PRIVATIZATION OF PUBLIC ENTERPRISES: WHICH WAY NIGERIA?

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Abstract
Governments exist among others to implement policies for the enhancement of the living standard of citizens. To accomplish this goal, public enterprises are established to provide goods and services. With the use of secondary data, the paper examines privatization policy in Nigeria. It observed government interference, lack of transparency and accountability as the major hindrances to the successful implementation of the policy. The paper therefore recommends that for privatization to achieve its goals, government should stop interfering in the implementation of the policy and appoint people of credible character to manage the implementing agency of privatization in Nigeria.

Keywords: Accountability, Policy, Privatization, Public Enterprises, Transparency

JEL Classification: H11, Z18, H41, H44

I. INTRODUCTION

The argument as to the reasons why governments exist that associates it with the formulation and implementation of policies and programmes for the enhancement of the living standard of the people in a society is valid. However, the pattern and modalities to accomplish these goals depend on the administrative system and the political framework within which it operates. According to Oronsaye (1993:18), “every administrative system operates within the political framework which it inhabits, and the function and nature of an administrative system is conditioned by that political framework.”

Nigeria was under British colonial rule between 1914 when the southern and northern protectorates were amalgamated by its first Governor, Lord Fredrick Lugard, in 1960 when the country achieved her political independence (Ikelegbe, 2004). By implication of Nigeria’s colonial heritage, the country adopted the British administrative system, which emphasized the establishment of departments, parastatals, agencies and public enterprises (PEs) as a medium for the successful implementation of government policies and programmes as they relate to development (Oronsaye, 1993; Laleye, 2005; Chigbue, 2007).

Since independence in 1960, successive governments in Nigeria continue to pursue the policy of the establishment of PEs it inherited from Britain as a way of promoting economic growth and better living standard of people in the country. Public enterprises were established among others essentially to provide services that may be difficult for the individual or group of individuals to provide either due to size, capital requirements or sensitive nature of such enterprises (Nwokoma, 2005). However, with the dwindling of Nigeria’s economic fortune from the sale of crude oil in the international market in the 1980s, focus of government was then directed at possible ways to get more revenue and scale down its expenditure through reforms. According to Chigbue (2007:419), “after several years of unsuccessful efforts to reform the PEs sector in Nigeria, privatization heralded a new era of opportunity to attract huge investment and increase efficiency, which would no doubt underpin growth in the Nigerian economy.”

To address the economic challenges in the country, the General Ibrahim Babangida’s military administration (1985-93) introduced the Structural Adjustment Programme (SAP). One of the main elements of SAP was the encouragement of rationalization and privatization of public sector enterprises. The main goal of the strategy of privatization of PEs was to reduce the dominance of unproductive investments in the public sector; improve


efficiency and effectiveness; and intensify the growth potential of the private sector in Nigeria (Nwokoma, 2005).

Researches in Nigeria support the argument that going by the poor performance of PEs in the country; the best option would be for the government to continue to pursue the policy of privatization of PEs as a way of achieving economic growth and development (Abdullahi, 2004; Ojo, 2004; Gberievbie, 2006; Jimoh, 2007; Onah, 2008). However, disagreement becomes noticeable on the modalities to be adopted for the privatization of PEs and what implementing agency to be put in place in terms of structure and personnel to achieve the goals of the privatization policy of the Nigerian government.

In this regard, the questions that come to mind are: since the inception of privatization policy of government, what has been achieved in terms of preventing wastages of public funds in the area of subvention to PEs in Nigeria? Has privatization policy of PEs in Nigeria served the interest of the people or of those in government? Is privatization of PEs really a good option or should the government rather direct its attention on reforms of PEs as way of realizing the purpose for their establishment? What measure should be adopted to make privatization of PEs achieve its goals in the country?

The main argument in this paper therefore is that the privatization policy of the Nigerian government of PEs is more likely to achieve its goals only when the government eliminates every form of interference with the implementation of the policy and appoint people of credible character to manage the privatization process. Also, the activities of the privatization implementing agency and its operators are reformed to make them transparent and accountable.

The paper adopted the historical research method whereby secondary data obtained from relevant books, journals, seminar papers, magazines and newspapers were analyzed to accomplish the work. Researches have pointed out to the fact that historical research method involves investigating, recording, analysing and interpreting events with a view to arriving at an acceptable research outcome (Osunde, 1993; Gberievbie, 2014).

In addition, the paper is structured into six sections. Section one serves as the introduction, section two examines the theoretical linkage between public policy, transparency, accountability and privatization, section three explores the justification for privatization of public enterprises in Nigeria, section four discusses the challenges of public enterprises’ privatization implementing agency in Nigeria, section five concludes the paper, and section six suggest the way forward.

II. LITERATURE REVIEW (CONCEPTS OF PUBLIC POLICY, TRANSPARENCY, ACCOUNTABILITY AND PRIVATIZATION)

The concept of public policy, transparency, accountability and privatization like other concepts in social science literature lacks precise definition. However, there is a general consensus that public policy has to do with the course of action by the government to achieve a particular goal in a society. Shankansky and Meter (1975:10) sees public policy simply as “actions taken by the government.” Also, Mlekwa (1976:149) sees public policy as “official statements determining the plan of action or what the government wants to do.” In the same vein, Ikelegbe (2006:3) sees public policy as “governmental actions or proposed actions of government directed at achieving certain goals.” On the other hand, transparency is seen by Kim et al (2005) as a situation whereby information is freely accessible to those who will be affected by decisions and that enough information is provided in easily understandable forms and media, which requires that decisions are made and enforced in a manner that follows rules and regulations. They point out that “transparent governance (policies) implies an openness of the governance system through clear process, procedures, and easy access to public information for citizens” (p. 646).

Olowu (2005:139) sees “accountability as answerability for one’s actions or behaviour.” He argues that accountability “involves the development of objective standards of evaluation to assist the owners of an organization to evaluate the performance of duties by individuals and units within the organization” (p. 139).

Accountability is very crucial for the efficient running of both governmental and non-governmental organizations because it serves as quality control device; underscores the superiority of the public will over that of individuals in a society (Olowu, 2005). In the same vein, privatization has to do with the government transfer of its investment to the private sector. According to Savas (1987), privatization is the changing from an arrangement with high government involvement in enterprises to one with less government involvement.

Also, Abdullahi (2004:105) sees “privatization as the divestment from state-owned enterprises and transfer of ownership to private holding by government as a consequence of their poor economic performance and provision of inefficient services.” He argues that privatization of PEs is based on the premise that private sector is an instrument for realizing productive, allocative efficiency and higher economic growth in a society. Savas (2000:122), points out that “the primary goal of any privatization effort is, or should be, to introduce competition and market forces in the delivery of public services.” According to Onah (2008:253), “privatization is a means of relying more on the private institutions of society and less on government to satisfy people’s needs or it applies
to a deliberate policy to reduce the role of government and subsequently expand the role of the private sector." Studies have shown that privatization which refers to the divestment of the government of its ordinary shareholding from a state-owned enterprise promises better provision of goods and services at lower cost in a society (Devroye, 2003; Slyke, 2003; Nwokoma, 2005).

Privatization could be partial or total. It is total when government decides to completely divest its holdings from an enterprise and leave same in the hands of the private sector to manage. It becomes partial privatization when government decides to transfer majority shares of state-owned enterprise to the private sector management while still retaining part ownership of the enterprise (Gberevbie, 2006). Partial privatization of PEs could take place in a situation whereby government feels that due to the sensitive nature of the enterprise to the well-being of the people, decides to retain some shares. One common features of a privatized enterprise whether partial or total is the fact that the management of such enterprise becomes the preserved of the private sector, and organized for the purpose of profit-making (Gberevbie, 2006).

It follows therefore that a public policy that is hinged on transparency is more likely to be accountable to the people at implementation both in terms of personnel and structure. Such a structure or agency that is accountable is more likely to deliver the purpose for its establishment. Therefore, it could be concluded that there is a relationship between public policy, transparency, accountability and privatization as a process and as an end result for the realization of the goals of government. The foregoing implies that government could achieve its goals of enhancing the living standard of the people by the formulation of a policy on privatization that seeks to relieve itself of an aspect or sector of the economy and transfer same to the private sector for proper management in terms of efficiency and effectiveness in the delivery of goods and services.

Gberevbie (2006) argues that privatization of PEs could be considered a strategy of government to overcome the challenges of poor management of state-owned enterprises with a view to achieving its desired goals of economic advancement. This is possible through the quality provision of goods and services hitherto difficult to provide by PEs arising from poor management by public officials. According to Onah (2008), the major argument of government is that privatization policy would reduce expenditure in form of subvention to PEs and subsequently stimulate the socio-economic and political development of the country. This means that a public policy directed at an aspect of a nation’s economy that is supported by the people and properly implemented by the government could bring about development in that particular society including the policy on privatization of PEs.

III. JUSTIFICATION FOR PRIVATIZATION OF PUBLIC ENTERPRISES IN NIGERIA

Nwokoma (2005:35) posits that “public enterprises are established to protect public equity interests with welfare considerations in their pricing policies.” He however, cautioned against the likely evil of privatization, when pointed out that:

- By merely privatizing all PEs on the altar of profitability, the stage could be set for grave distortions in income distribution and resource allocation in the future. In addition, price distortions may result with goods purchased at rates above the marginal cost of production, thus enhancing monopolistic competition and projecting the evils of capitalism (Nwokoma, 2005:35-56).

The above shortcomings of privatization of PEs notwithstanding, several reasons have been advanced by scholars and practitioners alike to justify the privatization of PEs based on their poor performance and as avenue for draining public funds in the country. According to the former President of the Federal Republic of Nigeria, Chief Olusegun Obasanjo (1999-2007), while inaugurating the National Council on Privatization (NCP) on the 20th of July, 1999 posits that “state enterprises suffer from fundamental problem of defective capital structure, excessive bureaucratic control, inappropriate technology, gross incompetence and mismanagement, blatant corruption and crippling complacency, which monopoly engenders” (Obasanjo 1999:4). He points out that:

Successive governments in Nigeria have invested up to NGN800 billion or USD5.16 billion in state-owned enterprises. Annual returns on these huge investments have been well below 10 percent. These inefficiencies and in many cases huge losses are charged against the public treasury. With declining revenue and escalating demand for effective and affordable social services, the general public has stepped up its yearning for state-owned enterprises to become more efficient (Obasanjo, 1999:4).

Ojo (2004), while advancing reasons for the poor performance of PEs, posit that the principle of federal character in Nigeria whereby people are appointed into top public offices on the basis of geographical representation from every segment of the country into the board membership of state-owned enterprises have contributed to their non-performance. Abiodun (2005) supports the privatization of PEs because it would allow the government to perform its primary functions of administration, maintenance of law and order and leave the actual running of business enterprises to the private sector; public corporations are massive drain on the country’s resources as they depend on government subvention and subsidy without tangible financial returns or
efficient services; parastatals are characterized by gross inefficiency, corruption and mismanagement. In this regard, Ojo (2004:135) argues that “the operational dynamics of privatization favours efficient management; and privatization would bring about a change of attitude by workers as private management does not tolerate the attitude of ‘I don’t care!’ that prevails in the public sector.”

Furthermore, Chigbue (2007), points out that PEs were avenues for over 5,000 board appointments that controlled funds in excess of NGN1 trillion or USD6.4 billion as patronage for political loyalists in the country. And they were responsible for 5 percent Gross Domestic Product (GDP) deficit with huge transfers of over USD3 billion in 1998 alone. In addition, they accounted for 55 percent of non-performing debts in Nigeria up to 2003. According to Onah (2008:253), “the failure of the various reforms to turn the dwindling fortunes of PEs around compelled the government to resort to the privatization and commercialization of most state-owned enterprises in the country.” As a result, Eboreime and Iyoko (2008), support the privatization policy of the Federal Government based on the fact that the public sector in Nigeria is large, covering government departments, parastatals and PEs, and these controls a considerable chunk of the economy’s resources, yet faced with the serious challenge of management. They advocate the policy of privatization of PEs as a good strategy for economic growth and development in Nigeria.

Also, Emini (2009:428) argues that “the question of privatization arises because PEs are corrupt, wasteful, inefficient, overstaffed and their management have a high propensity towards profligacy. In Nigeria, the performance of statutory corporations and state-owned enterprises over the years has not been brilliant and encouraging as to justify further nationalization.”

In addition, the former Director-General of Bureau for Public Enterprise - the agency charged with the responsibility of implementing the privatization policy of the Federal Government of Nigeria (BPE), Nasir EL Rufai argues that:

“The case for privatization in Nigeria is not very different from those in other countries. But in Nigeria, the very poor performance of the PEs and high level of corruption, even by developing country-standard, made it even more imperative. As at December 2000, the total liabilities of 39 of these PEs were in excess of NGN1.1 trillion or USD6.5 billion, with accumulated losses of NGN92.3 billion or USD589 million... The purpose of privatization is to reduce or eliminate the drain on the public treasury that these PEs represented. The cumulative value of the Federal Government of Nigeria’s investment by way of equity, loans and other transfers to these enterprises is estimated at nearly USD70 billion. Unfortunately, it is extremely unlikely that government will ever recoup these investments (cited in Yusuf, 2011:1&4).

According to Arowolo and Ekundayo (2014:1088), “Government agencies have the responsibility to ensure the highest possible standards of ethical conduct, honesty, fairness and propriety in their dealings with individuals and organizations.” Unfortunately, arising for the forgoing, the reverse is the case for the managers of PEs in Nigeria.

In early 2012, the Federal Government of Nigeria dissolved 71 boards of PEs out of the 500 PEs in the country, to give room for the merger of some of them to save cost. The figures released by the government recently as published on 16th March, 2012 shows that NGN8.4 billion or USD54.2 million was spent as sitting allowances for 3,731 board Chairmen and members of these 71 PEs for four years. Going by the directive of the National Salaries, Income and Wages Commission (NSIWC) circular of 10th June 2010, each of the 71 boards was either expected to sit for four to eight times only in a year. This huge amount paid to these board members was outside other benefits, such as accommodation, out of station travel expenses, furniture, vehicles, contracts and medicals (cited in Yusuf, 2012:1-2). If only 71 board members collected NGN8.4 billion or USD54.2 million as sitting allowance for four years, what will the remaining 429 out of the 500 boards of PEs in Nigeria collect from the government’s coffers as sitting allowance for four years? Huge sum! No doubt.

Supporting the privatization of PEs in the country arising from their poor performance and huge subvention cost, Babaferenj Ojedu, a Senator of the Federal Republic of Nigeria points out that government just appoint a board to run a public enterprise, and once the board members get there they start looting. He posits that it is better that these companies are privatized. He further argues that “there is also the issue of asset stripping...companies that are supposed to buy, refurbish and improve the place got there and started selling company assets they met on ground” (Suleiman, 2011:35). The picture painted above could hinder the purpose of privatization if not properly addressed by the privatizing agency.

The foregoing points to the fact that for the Nigerian economy to grow and bring about development there is need to block every available loophole in terms of making sure that PEs are no longer drain pipes and source of wastages of public funds. For instance, the Federal Government of Nigeria spent NGN1.7 trillion or USD10.9 billion on fuel importation subsidy in 2011 alone due to the poor state of government’s refineries, whereas the total budget for capital expenditure for infrastructural development in the country as approved by the Nigerian National Legislature on 15th March, 2012 is only NGN 1.52 trillion or USD9.7 billion (Ojibao & Onoza, 2012; Soyinka et al., 2012). This figure is less than the total amount spent on fuel subsidy as a result of the poor state of the government refineries in Nigeria.
Also, the committee discovered that Global Infrastructure, the Indian company that bought Delta Steel Company at Aladja, Delta State never bid for it and so was not the preferred bidder, yet it bought the steel company for USD30 million. The Nigerian Senate as a body in an apparent dismay ordered the revocation of the sale of the company by the BPE (Utomwen, 2011). Other companies privatized by BPE that had same challenge of doubtful transactions and had their sales terminated by the Nigerian Senate are: Ajaokuta Steel Company at Ajaokuta, Kogi State, Transcorp Hilton Hotel – Abuja, NICON Luxury Hotel Abuja, International Hotels Limited Abuja, Sunil Sugar Company – Niger State, Baclita Sugar Company -Kwara State (Phillips 2011; Utomwen, 2011). While inaugurating the newly constituted board of National Council on Privatization on 24th November 2011, the Vice-President of the Federal Republic of Nigeria, Namadi Sambo corroborated the Senate Adhoc Probe Committee’s findings on BPE when he said that “only one of 122 public enterprises privatized so far was operating at optimum capacity” (The Punch Newspaper Editorial, 2011:18).

The report of the Senate Adhoc Committee (findings and recommendations) was submitted to the Nigerian Senate Committee of the Whole House. The house subsequently approved among others that: (a) Former Director-Generals of BPE, including Nasir El Rufai, Dr Julius Bala and Mrs Irene Chigbue should be reprimanded by the National Council on Privatization for the negative roles they played while they took charge of BPE as Director-Generals; (b) Director-General, Ms. Bolanle Onagoruwa should be removed from office for gross incompetence in the management of the BPE, illegal and fraudulent sale of the five percent Federal Government’s share in the Eleme Petro-Chemical Company Limited in Port-Harcourt – Rivers State worth NGN4.3 billion or USD27 million without approval by the National Council on Privatization as stipulated by the law establishing the BPE (Ojibor, 2011:11).

The foregoing shows clearly that the privatization policy of government of PEs, though seems justified by all indications, but the body set up to implement the policy needs reform to enable it function properly. This is particularly so going by the colossal amount of funds spent as subvention on PEs and maintenance of its board members. However, mere implementation of the privatization policy may not be enough, but should be done according to procedure, and the process made transparent. In this regard, Babafemi Ojudu, a Senator of the Federal Republic of Nigeria cautioned that “in privatizing PEs in Nigeria, laid down regulations should be followed to promote transparency and accountability” (Suleiman, 2011:35).

V. CONCLUSION

The paper examines the privatization policy of the Nigerian government, with specific interest on the activities of the body established to implement the policy for sustained development in the country. It observed that public policy that is hinged on transparency is more likely to be accountable to the people at implementation both in terms of its personnel and structure. Such a structure or agency that is accountable is more likely to deliver the purpose for its establishment. The argument is that the privatization policy of the Federal Government of Nigeria would reduce expenditure in form of subvention to PEs, make more funds available to government for infrastructural development, provide essential services for the people and subsequently stimulate the socio-economic advancement of the nation.

Furthermore, the paper noted that public policy directed at an aspect of a nation’s economy that is supported by the people and properly implemented by the government is more likely to bring about development in that particular society including the policy on privatization of PEs. In addition, the paper reveals that though the privatization policy on PEs by the government is justified, but observed that government interference, lack of transparency and accountability on the part of those entrusted with the management of the policy as the major hindrances to the successful realization of its goals.

VI. THE WAY FORWARD

The government of any nation including Nigeria has the responsibility to improve the living standard of the people through the successful formulation and implementation of policies including that of privatizing public enterprises for performance. However, going by the way the policy has been implemented in the country so far, there is need for a deliberate action in the area of reforms by the government in terms of structure and personnel of BPE if the gains of the privatization policy of PEs are to be fully realized. To achieve the benefits of privatization of public enterprises in Nigeria, the followings are suggested as way forward:

The Federal Government should stop its interference with the implementation of the privatization policy in its day-to-day running in terms of what, and what not to privatized where to do the privatization and when the privatization is to take place.

In addition, the enabling laws establishing the Bureau of Public Enterprise (BPE) should be amended by the Nigerian National Legislature to make it impossible for the government to decide who to appoint and remove as head of the agency. Furthermore, the law should abolish the principle of federal character – equal representation
of people to be employed into the agency from different part of the country. The appointment should be based on merit and credibility in character. This is particularly necessary because of the nature of the agency that has to do with not just mere carrying out the privatization for the sake of it, but selling state-owned enterprises to organizations or individuals that have the capacity to manage such enterprises for performance. Enterprises that are poorly managed cannot be a good source of employment generation for the jobless in a country.

Furthermore, those who are found culpable of any wrongdoing while at the leadership of BPE should be handed over to the law enforcement agency like the Economic and Financial Crime Commission (EFCC) (a body set up by the Nigerian government to fight financial crime in the country) for prosecution instead of mere reprimand.

Finally, the activities of BPE and its operators should be regulated by law to make it a serious crime against the country any time they act alone to privatize any state-owned enterprise without due regard for approval by the National Council on Privatization. This would serve as a deterrent and more likely to make BPE as a body and its operators to be transparent and accountable in their assignments.

VII. REFERENCES


