britain privatisation drive started in 1979. Between 1979 and 1988, Britain developed more than twenty-one methods of privatisation (Pirie, 1988). Some of them are selling the whole enterprise by public share issue, selling parts to private buyers, selling the enterprise to the workforce, using vouchers, contracting out the service to private business, etc. This enables the British government to achieve a significant transfer of ownership of most PEs to its citizens. In that process, the government cleverly shifted large areas of public concern to where they were subjected to economic discipline, efficiency, accountability, and competition (Idahosa and Mustapha, 2002).

Other countries of the world follow Britain's footsteps as regards privatisation. In the United States privatisation at the federal level took a highly cautious approach. France and other European countries also embrace privatisation. Also taking part in privatisation are the developing countries including Nigeria.

## **Privatisation in Nigeria**

Privatisation is the outgrowth of the controversial Structural Adjustment Program (SAP) embraced by the government in 1986 which is a policy of International Monetary Fund (IMF). One of the agenda of the IMF is to push the Nigerian government to drastically reduce spending on public enterprises so that more money can be available for the servicing of the over \$30 billion foreign debts and also to be better placed for the procurement of more loans.

According to National Council on Privatisation (NCP) the justification given by government for its privatisation policy is that there is need to reduce the dominance of unproductive investments in the public sector in the light of dwindling oil revenue and mounting external debts. Second, that privatisation will help re-orientate PEs towards a new horizon of performance improvement, viability and overall efficiency. Third, it is asserted by NPC that privatisation assures positive returns on public sector investments. Fourth, that privatisation will encourage the use of the capital market as a major source of funds for PEs rather than complete reliance on the treasury for funding. Fifth, it is hoped that privatisation would create a better window in the global economy and allow participation in international trade. Besides, it is believed that privatisation would lead to the repatriation of capital by investors who wish to take up some of the equity in the affected companies, especially in the wake of a debt/equity conversion policy of the government. These and many others are the objectives of privatisation of the Nigerian government.

The government was silent about whether all these objectives of privatisation will, if realised, eventually lead to some improvement in the welfare of members of the society, hence it can only be implied, that welfare improvement is the overall objective of privatisation as an element of economic reform programme claimed to have the ultimate objective of improving the economy as a whole.

In 1986, on up-dating the lofty objectives of privatisation, the government gave definite indications of its desire to divest itself of all or part of its investments in most PEs. Where government did not divest, it gave indication of its intention to fully or partially withdraw transfer of grants from tax revenue to PEs. In 1988 government promulgated Decree No. 25 known as the Privatisation and Commercialisation Decree, which gave legal backing to the implementation of the privatisation policy. By March 1989, the first sets of enterprises were put up for sale under the recommendation of a government nominated Technical Committee on Privatisation and Commercialization (TCPC). About 135 enterprises were listed to be privatised. In 1995, TCPC was renamed as Bureau of Public Enterprises (BPE) and equally became a secretariat for the implementation of all government decisions on privatisation in 1999. The BPE decided the enterprises that should be privatised.

By the end of 1993 divestment had been concluded in 34 companies through the stock market. In 2005 alone, the privatisation agency had privatised eight enterprises. Some of these enterprises were: Afribank Nigeria Plc, Apapa Port, Leyland Company, Bricks and Clay Companies, as well as oil companies. The third phase of privatisation in Nigeria runs from 2005 to 2009.

## **Privatisation Modalities in Nigeria**

Privatisation in Nigeria manifests in different forms. A number of methods were adopted for the privatisation of PEs. These include:

1. Public offer for sale of shares of affected enterprises through the Nigerian Stock Exchange. To date, The BPE privatised 35 PEs through this approach.
2. Private placement of shares of affected enterprises. This method of privatisation was employed in cases where government holding is so small that it cannot force public offer of

shares even where the enterprises fulfill the listing requirements of the Stock Exchange. To date, only one enterprise has been treated as such.

3. The third method is the sale of assets where the affected enterprise cannot be sold either by public offer of shares or by private placement of shares. Such enterprises have a poor track record and a future outlook which is hopeless. To date, a total of twenty-seven enterprises have been privatized in this way, including the eighteen dealt with by the Ministry of Agriculture before the TCPC was established.
4. Management Buy Out (MBO). Under this method, the entire or substantial part, of the enterprise is sold to the workers. It is entirely up to them to organise and manage it. To date, only one enterprise has been privatised in this way.
5. Deferred Public Offer. This is the fifth method of privatisation developed. It occurs in enterprises which are viable, but if sold by shares the value to be realised will be out of tune with the value of the underlying assets of the enterprise. To date, about five enterprises have been privatised this way and another three are likely to be treated like this.

## **Unintended Consequences of Privatisation**

According to Mkpuma (2005), the Federal Government privatised 89 PEs between 1988 and 1993 in the first phase of the three phased privatisation programme. In the second phase which ran from 1999 to 2005, Federal Government privatised more than 32 enterprises. While the third phase ran from 2005 to 2009. The essence of privatisation programme according to the government was to guarantee rapid and irreversible progress to the Nigerian economy while the attendant benefits will accrue to the Nigerian populace.

However, Nigerians hold divergent views on the contribution of privatisation in its three decades of existence in Nigeria and it is pertinent that this be reviewed critically. Quite commonly major roads are posted with billboards and many jingles are aired on the radio and television sponsored by the National Council on Privatisation deceptively saying that "the people benefit as the nation privatises." The big question however is: who are the people that actually benefit from the privatisation programme? Certainly, they are not the ordinary people and workers of the sold companies who have subsequently lost their jobs, and left their numerous dependents with a bleak future.

No doubt, friends of the people at corridor of power and their ally are the prime beneficiaries of the privatisation exercise. Speculation is plentiful as per individuals fronting for key Government personnel in the sell-off proceeds.

To many Nigerians privatisation creates unpleasant and unhealthy climate to the economy and should be discontinued since it does not bring improvement to the economy. These people dismissed privatisation as being of no economic benefit to the common citizens but creating an economic situation which favours only a few individuals in government and their cronies. It has also been criticized as impoverishing the nation and her citizens, bringing insurmountable hardship and other economic woes within its three decades of existence.

Besides, the mass of workers and the ordinary people stand to lose out from the privatisation programme. This is because the driving force of private ownership is maximisation of profits. With this in mind, the immediate concern of the buyers of the newly privatised companies will be to cut down overhead costs. The first casualties will be workers of the affected companies, who will lose their jobs in droves, and their numerous dependents who stand to suffer thereafter.

Some Nigerians do not see privatisation living up to the expectations of revamping the economy, judging from the skyrocketing inflation, high and unsteady exchange rate, corruption and nepotism, embezzlement, indiscipline, among other anomalies. Indeed, the Nigerian

economy has been held captive by private entrepreneurs who own public institutions for undue profiteering at the expense of the citizenry, lack of public accountability, reduction in essential services, creation of natural monopolies and mass unemployment as a result of mass lay off of workers in an attempt to maximize profit. The situation is getting worse even with the advent of fourth republic and the anti-corruption crusade of the present administration.

Furthermore, the poor people in the society also stand to be the final losers. This is because the production and distribution policies of private ownership are to be geared towards maximum profit making, and not necessarily towards the needs of the people. This implies that availability of products and existing social services presently produced and offered by the concerned public-owned enterprises will now be offered to the public at very high cost. And of course to the deprivation of the ordinary people in the society, who apparently will not be able to afford such highly exorbitant costs. This means that these products may be 'available' but will not be 'affordable'.

Certainly, the effect of privatization on the economy of Nigeria is worrisome and the masses are at the receiving end of privatisation programme in Nigeria. In other words, privatisation has not been effective in transforming the economy of Nigeria as postulated by privatisation pundits.

## **Conclusions**

Though we should be careful not to draw too many conclusions from this research on privatisation of public enterprises in Nigeria, we would be remiss if we fail to at least attempt a few concluding remarks. The privatisation programmes of the last three decades have significantly reduced the role of public enterprises in the economic life of Nigeria. Despite the defense of privatisation exercise by the Board of Bureau of Public Enterprises, it is difficult to exonerate the government from the allegation of being the architect of the nation's economic woes and hardships, poor resource management, corruption and inefficiency in our public establishments.

It is surprising and inexplicable that the government, through its agencies, privatised companies that had no direct bearing on improving the living standards of the people. Emphasis should be on privatising public utilities, which will become more efficient in the hand of private investors. If privatisation is to achieve the stated objectives, the execution should be in the best interest of the nation and welfare of the citizenry. Privatisation should not be left with few individuals in power turning it to personal or family affair and dispose of valuable investments either to themselves, their associates or cronies.

The government should look beyond the immediate gains of privatisation and sell utilities that would in the near future make the economy thrive and bring succor to the masses of Nigeria. This is because the essence of governance is traditionally the provision of social services for the populace, this cannot be rationalised otherwise.

Finally, we can deduce that privatisation is a very complex and complicated issue requiring a comprehensive and intensive study of its consequences before implementation. Besides, privatisation of public enterprises is not a panacea for Nigeria's many economic woes because the private sector on which privatisation success depends has its own weaknesses. The researcher is of the opinion that the logic of the present Nigerian situation calls for a limited but selective privatization to be pursued only when conditions are favourable and where the interests of the general public will not be jeopardized.

## Recommendations

In the light of the above, the researchers would like to make the following policy recommendations aimed at minimising the backlash effects of privatisation of public enterprises in Nigeria.

First, the shares of privatised enterprises should be equitably distributed among the prospective buyers and that there should be established a limit to the number of shares any individual, group, or organization can purchase.

Second, in order to accommodate the poor members of the society to participate in the purchase of the shares of privatised enterprises, the payment for acquired shares can be spread over a period of time, say five years, and buyers should be required to make a down payment of not more than 40 % of the total amount of the shares bought.

Third, the execution of privatisation policy should be made visible to everybody. Nigerians are entitled to know how companies built, managed and maintained with their tax money are being sold. All aspects of the exercise should be made public.

Finally, the regulatory role of the state in privatised enterprises must of course be flexible enough to encourage efficiency, competition and financial discipline (Federal Ministry of Industries, 1987).

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## Programul de privatizare al Nigeriei: structuri, strategii și deficiențe

### Rezumat

Articolul de față aduce în discuție consecințele neintenționate (de altfel numite și „latura neagră”) ale privatizării întreprinderilor publice din Nigeria. Întreprinderile publice din Nigeria s-au confruntat cu multiple probleme care au determinat guvernul să acționeze asupra acestui sector printr-o serie de reforme privind privatizarea în speranța obținerii unei structuri mai eficace a economiei nigeriene cu o creștere semnificativă a beneficiilor pentru majoritatea cetățenilor. În acest studiu a fost utilizată metoda exploratorie. S-a descoperit că privatizarea întreprinderilor publice din Nigeria a condus la o serie de consecințe sociale neintenționate precum: șomajul cauzat de restrângerea masivă de personal, un standard de trai scăzut ca urmare a prețurilor exorbitante ale produselor și/sau serviciilor din întreprinderile private, concentrarea masivă a veniturilor și bogăției în doar câteva mâini, practici de corupție.