Impact of privatisation in nigeria

Privatization is a key component of the reform process of structures and economies in the globalized world today. Developing countries have embarked on extensive development

programmes some recorded as successful and some a failure. Despite the impressive level of

privatization in Africa, the empirical knowledge of the program is limited. Aside from theoretical

predictions, not much is known about the process and outcome of privatization exercises in Africa

in spite of the impressive level of activism and implementation.

As in most African developing countries, Nigeria witnessed the growing involvement of state in

economic activities until when the country adopted the Structural Adjustment Programme (SAP) in

1986 and the Privatization and Commercialization Decree[1](1). The Privatisation and

Commercialisation Act of 1988 and the Bureau of Public Enterprises

Act of 1993 defined privatization 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. Although privatization is not defined in the

Public Enterprises (Privatisation and Commercialisation) Act[2], we can assume that it

is deemed to have the same meaning.

Privatization became the forefront as a major component of Nigeria’s economic reform process.

With the government investing over N36 billion in form of loans, eqity and grant in over 500

companies between the period of 1973- 1990, there was not much growth in the economy. This lead

to serious fiscal deficits and this lead to the inefficient public sector investments to be questioned.

Introduction:

In both developed and developing countries, privatization and in some cases

commercialization have grown in popularity and acceptability. It has also become an

important instrument that government can use to promote economic development,

improve the production and distribution of goods and services, stream line government structure, and reinvigorate industries controlled or managed by the state.[3]

(Rondinelli and Iacono 1996).

The articulation of government policy on Privatisation in Nigeria was concretized in the Structural

Adjustment Programme (SAP) embarked upon in July 1986, 2 during the Ibrahim

Badamasi Babangida administration (1985 – 1993)[4]. As McGrew has argued, SAP is a

neo-liberal development strategy devised by international financial institutions to

incorporate national economics into the global market. In his words:

The vision of a “ global market civilization” has been reinforced by

the policies of the major institution of global economic government

namely up to the mid 1990’s. Underlying them as Structural

Adjustment Programmes has been a new-liberal development

strategy – referred to as the washing on consensus which

prioritizes the opening up of national economics to global market

forces and the requirement for limited government intervention in the management of the economy.[5]

One of the objectives of SAP therefore, was to pursue deregulation and Privatisation

leading to removal of subsidies, reduction in wage bills and the retrenchment of the

Pubic Sector ostensibly to trim the State down to size. 4

To actualize this objective, in July 1987, the government set up a Technical Committee

on Privatisation and Commercialisation (TCPC) which was backed up by the

Privatisation and Commercialisation Decree5; which categorized all State-owned

enterprises and parastatals into four main groups, namely:

(a) Those to be partially privatized

(b) Those to be fully privatized;

(c) Those to be partially commercialised

(d) Those to be fully commercialised.[6]

Those slated for full privatisation included 13 insurance companies in which the Federal

Government had between 25 percent and 49 percent shareholding; 10 medium – to large

– scale manufacturing firms; 2 hotels; 4 companies in the transportation sub-sector and

15 agricultural and agro-allied firms. The total value of shares which the government

expected to sell in these firms was estimated at about N150 million. Enterprises billed for

partial privatisation were made up of 27 commercial and merchant banks, 23 major

manufacturing firms spanning cement production, truck and car assembly plants,

fertilizer factories, newsprint and paper mills, engineering and electricity component

plants. They also included three steel rolling mills, newspapers, oil companies, shopping

and air line companies, and so on. The total value of government holdings in these firms

was put at over 2. 1 billion naira. Towards the end of 1989, the four commercial vehicle assembly plants in the country were added to the list of firms to be privatised. About 10

major State Owned Enterprises (SOEs) were to be fully commercialised, and 14 others

to be partially commercialised.[7](THE LEGAL AND INSTITUTIONAL FRAMEWORKS OF PRIVATISATION IN NIGERIA: A DISCOURSE.)

This paper is aimed at studying the impact of privatization in Nigeria with regards to the case of

utilities especially the Electricity Supply company and the Telecomm company. The paper has 5

major parts, the ideology of privatization, privatization in Nigeria, the electricity company in

Nigeria, the telecoms company and the fiscal impact of the whole privatization process on the

Nigerian economy and labour market; while the paper is concluded with remarks on the

privatization of the specific utility companies ; what are the conclusion as to the efficacy of the privatization activities in the Country.

2. 0 The Ideology of Privatization

Privatization has become an acceptable paradigm in political economy of states.

It is a strategy for reducing the size of government and transferring assets and service

functions from public to private ownership and control. Privatization is based on the principles that:

a. Government is intruding into private enterprise and lives more than it should be;

b. Government is unable to provide efficient and effective services to the public;

c. government officials and government agencies are not adequately responsive to the public;

and

d. Government consumes too many resources and thereby threatens economic growth.[8](D. O Adeyemo, A. Salami (2008), A Review of Privatization and Public Enterprise Reform in

Nigeria. Contemporary Management Research pp 401-418, Vol. 4 No. 4, December, 2008.)

Early economists such as Adam Smith suggest that the government in developing countries(Africa)

; giving ownership of its enterprises to the private sector would lead to economic benefits to the society. Developing countries also need a competitive market that is effective and such can only be

attained by private entrepreneurs[9](thesis). The classical economists believe that economic

development is a process attained through profits accrued from positive productive activity that is

beneficial to all sectors in the economy. The Keynesian school on the other hand have the belief that

government plays a crucial role in controlling economic crisis and prevent economic depression.

Keynes proposes that the problems in developing countries are based in investment behaviour of

capitalist firms under conditions of insufficient aggregate demands for goods and services[10](davino

1995).

Privatization is a phenomenon concept which became increasingly important in the 20th century

especially the 80’s when it began to rise. Privatization has different meanings to different people.

To some it is the a competition of public enterprises in a competitive market while some just think of it as a monopoly situation which can be subdivided into natural monopolies by limiting the

ability of the other enterprises to enter the market.

However privatization is defined, it is intimately bound with the social, political and economic

agenda of the government. The concept of privatization is inherently ideological.

This chapter will review the principles, priorities and problems of privatization most especially

within the Nigerian context.

2. 1 Principles and Priorities:

Privatization in Nigeria:

Since the Margaret Thatcher era when privatization was introduced in the UK, many other countries

adapted the ideology of privatization including developing countries which have launched

privatization programs in pursuit of its mandate of further economic development by encouraging

the growth of productive enterprises. Nigeria was not left behind in this new ideology of fostering

economic performance.

Nigeria's political economy after independence from Britain in 1960 was an adopted form colonial

capitalism alongside the British model of parliamentary system of Government. The private sector

was at its first phase. By the first military coup in 1966, a new form of political economy emerged

in the state in the form of hybrid of state capitalism and socialism. All Government functions and

responsibilities were delegated to Government Ministries, Departments, and Agencies. The Federal

Government also became a major player in the economy by establishing statutory corporations and

private investment companies. It also invested considerably in other private companies. By the 70's

the Indigenization Decree of 1973 was promulgated. It ensured the conversion of private controlled

international corporations in Nigeria into state owned corporations. The consequence was the

creation of over 1000 state owned corporations in virtually all sectors of the economy operating as monopolies without competition from the thin private sector. These corporations were funded by Nigeria's

new found oil wealth. Their scope of operation covered oil and gas, agriculture, banks,

mass transit, housing, power, security, education and manufacturing, etc[11]

By the early eighties, the oil prices crashed and the usual billions of Naira

pumped into these corporations annually could no longer be sustained by the Federal Government.

At the same time, annual profits of these corporations tumbled down due largely to state corruption

and inefficiency. There were also the operational problems of gross incompetence in management, complacency excessive bureaucracy, defective ownership structures, defective capital

structures, lack of effective control and supervision by the Government, outdated technology,

international competition etc. By the late eighties, these factors worsened the already

stunted and stretched Nigeria private sector market. It became vital to encourage private

participation in the national economy and expand the Nigerian economy by direct deregulation. The alternative option was the collapsed of the entire Nigerian economy.

The establishment of a private sector driven market became imperative to ensure the provision of

efficient and quality services, improve infrastructure, improve local manpower

development while reducing the amount of revenue the Government spends for public services

such as defence and security. As at that time privatization of public corporations, firms, companies

and services became the most viable economic solution.

In 1988, the Federal Government of Nigeria (FRN) duly responded to the recommendation of the

International Monetary Fund (IMF) and the World Bank; that loss making enterprises have for

many years been draining the Government resources in developing countries and such enterprises

burden the governments into borrowing to aid their finance operating losses.[12]This lead the IMF to

refuse subsequent loans applied by Nigeria hence; led to the adoption of the

Structural Adjustment Programme (SAP). SAP was aimed at reforming the economy and making it

more efficient.

The principle for privatization in Nigeria commenced in 1999 with the aim to diversify totally or

partially the shares owned by the Federal Government, its agencies and parastatals in public

enterprise active or dormant.[13]

The primary goal of the privatization in Nigeria is to reduce the dominance of the public sector in

the economy and allow the private sector to play its proper role as the leading engine of growth.

Nigeria established the Technical Committee on Privatization of Public Companies

(TCPC). Its obligations and goals were the disposal of Government equities in the Nigerian

capital market, the privatization of commercial and merchant banks, etc. This

movement had drastic yet successful consequences. The immediate impact was the expansion of the

Nigerian economy buoyed by private sector involvement. Public services improved in the

selected corporations as well as their financial bases by the injection of private sector capital. To

build on these economic landmarks, the Bureau for Public Enterprises (BPE) was established in

1999 as a successor to the TCPC. The National Council on Privatization (NCP) was also established

as the supervising body to BPE. These two regulatory agencies on Nigeria’s privatization were

established through the promulgation of the Public Enterprises Privatization and Commercialization

Act 1999.

The directive of the BPE and NCP was to formulate policies on privatization and

commercialization, approve guidelines and criteria for valuation of public enterprises slated for the

exercise, approve choice of strategic investors, approve share prices and assets of state owned

enterprises, designate and approve privatization advisers and consultants, approve enterprises for commercialization etc.[14]The BPE is the Secretariat of the NCP designated to execute all the above

functions of the NCP.

The statutory mandate of the BPE and NCP are specifically spelt out in the Public Enterprises

Privatization and Commercialization Act 1999. The specific mode, structures and timetable of

privatization of Nigerian public enterprises were also spelt out in the 1999 Act. All designated

Nigerian state enterprises were categorized into broad sector groups with the name of the enterprise,

shareholding structure, expected level of ownership to be sold out, privatization policy outline, and

time schedules.

Some of the cardinal groups are the financial enterprises group comprising NICON Insurance,

Nigerian Reinsurance, Nigerian Bank for Commerce and Industry, Assurance Bank, FSB Bank,

Afribank BIAO shares. State owned Industries group contained NAFCON, Federal Super

Phosphate Fertilizer Company, Nigerian Machine Tools, Nigerian Paper Manufacturing Company

Limited, Nigerian Sugar Company, Bachita, Ashaka Cement, Sunti Sugar Company, Benue Cement

Company, Calaber Cement, Leyland, Peugeot Automobile Nigeria Limited, Volkswagen Nigeria

Limited etc.

The power and steel group comprised Oshogbo Steel Rolling Mills, Jos Steel Rolling Mill, Delta

Steel Rolling Mill, Ajaokuta Steel Rolling Mill, Aluminum Smelter Company Limited, National

Iron Ire Mining Company Limited etc. Solid minerals comprised Nigerian Mining Corporation,

Nigerian Coal Corporation, Nigeria Uranium Company Limited etc. The information sector group

contained Daily Times of Nigeria, Federal Radio Corporation of Nigeria, New Nigerian

Newspapers, News Agency of Nigeria and Nigeria Television Authority etc. In the transport sector,

several state enterprises were slated for privatization. They are Nigeria Ports Authority, Nigeria

Railways, Nigerdock, NAHCO etc. The petroleum sector group comprised Nigerian National

Petroleum Corporation, Eleme Petrochemicals, Kaduna, Port Harcourt, Warri refineries, Nigerian

Gas Company, Petroleum and Pipelines Marketing Company, African Petroleum, UniPetrol,

National oil, Dresser Nigeria Limited, Baker Nigeria Limited etc. In the housing sector, we had

Federal Mortgage Bank, Federal Mortgage Finance Limited, Federal Housing Authority etc. In

natural resources, all 12 Water River Basin Development Authorities were slated for privatization.

In agriculture, we had National Park Board, Ore Oil Palm, and Ihechiowa Oil Palm etc. Hotels were

grouped to include Nigeria Hotels Limited and Festac 77 Hotels. Telecoms and postal services

group comprised NITEL, MTEL and NIPOST. State power agencies group contained NEPA and its

subsidiaries. Airlines and airports were grouped into Nigeria Airways, FAAN, NEMA etc.[15]

As at May 1999 the Federal Government investment in these public enterprises was in the region of

US$100 billion. In spite of these massive investments, however, public enterprises have failed to

perform the functions and attain the objectives for which they were set up.

The gross failure of these enterprises to live up to expectations is partly responsible for the current

move towards economic liberalization, competition and privatization. The philosophy behind

privatization therefore is to restructure and rationalize the public sector not only to lessen the

dominance of unproductive investments in the sector but also to initiate the process of gradual

cession to the private sector of public enterprises which are better operated by the private sector. It

is also expected that the privatization programme will provide the channel for reintegrating Nigeria

back into the global economy as a platform to attract foreign direct investment in an open, fair and

transparent manner.[16]