

Imperatives of Privatization on The Nigerian Economy

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Abstract

Privatization as an economic policy to revitalize the Nigerian economy had been of wide concern. Its ascendancy is the failure of the public sector to live up to its expectation. They tend to consume a large proportion of national resources with discharging the responsibility trusted upon them yet with less or nothing to show forth. To this end, privatization has evolved as a catalyst for change leading to the widening popular ownership and management of government-owned enterprises. The question that arises is, to what extent has this policy been able to transform the economy of Nigeria from its comatose state to growing one? This paper therefore is geared towards assessing the trends so far towards this measure - has it so far succeeded or failed? If otherwise, what could be the likely measures to attain this feat of socio-economic development in Nigeria?

Key words: Privatization, Nigerian Economy, Economic Policy, Public Sector

Background to the study

The 1980s witnessed steady economic deterioration and seemingly faulty economic policies. At the beginning of the 1980s, the country had entered difficult times. Scarcity of foreign exchange had set in (Nwoye, 1995). By the mid-1980s, reality had dawned on the nation's economy. Retrenchment of workers was rampant in both private and public sectors. There were inflation, very high levels of unemployment affecting both skilled and unskilled workers, and low levels of plant capacity utilization. The origin of the socioeconomic difficulties was generally traced to the global economic recession which opened with the decade of the 1980s. Earlier, these socioeconomic problems had forced the Federal Government, under President Shehu Shagari, to embark on an economic stabilization program (Aboyade, 1974).

These problems were further complicated by the downturn in socioeconomic development in the country due to the global economic recession and the collapse of the oil market. Thus, Nigeria's precarious fiscal and monetary posture could no longer sustain the requirements of its public sector enterprises, particularly since they performed below expectations in terms of their returns on investments and quality of services (Nwoye, 1997).

Laley (2003) noted that towards the end of 1980s, the public enterprises began to suffer from fundamental problems of defective capital structures, excessive bureaucratic control and intervention, inappropriate technologies, gross incompetence, and blatant corruption. With the deep internal crises that included high rates of inflation and unemployment, external debt

obligations, and foreign exchange misalignment, Nigeria and many other African countries were strongly advised by the worldwide lending agencies, particularly IMF and the World Bank, to divest their public enterprises as one of the conditions for economic assistance. With the intensified push for economic liberalization, Nigerian and other African leaders were told that privatization as an economic reform would help cut public sector inefficiency and waste, provide greater scope to the private sector, attract more investments, bring in new technologies, and hence revive economic growth. Thus many countries, including Nigeria, embarked on privatization and other market oriented reforms to pull them out of the structural imbalances (Nwoye, 1997).

Over the years, governments in both developed and developing countries have committed themselves to extensive intervention in economic affairs. The ideology of rapid socio-economic development provided the ostensible justification for government involvement in national economy. The ideologies of government directed development compelled governments to establish public enterprises beyond their normal role of maintaining law and order. In Nigeria, for example, government performs a variety of services and provides many public goods, which are financed from the public treasures. While many of the public services are distributed with direct cost to the consumers, increasing numbers are sold and by so doing, government imposes fees, and indulges in other charges to generate revenue. There has been many years of exhaustive deliberation by stake holders on how to put the Nigerian economy on the path of sustainable growth and development, this gave rise to a consensus on the imperatives of privatization and commercialization of state-owned companies.

Since inception, in the Nigerian context, privatization has been a subject of intense global debate. It has been highly controversial and has evoked a lot of political and scholarly concern. There have been views and counter views to the transfer of and ownership of public enterprises from the public to the private sector. While proponents of privatization see it as an instrument of efficient resource management for rapid economic development and poverty reduction, critics argue that privatization inflicts damage on the poor through loss of employment, reduction and reduced access to basic social services or increases in prices. However, it has become an acceptable tool for economic policy and a concept of economic development worldwide before the last two decades of the 20th century. This paper is set to examine the imperatives of privatization on the Nigerian economy.

Statement of the problem

Public organizations e.g., National Electric Power Authority, River Basin Authorities, Nigerian Railway Corporation, Nigerian Telecommunication Limited to name a few were primarily and originally established by the Nigerian government as job providing ventures and rendering of social services rather than profit making enterprises. However, in recent times, the same government have been emphasising on privatising some of these organisations because of their operational inefficiency. This government policy in Nigeria, conform to what Shah, (2007) identified that the dysfunctionality of public sector governance is considered to be the root cause of corruption, inefficiency and waste in developing countries. It becomes imperative to privatize these public organizations in order to enhance optimum performance, thereby boosting the Nigerian economy.

Objectives of the study

The paper is primarily concerned with,

1. Assessing the performance of public enterprises in the Nigeria before privatization
2. Examining the impact of privatization on the development and otherwise of the Nigerian economy.

Methodology and source of data

Exploratory research design was used in this study. The design provided insight on previous empirical studies on privatization. Data used for this study were obtained from secondary sources; empirical literature and government publications.

Literature and theoretical assessment

There are several literature on the effect of privatization on the development, and/ or otherwise of a nation's economy.

The concept of privatization

Privatization means the effective transfer of ownership of public enterprises to the private sector. It is the systematic and programmed withdrawal of government from those activities, which private persons and/ or undertakings can perform more efficiently than government enterprises (Ekam, 2004). The Privatization and Commercialization Act of 1988 and the Public Enterprises Act of 1993 defined privatization as the relinquishment of part or all the equipment or interests held by the Federal Government or any of its agencies, in entirety whether wholly or partially by the Federal Government. The justification to this government disengagement from economic functions is to promote efficiency and profit maximization by the private sector. It guarantees the attainment of rationalization. In a related manner Ekam (2004) credited Adebayo (2000) for defining the concept as a term, which implies sale, wholly or partially, of public-owned enterprises to private interests, which could be natural persons or artificial persons. Government deliberately diverts its interest in economic and productive activities that can be more effective, and more efficiently handled by the private sector.

Smith advocated privatization more than two hundred years ago as a means of eliminating waste and maximizing the value of assets. Smith's views on privatization can be found in his famous work, the *Wealth of Nations*. Smith believed that there ought to be only three duties of the sovereign (government). He wrote, the first duty of the sovereign, that of protecting of the society from the violence and invasion of other independent societies, can be performed only by means of a military force...The second duty of the sovereign, that of protecting, as far as possible, every member of the society from the injustice of oppression of every other member of the society, or the duty of establishing an exact administration of Justice, which requires too very different degrees of expense in the different periods of society.

He went on to say that: The third and last duty of the sovereign or commonwealth is that of erecting and maintaining those public institutions and those public works which though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expense to any individual cannot therefore be expected that any

individual or small number of individuals should erect or maintain the performance of this duty. This requires very different degrees of expense in the different periods of society (Smith, 1976). The first two duties mentioned in the Wealth of Nations are clear enough; the first is that government should protect its citizens from coercion by other nations or by fellow citizens, encompasses national security or national defense of a country and as well as a judiciary system of justice. However, the last duty of the government, noted by Adam Smith, is not clear and is subject to various interpretations. A contemporary disciple of Adam Smith, Milton Friedman notes,

Adam Smith's third duty raises the most troublesome issues. He himself regarded it as having a narrow application. It has since been used to justify an extremely wide range of government activities. In our view, it describes a valid duty of a government directed to preserving and strengthening a free society; but can also be interpreted to justify unlimited extensions of government power. (Friedman 1980).

Throughout history, privatization has implied a redefinition of the role of the State, with a corresponding shift of ownership, operation and development rights in State Owned Enterprises and associated financial risk to the private sector. The case for this policy trend had been the inherent economic inefficiency, incurred financial losses, disproportionate share of credit, fiscal deficits and imbalances and the entrenched parasitism and corruption of the public sector.

Its ascendancy has been as a result of globalization, and globalization according to Olubunmi Dipo-Salami (2004) means a process (not a concept) implying a “stretching of social, political and economic activities across frontiers such that events, decisions and activities in one region of the world can come to have significance for individuals and communities in different regions of the globe (Guardian Newspaper, Vol. 21, NO. 9,391 of Sunday, 8th August, 2004). To Dipo-Salami, globalization interconnectedness of activities and actions is important in all facets of life-economic, social, political, cultural, technological, etc. Globalization is a process greatly facilitated by the information technology revolution, which has made it impossible for world trade, finance and investment to defy and transcend national political boundaries and to thrive and prosper in competitively conducive environment. To survive the fierce competition unleashed internationally by the factors of globalization, nations have had to liberalize, deregulate and open their economies to forces of international trade. One aspect of the economic activities has been the privatization of government -owned and government controlled enterprises engaged in either production of goods, commercial activities or delivery of services (Ekam, 2004).

Public Enterprises before Privatization in Nigeria

Before privatization it was considered sound economic policy for government to establish and invest in statutory state owned companies; at that time, it was argued that public owned companies were better for stimulating and accelerating national economic development rather than privately owned companies. This resulted in the proliferation of such state-owned enterprises covering a broad spectrum of activities from steel, plants and petro-chemicals through banks, hotels to mass transits and abattoirs.

Tokumbo (1990) highlighted other federal or quasi-public enterprises established by the federal government after independence as the following; The Niger Delta Development Corporation established in 1961 to facilitate development of the Niger Delta area; the Niger Dam Authority, established in 1962 to run and maintain dams; the Nigerian Defence Industry in 1964 the Nigerian Council for Scientific and Industrial Research established in 1966, whose function was to promote and coordinate research in their respective areas. The National Insurance was also set up in 1967, followed by the National Council for Science and Technology in 1970. It was established to develop and advise the federal government on scientific technological education and training. The National Sport Commission and the Chad Basin Commission was formed in attempt at international cooperation for the economic development of Lake Chad Basin.

Laleye (2003) further listed out other public enterprises to include Western Nigeria Finance Enterprises, the Agricultural Credit Enterprise, the Government Broadcasting Corporation and the Water Resources. To the credit of the government of the former Eastern Region of Nigeria were the Eastern Nigeria Marketing Board, and the Eastern Nigeria Development Corporation, the Housing Corporation, the Printing Corporation, the Sports Commission, the Library Board and the Eastern Nigeria Broadcasting Corporation among others. So far, one cannot deny the fact that public enterprises have in their capacities at this time performed creditable. Public enterprises have over the years facilitated the employment of many Nigerian citizens. The resultant effect is that they have helped to improve the welfare status of individual families who have benefited from such employment.

Supporting the position, Odu and Agida (2003) agreed that public enterprises have equally facilitated the generation of top, middle and low level manpower. Thus today, we have top-level man power (technocrats) manning large private sectors. Even in the presence of privatization continued the authors, the service of these technocrats are ultimately retained in the onetime government enterprise but now privatized. They agree that these enterprises have been providing social services to the people, for instance, the government media like the Nigerian Television Authority (NTA), the Federal Radio Cooperation of Nigeria (FRCN), provide services while their counterparts at the state level also provide social services like information, education, entertainment, etc. All these are geared towards not creating a dull moment for the people.

However, there appear to be a contrast in view. Ake (1981) stated that the quality of service of most public enterprises leaves much to be desired. In other words, a lot of them are very inefficient. For example, the National Electric Power Authority (NEPA), the constant power failure of sub sector has become the worst in the history of performance of such enterprise in the world. He further noted, "NEPA services only twelve (12) percent of Nigerian population an average of six hour of electricity per day". In reality, Tokumbo (1990) disclosed that many public enterprises have gone into oblivion due to gross operational inefficiency. He cited Newsprint Manufacturing Company, Oku Iboku in Akwa Ibom State, the Aluminum Company of Nigeria (ALSCON) Ikot Abasi also in Akwa Ibom State, the four Oil Refineries in the same state which have been in epileptic or comatose state and the Nigerian Textile Mills Limited Ikeja Lagos, now owned by Dangote Nigeria Limited.

The emergence of public enterprises in Nigeria goes back to the closing years of the 19th century when the first public enterprise, the Lagos Race Course Management (LRCM) was established in 1890, with the responsibility for the management and development entrusted to the board. It was succeeded by the Tafawa Balewa square co-operation, which came up in the 1912 when the British government set up 113 West African dependencies. There was also the West African currency board, which functioned till 1958. It was later dissolved and its function in respect to Nigeria was transferred to the Central Bank of Nigeria (CBN). The next public enterprises to come was that of Lagos Executive Development Board (LEDB) created in 1928 which has the responsibility of developing Lagos which later became the capital of Nigeria in 1914, following the amalgamation of the Northern protectorate and southern protectorate and Lagos colony, under Lugard's Constitution. They agreed that the Lagos Executive Development Board (LEDB) should function as a national public co-operation until it was transferred to the present Lagos state where it now operates under the Lagos State Ministry of Works and transport. Other enterprises came into existence under Nigeria's ten year plan of national development and welfare in 1945. Among these were Gaskiya enterprise, for the promotion of the Hausa literature, the Nigeria Local Development Board set up to provide loans to organizations and individuals that were interested in embarking on development projects (Odu and Agida, 2003).

During the World War II, Britain had colonized territories (including Nigeria) and there was need to make wartime emergency arrangement for the marketing of West African primary produce in the United Kingdom at the end of hostilities. The British government set up a marketing board, which has a responsibility of taking over the marketing of Nigeria's agricultural/primary produce aboard. This development gave birth to the development of Nigerian Cocoa Marketing Board in 1947, the Nigerian Oil Palm Produce Marketing Board, the Nigerian Groundnut Marketing Board in 1949, and Nigerian Cotton Marketing Board in (1949). In 1946, in the air transportation sector with encouragement from British government, Nigeria in collaboration with Gold Coast (now Ghana), Sierre Leone and Gambia established the West African Airways Cooperation in 1946 with it headquarter in Lagos. Later on the West African Airways was dissolved in 1958 and the Nigerian Airways was born in its place. In another development, in 1950, the Colliery Department was converted into the Nigerian Coal Corporation; the Electricity Department into the Electricity Cooperation of Nigeria (ECN), while the Marine Department was converted into the Nigerian Ports Authority in 1954 and Railway Department became the Nigerian Railway Corporation in 1955. The Nigerian Broadcasting Service also became the Nigerian Broadcasting Corporation in 1966.

Between 1961 and 1964, three funds were established in Nigeria, namely, the Nigerian Loan Development Fund to finance the Electricity, Coal and Railway Corporation as well as the Ports Authority. The National Provident Fund (NPF) was established in 1961, while the Gulf Oil Company Training Fund was established in 1964 for the purpose of training Nigerians as technicians and craftsmen in the field of engineering service and administration as they related to the Petroleum Industry.

Yet, it is unthinkable with regards to the huge amount of money sunked into public enterprises through the public treasury. It is also said that NITEL attracted operating subsidies of at least 20 billion naira between 1975 and 1988 to provide Nigerians with the world's most expensive phone tariff, but with the production of a paltry 400,000 barely working lines, one of the lowest in the world. But surprisingly, the Nigerian Based Foreign Carriers, MTN, ECONET, GLO-MOBILE, Multi-links and Cellular Companies have among themselves enhanced our phone network with about two million lines without a kobo from the government treasury, instead they have contributed over one billion dollars in license fees, tariffs and tax to the Nigerian Economy. To crown it all, Public Enterprises in Nigeria are inefficient and as a result of that, they cannot make profit (Obikesia & Emeka 2004).

Generally, the huge losses of funds recorded by public enterprises and charges against the public treasuries are intimidating. This assertion is put in perspective by the former director general, Bureau for Public Enterprises Nasir El-Rufai who said that "these public enterprises consumed over one third (1/3) of all the money we made from the sales of oil since 1973". Estimates of the vision 2010 committees indicates that the federal government's investment in public enterprises stood at over US \$ 100 billion in 1996, while the returns on these investment averaged less than 0.5 percent per annum. Like El-Rufai, President Obasanjo (1999) painted a similar ugly picture, this time specifically on NEPA. In his own words, "it is conservatively estimated that the nation may have lost about \$ 100 million US dollars due to unreliable power supply by NEPA. They cannot for example, capture the scope of human suffering, not to mention the frustration and debilitation of the informal sectors, where business center, repair workshops, hairdressing salons, etc. depend on steady supply of electricity to function. Successive Nigerian governments have invested up to 800 million naira in public owned enterprises, annual returns on this huge investment have been well below 10%. These inefficiencies and in many cases huge losses are charges against public treasuries.

State enterprises suffer from fundamental problems of defective capital structures, excessive bureaucratic control, inappropriate technology, gross incompetence and mismanagement, blatant corruption and crippling complacency which monopoly engenders inevitably etc. Their shortcomings take a heavy toll on the national economy. These problems are not peculiar to Nigeria alone. It is true that many developing countries have overcome the problem through a well-designed and singled-minded pursuit of privatization programme. But in the case of Nigeria, it is not so, there are over 1000 public enterprises and many of these enterprises gulped billions of naira without yielding much positive results in terms of consumers satisfaction, Odu & Agida observed. It is conservatively estimated that the nation may have lost about 800 million US dollars due to unreliable Power Supply by NEPA (PHCN) and another 440 million US dollars through inadequate and inefficient fuel distribution. Figures like this do not even tell the whole story; they cannot for example capture the scope of human suffering and even loss of lives caused by prevalence of problem products. That is not to mention the frustration and debilitation of the informal sectors where business centers, repair workshops, hair dressing saloons, fashion designers, etc. depend on steady supply of electricity to function.

More so, in a report presented by the Bureau of Public Enterprises in Nigeria, it has been observed that there were about 590 public enterprises at the end of 2000 and 160 were involved in economic activities, generating goods and services. Over 5,000 board appointments were made to man these enterprises, with enormous patronage-power bestowed with high-level officials. About \$100 billion was spent by the Federal Government of Nigeria (FGN) to establish these public enterprises between 1973 and 1999. Unfortunately their rate of return was less than 0.5%, while employing about 420,000 workers. These public enterprises, in average, consumed \$3 billion annually in direct and indirect subsidies between 1992 and 1999, and they posed major stumbling blocks for obtaining debt relief for Nigeria. These public enterprises control funds over N1 trillion that is more than the annual federal budget (Africa Recovery, December 1998).

To aggravate the situation, poor salaries and inequities in salary structure, coupled with the absence of vested pension funds make their workers nervous, particularly when they see that some of their senior colleagues (pensioners) are not receiving their monthly payments. A few enterprises are not even able to pay wages and allowances of their incumbent workers and the arrears have run into several months in some cases. The continued inefficiencies of our public enterprises have adverse consequences and these include:

1. The quality of services from these enterprises, including NITEL, NEPA, NNPC, Ajakota Steel, and Nigeria Airways, for instance are deplorable and leave much to be desired.
2. These enterprises operate at sub-optimal capacities and are among the most inefficient in the world.
3. These enterprises have become the hotbed for political patronage, corruption, parasitism and rent seeking for the elite, to the detriment to the nation's long-term economic growth.
4. Rather than helping the nation and the people in alleviating poverty, our public enterprises have become reverse Robin Hoods. Privatization is only the solution to remove all the prevalent maladies and promote efficiency, transparency, and corporate governance.
5. We should let the government do what it is supposed to do, focusing on health, education, infrastructural development, environmental protection, and good governance.
6. If we do not take this opportunity to expedite the structural reform and privatization, Nigeria will be left out of the moving train of liberalization and globalization. (Bureau of Public Enterprise 2003).

These inefficiencies have left Nigeria with no other option than to privatize. Oluyede (1988) said that the move for privatization and commercialization of some of the public enterprises is to enable the private sector control them so as to enhance productivity and even the quality and quantity of services provided. It should therefore be made known that Nigeria has not decided to privatize most of its parastatals to please the World Bank and IMF as many think or as a policy front designed to share the national assets to a few rich people but Nigeria has decided to privatize its parastatals for the benefits of economic recovery.

To briefly point out, there is some level of skepticism among observers on the reformatory nature of the policy. Ekam (2004) observes that privatization has been one of the most controversial aspects of economic liberalization that Nigeria's military rulers had wrestled with

since embarking on free-market reforms in 1986. From one side, the government has been under immense pressure from local private sector groups and foreign creditor institutions to offload inefficient, under-funded and corruption-ridden state enterprises. According to official figures, federal government investment in public enterprises was about 100-bn naira (\$4.6 bn) in 1996, with an average rate of return of only about 2 per cent (Africa Recovery, December 1998). From the other side, trade unionists and nationalist politicians have opposed the sale of government equity holdings, and pointed out the potentially negative social consequences of privatization, including job losses and increased charges for essential services. Sections of the ruling elite that rely on state enterprises for patronage also oppose the sell-offs.

At the same time, there have been worries that privatization could lead to concentrated ownership of former state enterprises in the hands of members of certain ethnic groups, in a country where historically ethnicity has been extremely sensitive. Faced with strong pressure from both advocates and opponents of privatization, Nigerian government policy on reforming ailing public corporations has been marked by uncertainty and hesitation in recent years. The last administration of General Abacha made several promises to privatize, but never acted.

Not all Nigerians are convinced of the wisdom of selling off state assets or giving foreigners control of crucial utilities. "The federal government is headed on a [path] of unprecedented national calamity with the foreign ownership of any part of NEPA, NITEL, the refineries or the railways," wrote commentator Ken Ogbuagu in the Lagos-based Guardian Newspaper August (2004). He believed that "There is an international conspiracy whose aim is to grab the central nervous system of Nigeria, hence Africa. The sale of strategic national assets is absolutely wrong." Many people share the writer's concern that control of important public utilities by private companies -- whose prime objective is profit-making -- will halt the spread of development to poor sectors of society, particularly in the rural areas. But then, comparatively, the continuous deplorable state of our public enterprise still necessitates the need for a new policy move and the long considered need for privatization.

This paper argues that the current move towards economic liberalization, competition and privatization is partly informed by the gross failure of Public Enterprises (PEs) to live up to expectations. In the case of Nigeria, it is clear that we cannot afford to spend or subsidise a few PEs with resources equal to more than twice the nation's capital expenditure budget. Furthermore, donors and creditors expect us to direct our scarce resources to attacking poverty through investment in health, education and rural development - social programme's that will benefit millions of Nigerians, not just a few thousand urban elite that are employed by, or captured the subsidies granted to the public enterprises. Policy-makers realize that no creditor will forgive our debt and no donor will offer aid, so that Nigeria will have resources to prop up the Nigerian Telecommunications Plc (NITEL), NEPA or Ajaokuta Steel. That is the stark reality that Nigeria faces today.

There is virtually no public enterprise in Nigeria today that functions well. While they were created to alleviate the shortcomings of the private sector and spearhead the development of Nigeria, many of them have stifled entrepreneurial development and fostered economic

stagnation. NITEL, NEPA and the Nigerian National petroleum Corporation (NNPC) are the best examples of these. Public enterprises have served as platforms for patronage and the promotion of political objectives, and consequently suffer from operational interference by civil servants and political appointees. Public enterprises have also contributed to income redistribution in favour of the rich over the poor, who generally lack the connections to obtain the jobs, contracts or the goods and services they are supposed to provide. The annual burden of over N200 billion that Public Enterprises (PEs) impose on the economy has become untenable, unbearable and unsustainable.

PEs consumed nearly half of all the revenue made from the sale of crude oil since 1973. Estimates of the Vision 2010 Committee indicate that Federal Government investments in PEs stood at over US \$100 billion in 1996. The return on these investments averaged less than 0.5% per annum. According to the Technical Committee on Privatization and Commercialization, (TCPC) Survey, public enterprises account for between 30 and 40 per cent of fixed capital investments and nearly 50% of formal sector employment. Public Commissions and Study Groups have undertaken various studies on the performance of PEs in Nigeria. Adebo (1969), Udoji (1973), Onosode (1981) and Al-Hakim (1984) chaired these commissions. The findings of the studies were consistent in finding that PEs were infested with problems such as: Abuse of monopoly powers, defective capital structures resulting in heavy dependence on the treasury for funding, bureaucratic bottlenecks, mismanagement, corruption, and nepotism.

The scope of the privatization programme, which commenced in 1999, includes the partial or total divestment of the shares owned by the Federal Government, its parastatals and other agencies in PEs active or dominant in at least 13 key sectors. The cumulative value of investment to be transferred from the public sector is in excess of \$100 billion. Unfortunately, it is extremely unlikely that the Government will ever recoup these investments. A mere sample of some sectors and estimated values of FGN investment is summarized in Table 1 below:

Table 1 - FGN Investments in Selected Public Enterprises

Sector	Enterprises	FGN Investment
Infrastructure/Utilities	3	US \$28 bn
Upstream Petroleum	1	N/A
Downstream Petroleum	6	US \$17 bn
Steel/Aluminium/ Mining	9	US \$14 bn
Machine Tools/Minting	2	US \$650 mn
Fertilizer	2	US \$850 mn
Paper	3	US \$1.4 bn
Sugar	4	US \$1.8 bn
Vehicle Assembly	6	US \$1.7 bn
Media	3	N/A
Insurance	2	N/A
Oil Marketing	3	N/A
Cement	5	N/A
Transportation/Aviation	3	US \$1.9 bn
Commercial/Merchant Banks	5	N/A
Agro - Allied	5	N/A
Total	62	About US \$70 bn

N/A - Not available

Source: Federal Ministry of Finance, Other Government Records

One sees that the cumulative value of FGN investment by way of equity, loans and other transfers to these 62 enterprises is estimated at nearly US \$70 billion - nearly a third of Nigeria's total oil revenue since 1973. As at December 2000, the total liabilities of 39 of these PEs were in excess of N1.1 trillion, with accumulated losses of N92.3 billion (Bureau of Public Enterprises 1998). The saddening situation is that despite these huge investments, the enterprises have not performed better either, rather there is a continuous decline in production and social services, which leads to increasing level of economic underdevelopment within the nation's economy. One therefore would argue right on the need for the government to relinquish itself from some of these responsibilities into private hands for effective management via service delivery, each propelling expected improvement and economic development within the economy. Privatization is the process of changing the ownership of government companies (public enterprises) to private ownership through the sales of the share of such companies to an individual who will manage the companies efficiently and profitably.

More propelling its objectives may be informed as being able,

1. To send a clear message to the local and international communities that a new transparent Nigeria is now open for business.
2. To restructure and rationalize the public sector in order to substantially reduce the dominance of unproductive government investment in the sector.
3. To change the orientation of all public enterprise engaged in economic activities towards a new horizon of performance improvement.
4. To raise funds for financing socially oriented programme in areas like poverty eradication, health, education and infrastructure.
5. To create jobs, acquire knowledge, skills and technology and expose Nigeria to international competition (Tokumbo 1990).

The Emergence of Privatization & Economic Development in Nigeria

Privatization is not all together new to Nigeria. It has its historical foundation in the erstwhile policies of nationalization and indigenization of economic activities adopted in colonial and post-independence Nigeria respectively with a view to ensuring indigenous participation in the management and control of the Nigerian economy. Scholars have conceded that the immediate justification is the need for Nigeria to liberalize her economic activities to be in line with the rest of the world. Yadah (1977) maintained that privatization is one of the reforms Nigeria has undertaken so as to integrate the economy into the mainstream of world economic order. In substantiating this view, the author stated that there are two interrelated aspects to this integration, in the first place; Nigeria needs the technology, which is the managerial competence and the capital from the developed world so as to enhance the performance of public utilities. Secondly, there are very serious linkages between the efficient funding of our utilities and our ability to attract foreign investments; he asserted that without a conducive environment for foreign investment, the performance of the transport, telecommunication and energy sector would remain dismal and epileptic.

On their part, Harvey and Jeffery (1997) wrote that the rationale for privatization is that it permits government to concentrate resources on their core function and responsibility while enforcing "the rules of the game" so that the markets can work efficiently with the provision of adequate security and basic infrastructure of the public sector in a manner that will affect a new synergy between a learner and more efficient government and service oriented private sector. Ake (1981) asserted that the primary goal of privatization programme is to make the private sector the leading engine growth of the Nigerian economy. The government intends to use the privatization programme to re-integrate Nigeria bank into the global economy as a platform to attract foreign and direct investment in an open and transparent manner.

A privatization programme that is well designed properly coordinated and sequence credible and widely accepted became a major challenge for the government. Following the challenges by Decree N0. 25, 1988, a Technical Committee on Privatization and Commercialization, (TCPC) was established to handle the privatization and commercialization exercise. The TCPC was renamed Bureau of Public Enterprises in 1993 after the successful completion of the first phase of its assignment. The TCPC like its successor, the Bureau of Public Enterprises, was assigned the following functions under Decree N0. 25, 1988:

- a) To advise on capital restructuring of enterprises to be privatized or commercialized in order to ensure good reception in the Capital Market for those to be privatized.
- b) To carry out all activities required for the successful public issues of shares of the enterprises such as appointment of issuing houses, stockbrokers, solicitors, accountants and other experts required for the issue.
- c) To advise the Federal Government on the allocation and pattern for the sale of the shares of the enterprises concerned.
- d) To fix a price of each issue in consultation with the Federal Government.
- e) To submit regular information on its activities to the Federal Government (Ekam, 2004).

So far, the policy has recorded a worthy score. In Tunde's (1998) report, he noted that Nigeria had already carried out one successful privatization programme, which to a large degree accommodated the various concerns of different interest groups. Under a scheme launched by then President Ibrahim Babangida in 1988 as part of an IMF-backed structural adjustment programme, by the end of 1992 73 enterprises were privatized. Various methods were used to privatize the enterprises, mainly small and medium-scale concerns in agro-processing, cement, petroleum marketing, insurance and banking. Thirty-five were sold through public share offers, using a scheme that sought to ensure the equitable spread of ownership among different social classes and ethnic and regional groupings. An elaborate formula restricted the amount of equity that any individual or region could purchase and allocated a proportion of shares to all states of the federation as well as to employees. By allocating the bulk of the shares to people and institutions purchasing between 100 and 5,000 shares, the government encouraged small investors to participate in the scheme.

As a result, the exercise created well over half a million new shareholders in Nigeria, more than doubling the number of equity holders in an underdeveloped capital market. For instance, some 250,000 new shareholders bought shares in 12 privatized banks, the most prized category of enterprises sold. In terms of increasing the spread and penetration of share ownership in Nigeria, the Babangida programme was undoubtedly successful. Mr. Hamza Zayyad, the head of the Bureau of Public Enterprises, could claim with justification that the privatization programme revolutionized the Nigerian capital market. "There is no local government in Nigeria today where there are no shareholders," he said in 1994. His agency also helped establish the Shareholders Association, whose aims include educating shareholders on their rights and obligations, as well as promoting their interest in the activities of their companies. The association, organized into seven zones, has played an important role in developing a culture of shareholding in the country.

In terms of the overall growth of the economy, privatization has been the very instrument for increasing the workforce in the long term. Businesses have increased over time as a result of higher productivity and lower product cost. Funds realized from the elimination of subsidies and the sales of diverted public sectors have been used in the development of projects thus providing new and high pay jobs. Data obtained from various government departments and estimates reveal that in 1998, Nigerian Public Enterprises (PEs) enjoyed about N265 billion in transfers, subsidies and waivers, which could have been better invested in our education, health and other social sectors. Table 1 below shows the breakdown of these and shadow transfers:

Table 2 - Transfers to Parastatals and Agencies (1998)

Transfer/Waiver/Subsidy	Amount (N bn)	Percent of Total
Subsidized Foreign Exchange ⁽¹⁾	156.5	59%
Import Duty Exemptions	12.5	5%
Tax Exemptions/Arrears	15.0	6%
Unremitted Revenues	29.5	11%
Loans/Guarantees	16.5	6%
Grants/Subventions, etc	35.0	13%
Total	N265.0	100%

Foreign Exchange allocation at N22 instead of the market rate of N86 prevailing in 1998.
Source: Federal Ministry of Finance, Various Government Records

Though constrained with a lot of factors one can still pin point certain level of improved economic performance since the inception of the policy. They are follows,

- i. **Better Allocation of Resources:-** Reduction of financial and administrative burden of the government arising from investment in non-social sector. Privatization has enhanced efficient allocation of resources. It has also lead to free scarce resources tied down in resource guzzling parastatals for use in other areas such as education and social services where returns to investments are much higher. Privatization is an alternative option that has helped in using the nation's scarce resources more efficiently.
- ii. **Privatization Promotes Efficiency:-** Privatization has made public parastatals to serve Nigeria better and more efficiently. It has reduced the spillover effect of perennial inefficiencies of the parastatals such as NEPA, NITEL that have been harmful to Nigerian economy.
- iii. **Privatization Has Brought About Improved Quality:-** Privatization has raised the quality of service rendered and reduce high cost of utilities, domestic manufacturing and services. Privatization programme has greatly contributed to the acceleration of economic growth through greater investment, corporate expansion, improved efficiency and productivity of privatized enterprises and sectors.

iv. Encourage Friendly Economic Policies and Regulation:- The abolition of laws unfriendly to market competition under privatization has arrested “the crowding out effect” which the parastatals have had on private sector whereby they were excluded from participating in certain sector. Therefore, the removal of this regulatory environment has enhanced competition and improves efficiency that has reduced the cost of services with consequential multiplier effect in the economy.

v. Prevent Political Integrate:- Privatized enterprises has been freed from undue political interference and bureaucratic bottle necks. This has sent the correct signals to key domestic and external economic actors of the seriousness of government in macro-economic reform that is irreversible.

Conclusion and recommendations

Privatization is not an end in itself, but it is a key tool for improving the efficient allocation of resources, for mobilizing investment and for stimulating private sector development. To succeed, certain challenges must be measured up with. Of relevance and need for consideration is that there must be an appropriate economic environment for privatization and the enterprise development. This means managing the economy reforms necessary to support an emerging private sector. Managers of the policy process must create an enabling economic environment to the emergence and growth of a market economy. These reforms must cut through the political, economic and institutional sectors. To support this would be the need for regular reviews to determine the success of the process according to broad criteria, including both economic and social considerations.

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