

RATIONALE BEHIND PRIVATIZATION IN THE NIGERIAN ECONOMY

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Abstract

The rationale behind privatization in the Nigeria Economy is to relinquish part or all of the equity and other interest held by the Federal Government or its agencies. For this reason, the paper sought to examine the historical background of privatization, the nature of privatization in Nigeria, the societal reaction to privatization in Nigeria and some of the public utilities being privatized in the country. Finally, recommendations are suggested for improving the implementation of the programme.

Introduction

The ultimate goal of any credible and legitimate government is to ensure sustained improvement in the standard of living of the citizenry.

Toward this end, the government usually evolves development plans that will facilitate effective mobilization, optimal allocation and efficient management of national resources. In such efforts, priority is usually given to the provision of development facilitators such as transportation and communications as well as social overhead like education and health.

Drawing on the successful experience of most developed economies, developing countries have also adopted a similar development process. In addition, for several reasons, such as the small size private sector, or for the so-called "security reasons," the development process has been largely dominated by the public sector. Available evidence suggests that this public sector-dominated process has not achieved the desired impact overtime. Prominent among this is the lack of an inclusive framework on the consequence alienation of the people from the public policy process.

This, coupled with recent development in the globalizing world, have precipitated the clamour for comprehensive national economic reforms that will facilitate more efficient macroeconomic management and thereby) steer the economy back on to the path of sustainable growth and development.

The major components of this reform are the deregulation that augurs well for the promotion of a private sector-led economy. This was formed by the assumption that the private sector is more efficient in the allocation of resources, and that this level of efficiency will be enhanced in a competitive environment emanating from the deregulation of the economy. This implies that the reliance on the market rather than state is the accepted antidote against the problem of underdevelopment in affected economies. The privatization of state-owned enterprises (SOE) is the major strategy for obliterating the culture of public sector domination of the economy. While acknowledging the desirability of enhanced efficiency 111 the management of national resources and better service delivery, the extension of wholesale privatization programme to the utility sector has of recent been of concern to development analysts, and concerned groups of stakeholders.

This concern arose from the fact that unguided privatization cannot be classified as ordinary commodities given the implications of the non accessibility and affordability of some of these utility items to the citizenry, especially the poor and the vulnerable groups in the society. Nigeria is committed to following the footsteps of several countries that have embarked upon the privatization of the national economy. The scope of the nation's privatization programme covers several sectors including banking and finance, manufacturing, hospitality and tourism among others. The privatization train has now arrived into the utility sector and it is operating at varying degrees within the sub-sector therein. Given the criticisms that have trailed the implementation of the privatization programmes in other sectors, it appears timely to evaluate the proposals for the privatization of the nation's utility sector. This is with a view to ensuring compatibility of the new policy orientation with the overall goal of poverty alleviation through wealth creation.

The first privatization of public enterprises took place In the United Kingdom in 1984 when the shares of British telecommunication were sold by the British Government to the public. Since

then, nearly all public utilities in the United Kingdom followed the example of the British Telecommunication. Experience has shown that through that exercise, not only as efficiency been improved, in any case prices have decreases as a result of widespread competition. In the United Kingdom experience, the exchequer has been saved the annual subvention which had to be borne by tax payers. Privatization has spread like a wild fire across the globe; the profound change having taken place in Eastern Europe and specifically in the countries of the former Soviet Union, after the demise of communism.

Privatization has also spread to the Caribbean countries as well as Latin America. The least affected areas have been countries of sub-Saharan Africa, North Africa and Middle East.

Privatization in Nigeria

Nigeria's public enterprise sector IS perhaps the largest in sub-Saharan Africa both in terms of absolute numbers of enterprises and the contribution to the gross domestic product, (Lewis, 1994). Since the colonial era, public enterprises have assumed increasingly diverse and strategic development roles in the Nigeria economy.

This was accentuated during the oil boom era of the 1970s and 1980s, when the military regimes decide on manufacturing agriculture, banking and finance, services and public utilities such as telecommunications, power and water.

A survey report indicates that as at 1987, there were about 15,000 Public Enterprises (PEs) in Nigeria which were made up of 6,000 at the Federal level and about 9,000 smaller PEs at the state and the local levels. These enterprises accounted for about 30-40 percent of aggregate fixed capital investment and about 50 - 60 percent of formal sector employment. It is estimated that successive Nigerian government invested about 800 billion naira (approximately US \$90 billion equivalent) in the public Enterprises Section over two decades, (Obadan and Jerome, 2004). These were made up of equity loans, subventions from the treasury and loam, guarantees. These investments yielded only \$1.5 billion on dividends and loans repayment from 1980 to 1987 (Federal government of Nigeria, 1986:24).

Given the persistent failure, these enterprises require continuous massive subsidies but deliver only intermittent and sub-standard services. About 50 percent of non-salary recurrent expenditure and 30 percent of capital expenditure was expended annually on these enterprises. Net outflows from the government to the public enterprise sector have been estimated at \$2 billion annually, (Callaghy and Wilson, 1988). The presence of non-performing PEs has impeded entry by potentially more efficient private operators.

In the wake of the economic recession that began in 1981, following the collapse of oil prices, the activities of public enterprises attracted more attention and underwent closer scrutiny, much of it centering on their poor performance and the burden they impose on a national privatization programme, the implementation of which commenced in 1988. The federal government subsequently promulgated Decree No. 25 on privatization and commercialization in July 1988 to give legal backing to and formally initiate Nigeria's privatization and commercialization programme.

According to the decree, the nation's privatization programme is expected to:

- i. Restructure and rationalize the public sector in order to lessen the preponderance of unproductive investments,
- ii. Re-orientate the enterprise towards a new horizon of performance improvement, viability and overall efficiency.
- iii. Ensure positive returns on investment s in commercialized public enterprise, iv.
- Check absolute dependence of commercially oriented parastatals on the treasury and encourage their patronage of the capital market and
- v. Initiate the process of gradual cessation of public enteiprises that can be best managed by the private sector,
- vi. Developing competition in the industries.

In conformity with the provisions of the decree, an eleven person Technical Committee on Privatization and Commercialization (TCPC) was inaugurate on 27th August 1988 to oversee the implementation of the programme.

The decree however, had several defects. For example, it focuses on issues of share valuation, issuance and distribution, with little or no attention paid to fiscal institutional and management

reforms, while the short term impact of the exercise on the sustainable development and welfare implications, especially from the poor, were largely ignored, (Ariyo and Jerome, 1999).

The privatization programme was suspended in 1993 and a second phase launched in 1998; the implementation of which commenced with the advent of a civilian regime in 1999. Under the second phase, government hopes to privatize all targets SOE programme relies on core/strategic investors as the dominant mode of privatization. The major consideration for its adoption is financial strength and the concomitant managerial and technical know-how, (Ariyo and Jerome, 2004).

Society's Reaction to Privatization

The response to the new privatization programme has been mixed. While many Nigerians and organizations are generally opposed, there seems to have been apparent support from the international community. (World Bank, 2001: b).

While the Obasanjo administration was strongly committed to an accelerated privatization programme, significant stakeholders and groups were resisting the reforms. These included public Enterprises (PE) managers and employees, senior government officials and civil servants, notably in sectional ministries who perceived that their current power and perquisites will be reduced by the privatization programme if implemented. In the National Assembly, a range of politicians viewed privatization as threat to national sovereignty, and an unwarranted reduction in the role of the state.

The strongest opposition has emerged from the National Assembly and labour unions, particularly in the utilities sector. In fact, such opposition is due to emotion, and this is further complicated by the deep seated ethnic and regional differences in the Nigerian society.

This has complicated the implementation process in general and has in particular; affected the sale of some public enterprises perceived as being bought by non-indigenes of beneficiary locations. This underscores the need for the support of local elites and local production for the overall success of the programme. The situation was heightened by the lack of transparency of the privatization process, absence of a popular acceptable regulatory frame work, and total neglect of issues relating to social safety among others.

The integrity of the asset and share valuation process for privatization has also been questioned overtime. (Ariyo, 1991).

It is important to admit that the overall quality of on-going debate on privatization in Nigeria is below an acceptable level. It is not only emotional but also clouded by myopic consideration and self-interest especially on issues relating to laws of employment.

Extreme positions are also taken by agitators instead of proposing viable and alternative options for achieving the desired goals. In particular, for policy effect, such debates should focus on broader national issues on how the reformed public enterprise sector can promote accelerated growth, wealth creation, sustainable development and effective poverty alleviation. In keeping with the United Nation's Millennium Development Goals (MDGs) as Harneit-Sievers (2003) has observed, any critique of privatization in Nigeria should focus on issues of poverty, efficiency, service availability and common good.

Utility Privatization in Nigeria

The privatization of the utility sector deserves special focus because of its socio-economic implications on the welfare of the poor in Nigeria. In fact, utilities are often considered as "too crucial to the national welfare to be totally sold to the private sector".

Furthermore, a complete sale to foreigners of what is seen as the "national patrimony" by the population is highly unpopular as it questions both the identity and the sovereignty of the country (Ihunda, 2003). Nevertheless, the current privatization is anchored on the concept of private sector participation in which private operations act as core investors.

Three major utilities are being elaborated upon for privatization. These include: telecommunications, energy and water. Below is the brief highlight of the features of each exercise:

Telecommunications: Of this, significant progress has been made towards the demonopolization of the communication sector, resulting in astronomical increase in various types of networks and services.

Currently, there are many private telephone operators namely Zain, Globacom, MTN, Etisalat, Visafone, MultiMnks, Starcomms among other. NITEL is also being privatized.

Power: Unlike in the telecommunications sector; partial divestiture in the power sector entails a more specific contractual framework, relying principally on the lease and concession contracts. The merits and demerits of this option are still a subject for debate. In addition to the privatization of the national energy sector monopoly. Power Holding Company of Nigeria (PHCN) has begun approval and or implementation of several Independent Power Projects (IPP) in an effort to meet the growing demand for electricity and stabilize current generating capability.

Water;

A key argument for privatizing water is anchored on the theoretical benefits of competition. However, there is a very little or real competition in the water sector. It is therefore no wonder that some of the privatization exercises have been affected without any competitive tendering (Ariyo, 1999) for example, all the private concession in Czech Republic, Hungary, and Poland up to 1997 was awarded without any competitive tendering process as was SODECI concession in Cote-de-voire. Such problems have been found in Tuchman (Argentina), Szegen (Hungary) and Cochabamba (Bolivia). In these cases, the multinational companies concerned have pursued legal claims for compensation which could have made the circulation of these contracts very costly to the nation. Total reliance of private sector provision of water may therefore, not yield the anticipated advantages of competition.

Hall (2001) argued that public sector ownerships is not in itself a cause of inefficiency or inferior basis for providing water and sanitation. The great majority of population in developed countries have water supplies by public sector undertakings. Except for the United Kingdom and France, water supply is predominantly public sector managed within the European Union (EU). In the USA, Canada, Japan, Australia and New Zealand, the picture is the same as privatization or public-private partnerships (PPS) are the exception rather than norm.

The Nigeria, concerted and planned action is necessary to avoid and combat the socio-economic side effects of water shortage and its pollution in order to protect and where necessary the quality of water resources.

Recommendation

In order to ensure effective and beneficial implementation of privatization to arise and sustain the economic growth and development of the country, the following recommendations are suggested:

- The government should device mechanisms of encouraging indigenous participation so as to guide against foreign repatriation of income.
- The government should constitute Technical Advisory Committee on Privatization (TACP) to service the provision of the decree and proffer advice for appropriate implementation.
- Considering the socio-economic impact of privatization on the welfare of the poor, the government should retain and provide basic public utilities such as water and electricity which are very vital in the lives of the citizenry.
- Government should broaden the capital market so as to ensure easy access to funds.
- Finally, the government should ensure that the programmes are implemented to the latter without any bias.

Conclusion

This paper has highlighted several features of Nigeria's privatization so far, with respect to utility. The paper shows substantial progress and benefits of the privatization of the telecommunications sub-sector, while the reform of the energy sector is yet to take oil with full steam. However, the privatization of the water sub-sector is still at its infancy, and Nigeria has a lot to learn from the lessons and experiences of other countries in order to identify considerable false starts in its future activities thereon.

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