PRIVATISATION AND DEVELOPMENT

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Abstract

Developing countries in post World War II era, saw need to supplement inadequate entrepreneurial skills and limited private capital with state investment. Dwindling revenue and mismanagement coupled with the collapse of communism in face of urgent development need, led to privatization of state owned enterprises. Studies have shown that privatization impacts positively on development and this was assessed by a change in the state share in the economy, reduction in fiscal imbalance and development of capital market and resource mobilization. The study shows that while privatization promotes activities in the capital market and marked an increased foreign private investment, state share in the economy shows increasing trend. This paper recommends government management of its expenditure and promotion of more private participation in the economy.

Introduction

At Independence in 1960, Nigeria's private sector was relatively weak and underdeveloped. This situation was a reflection of the level of development spurred by the discriminating practices of the colonial masters which made it difficult prior to independence for indigenous entrepreneurs to attract institutional credit.

The earliest banks for instance, were established in furtherance of the commercial interest of the colonial masters and the then trading companies. Indigenous population were not given the chance of attracting credit from the banks and were infact, segmented from the banks' operation. In order to correct this anomaly, a number of indigenous banks were established in the early 1930s. Unfortunately however, these banks collapsed with the same rapidity with which they were established essentially because they were not adequately conceptualised and packaged.

This and other developments contributed to the underdeveloped status of the private sector and by extension, the Nigerian economy at independence. This explains why the government in its ambition to facilitate a rapid growth and development of the economy went into all manners of investments in virtually all sectors including areas which are regarded as outside the traditional role of government. The justification of this action by the government ranges from economic to social and political consideration.

Events throughout the world have made it clear that public ownership of business enterprises has become outdated. This is not unconnected with the economic fortune of Argentina pre and post privatisation and a collapse of communism, which has consistently encouraged private ownership of productive activities. This global trend coupled with abysmal performance of government owned companies justifies the need for privatisation in Nigeria.

The objective of this paper is to look at privatisation vis-a-vis economic development, highlight hindrances to the privatisation problem and proffers solutions.

The rest of the paper is organised as follows: Section II is on theoretical framework/literature review on privatisation and economic development while section III provides the impact of privatisation on economic development. Section IV is summary, conclusion and recommendations,

Meaning of Privatisation And Development

Privatisation is defined as the transfer of production assets from public to private ownership and control. In other words, it is seen as a process of changing ownership of government companies to private ownership through the sale of shares of such companies to individuals or institutions for effective and efficient management.

Privatisation has been at the forefront of economic policy debate in all parts of the developing world for several decades and has been seen as a key policy instrument in the move to more market based economic system. In countries like Chile, Argentina, Uganda, Ghana, etc, privatisation has featured prominently in the Structural Adjustment Programme (SAP) adopted in the 1980s and 1990s.

The prominence of privatisation in developing economies is borne out of variety of objectivity. First, with widespread evidence of poor economic performance of many public enterprises, privatisation has been seen as a means of improving economic efficiency, which will be reflected in lower consumer prices and improved product quality. In Nigeria for instance, prior to the implementation phased programme of privatisation, state owned enterprises had mushroomed into a portfolio of investments which by 1990 had a value of more than £436 million, and which stood at more than £41,000 billion at 1994 replacement cost (Zayyad, 1994). He went further to say that this huge investment had a return on investment of 2% which is even attributed to the Central Bank of Nigeria's surpluses. This implies that the huge investment were actually losses to the government.

Also, faced with large net financial deficits in the public enterprise sector, privatisation has been perceived as a means of reducing fiscal deficit by increased tax revenues on enterprises output, reduction in government transfers to the enterprise sector and receipts from privatisation sales, other objectives for privatisation have included the generation of new investment, wider share ownership and the deepening of the domestic financial systems.

Privatisation has been on in Nigeria since 1986. The realisation of the above objectives will measure developmental impact of the exercise amongst other factors.

Development

There is no objective definition of the development and subsequently no universally acceptable indicator. Development in human society is a many sided process.The thinking of the 1950s and early 1960s was that, development could be identified with the growth of Gross National Product (GNP). Todaro (1977) captured this classical (traditional) meaning of development thus:

> ... the capacity of a national economy whose initial economic condition has been more or less static for a long time to generate and sustain an annual increase in its Gross National Product at a rate of perhaps 5 to 7% or more (:p.36).

It was this thinking that informed the United Nations Organisation to set a 6% target growth rate of GNP in the 1960s which was dubbed the "Development Decade".

An alternative but similar economic index of development by the "Classicals" has been the use of rates of growth of per-capita GNP. This takes into account the ability of a nation to expand its output at a rate faster than the growth rate of its population.

Development is also viewed in terms of "planned alteration of the structure of production and employment so that agriculture's share of GNP declines while that of manufacturing and service industries increase" (Todaro 1977). In this vein, development was seen in terms of rapid industrialisation often at the expense of agriculture and rural development.

However, the above indices of development has come under heavy attack. Dudley (1989) in his article "The Meaning of Development" was a front liner in this regard. He argued that attention should be on equality and the reduction of unemployment and poverty. In fact, economic development was defined in terms of the reduction or elimination of poverty, inequality and unemployment within the context of a growing economy. Dudley (1989, p.483) asserted that:

> The question to ask about a country's development are therefore; what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality?

He went further to say that if these have declined from high levels, then beyond doubt this has been a period of development for the country concerned. If one or more of these central problems have been growing worse, especially if all three have, it would be strange to call the result development even if per capita income doubled.

The above assertion was corroborated by Anyiwe (2002:3) when he said that development implies "... progress in place of decay, food in place of hunger, health in place of disease, education in place of ignorance, decent environment in place of slum, employment in place of joblessness, equity in place of inequity, freedom and esteem in place of servitude",

The above postulations are real as there were many developing countries which experienced relatively high rate of growth per income during the 1960s but which simultaneously showed no improvement or witnessed an actual decline in unemployment, inequality and poverty.

Rodney (1982) on the other hand sees development in relation to humans' ability to interact with the environment to their advantage. According to him, a society develops economically as its members increase jointly their capacity for dealing with the environment. This capacity is dependent on the extent to which they understand the laws of nature (science), the extent to which they put that understanding into practice by devising tools (technology), and on the manner in which work is organised.

To Rodney, development was universal because the conditions leading to economic expansion are universal. Every man is faced with the task of survival by meeting fundamental materials needs and the functional tools devised to meet this needs. Thus, underdevelopment is due to dependency syndrome. This explains why Todaro (1977) defined development as a "multi-denominational process involving changes in structures, attitudes and institutions as well as the acceleration of economic growth, the reduction of inequality and eradication of absolute poverty". That is. individuals and social groups within the system move away from a condition of life widely perceived as un satisfactory, towards a situation or condition of life regarded as materially "better".

Todaro accepted that at least, three basic components or core values should serve as a conceptual basis and practical guideline for understanding the inner meaning of development. These are:

i. Life Sustenances: The ability to provide basic necessities,

ii. Self-esteem, iii. Freedom from servitude: To be able to choose.

Kuznat (1971) defined development as a country's long-term rise in the capacity to supply increasingly devise economic goods and services to its population, and that this growing capacity is based on advancement in technology, institutional and ideological adjustments that demands it. This gives urgency to privatisation in Nigeria, given the epileptic supply of goods and services by State-owned companies.

In summary, economic development depends on ability of a country to sustain the increasing welfare of its population.

Privatisation and Economic Development

The impact of privatisation on the macro economy can be assessed by a change in the state's share in the economy, a reduction in the fiscal imbalance and development of capital markets and resource mobilisation including foreign investment (Edward, 2003).

In Nigeria, privatisation impacted positively on the capital market and this is reflected in the volume of and value of shares traded on the Nigerian Stock Exchange since 1999 when government inaugurated the National Council on Privatisation. The first phase of the privatisation exercise saw 28 companies listed in the Stock Exchange and this increased the market capitalisation by N2.7 billion. The figure has risen consistently to N93.9 billion at the end of 1999 which represented 31.89% of total equity market capitalisation (Vanguard Newspapers). This has gone a long way to deepen the capital market coupled with successful raising of additional funds by some of the privatised companies in (he capital market like FSB International Bank.

All gauges of the capital market shows impressive result. The volume and value of shares traded on the Exchange recorded continuous improvement. In 1999, turnover volume stood at 3.9 billion shares valued at 1414.1 billion and this has increased to N59.8 billion in 2002.

This far-end is in consonance with happenings in other countries that have privatised state owned enterprises. This shows that the existence of a formal capital market evidenced by a Stock Exchange facilitates privatisation while the programme serves as an important impetus to capital market development (Ndanusa, 1999).

The stock market indices shows improvement even though the economy is still largely weak. The All-Shares index which measures the trend of price movement of securities traded on the Nigerian Stock Exchange stood at 5,266.43 points in 1999, rose to 8,111.01 in 2000 and 12,137.7 in 2002. This trend is also recorded in the market capitalisation. It increased from N299.9 billion in 1999 to N763.9 billion in 2002 (Vanguard Newspapers 2003, p. 13).

This impact on the capital market, resulting from its choice for privatisation, has attracted foreign investment as shown in Table I.

Table I

Year	Foreign Private Investment	Fiscal Imbalance	GDP
1980	**3620.1**	**-**	**-**
1981	**3757.9**	**-**	**703959**
1982	**5382.8**	**-**	**70157**
1983	**5949.5**	**-**	**66389.5**
1984	**6418.3**	**-**	**63000.4**
1985	**5804.0**	**-**	**68916.3**
1986	**9313.6**	**-**	**70075.9**
1987	**9993.6**	**-**	**70741.4**
1988	**11339.2**	**-**	**77752.5**
1989	**10899.8**	**-**	**83495.2**
1990	**10436.1**	**-**	**90342.1**
1991	**12243.5**	**-**	**95614.1**
1992	**20512.7**	**-**	**97431.1**
1993	68787.0	107735.3	100015.1
1994	7070714.6	-70270.6	100040.1
1995	119391.6	1000.0	103502.9
1996	122500.9	37049.4	107020.0
1997	128331.9	5000.0	110400.0
1998	152410.6	133389.3	113000.0
1999	-	-285104.7	116400.0
2000	-	-103777.3	-
2001	-	-221048.9	-

$ource:CBN **Annual**

Report, Table I

Year	Gross Output in Million (Without Govt. Services)	Government Services in Millions	Total	% of State Share in Total GDP
1980	-	-	-	-
1981	65633.49	6680.65	72314.14	9.24%
1982	67428.97	6888.54	74317.51	9.27%
1983	72419.40	7562.69	79982.09	9.46%
1984	78907.54	6979.83	85887.37	8.13%
1985	90395.68	7567.10	97962.78	7.72%
1986	92601.54	7693.98	100295.52	7.67%
1987	136271.67	7213.33	143485.00	5.03%
1988	183838.95	9449.28	193288.23	4.89%
1989	278683.91	10292.48	288976.39	3.56%
1990	324454.07	11715.26	336169.33	3.48%
1991	403151.78	12901.76	416053.54	3.10%
1992	666944.83	20819.07	687773.90	3.03%
1993	866708.83	28120.75	894829.58	3.14%
1994	1161188.28	88513.20	1249701.48	7.08%
1995	2445778.94	122536.90	2568315.84	4.77%
1996	3527407.22	140917.44	3668324.66	3.84%
1997	3715918.97	188089.00	3904007.97	4.82%
1998	3678285.74	207795.81	3886081.55	5.35%
1999	4086820.83	234483.92	4321304.75	5.42%
2000	6208294.64	332787.04	6208294.64	5.36%
2001	7123470.962	461106.1774	7123470.962	5.63%

Source: **federal Oniee 01 Statistics, Abuja. (National Accounts or Nigeria 1981-2001).**

From the table above, foreign private investment has been increasing since 1986 to £1152410.6 million in 1998 and there is a great potential for increase.

Also, the private sector has become more productive as a consequence of privatisation, trade policy reforms and domestic price liberalization. The increased productivity of the private sector is shown in Table II above (Gross output). The major sources of increase were agriculture, manufacturing, merchandise, transportation, finance and insurance. This is attributed to sustained increase in the output values of agriculture, communication, etc.

However, privatisation has not reduced fiscal imbalance due largely to increase in debt service and extra-budgetary expenditure. Total government expenditure exceeded the budget estimate by ^79539,1 million or 28.7%. Total expenditure as a proportion of Gross Domestic Product (GDP)

increased from 10.2% in 1996 to 11.4% in 1997. Government deficit for nine (9) years are shown in Table I. In 1999, 2000 and 2001, the government deficit stood at -^285104.7, - N103777.3 and -N22104.89 respectively. This calls for substantial macroeconomic changes that will ensure reduction in public expenditure among other considerations. Although, government share of GDP is fluctuating, a reduction was recorded in 1996 and 1998. This shows that inspite of capitalisation, government still remain a major player in the economy.

The growth in Gross Domestic Product (GDP) within the period of interest can be attributed to privatisation. Trade liberalisation that is synonymous with privatisation motivated production in the agricultural sector coupled with the abolishment of marketing board. This also extended to the telecommunications sector where various firms were established to compete with NITEL.

From the foregoing, two of the three measurements of impact of privatisation shows that the Nigerian economy stands to benefit when privatisation is implemented as it should be. The impact on the capital market can still be recorded in other sectors of the economy when Nigerians are carried along in the exercise.

Summary and Conclusion

Privatisation in Nigeria and most developing countries was a child of perceived government failure in managing public companies acquired/established in quest for development and provision of services that are highly desirable. In this paper, the impact of privatisation in development was analysed, using the three criteria - state share in GDP, reduction in fiscal imbalance, development of the capital market and inflow of foreign investment.

We saw that the capital market benefited immensely from privatisation and this also resulted in foreign capital inflow that has been increasing consistently since 1986. In areas of fiscal imbalance, we discovered that there is not much impact and this stems from debt servicing and extra budgetary expenditure by government while government share in the economy has been fluctuating.

The privatisation exercise was also seen as impacting positively on domestic production as a result of trade liberalisation and domestic price deregulation.

However, the implementation of the privatisation programme has not been without problems. The non compliance of some of the public companies with the listing requirements of the capital market has hindered the process. When this and other problems centering on transparency are considered, Nigeria might re-enact the Argentina experience.

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