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Performance of Public Enterprises in Nigeria and the Privatization Option

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Abstract
Over the years, Public enterprises have been adjudged to be a critical prerequisite for the development of any nation. All nations that are among the league of developed nations today regarded as world powers, have achieved certain development feats via the establishment of these enterprises. Nigeria was no exception in terms of the belief that the state and public enterprises have a role to play in the country's development efforts. The government in conjunction with the private sector, mostly foreign, was directly involved in areas ranging from the production of food stuffs to assembling cars. In recent years, privatization of public enterprises has preoccupied policy analysts in the search for solutions to improve the performance of state-owned enterprises. Several developing countries including most African countries have embarked upon extensive privatization programme within the framework of macroeconomic reform and liberation, revising the earlier strategy of using public enterprises as engine of economic development. It is believed that the performance of Nigerian enterprises were compromised in many instances leading to inefficient utilization of resources by public enterprises coupled with heavy dependent on the national treasury for financial operations and their activities characterized by mismanagement of funds and operations, endemic corruption, misuse of monopoly power and bureaucratic suffocation from supervisory ministries and its inability to enhance the social and economic well-being of the people which no doubt placed government under tremendous pressure to initiate various economic reforms with privatization as one of such reform programme as panacea to public enterprises quagmire. It is against this backdrop that the paper attempts to x-ray the performance of public enterprises within the premise of the privatization and recommends among others the need for government to be more transparent and cautious in the exercise so as to avoid exploiting the masses by some few capitalists.

Key words: Commercialization, Capitalization, Flexibilization, Parastatals, Public Enterprises, Privatization**.**

Introduction
Over the last century, the size and scope of government has expanded enormously. The pre-World War II expansion was driven by among other factors, the need to address the heavy toll on economic and social system brought by the great depression. Industrial economics expanded the welfare state and much of the developing world embraced state-dominated development strategies. The result was a tremendous expansion in size of governments worldwide.

Nigeria was no exception in terms of the belief that the state and public enterprises have a role to play in the country's development efforts. The government in conjunction with the private sector, mostly foreign, was directly involved in areas ranging from the production of food stuffs to assembling cars. The oil boom of the 1970s enabled the government to venture into ownership and control of economic activities. The Nigerian enterprises promotion Decree of 1972 set the basis for the government's extensive participation in the ownership and management of Banking insurance and industry. The public sector played a dominant role in the economy accounting for most half of the GDP and two third of modern sector employment in the 1970's. By 1980, there were about 70 own-commercial federal parastatals. There were also large numbers at the state level (Onwioduokiti, 1999: 51). When the Nigerian economy entered a recessionary phase in the 1980's, it was argued by policy makers that government or public enterprises must operate according to the profit motive rule. Hence, the structural adjustment programme of the government set in motion a process for privatizing and commercializing public enterprises. In recent years, privatization of public enterprises has preoccupied policy analysts in the search for solutions to improve the performance of state-owned enterprises. Several developing countries including most African countries have embarked upon extensive privatization programme within the framework of macroeconomic reform and liberation, revising the earlier strategy of using public enterprises as engine of economic development. At the beginning of 1990, about a dozen African countries had undertaken so many form of privatization, by 1993 the number had doubled and by the end of 1996 virtually all African countries had divested their public enterprises.

Nigeria appears to have a unique case of privatization. As economy has its belly flat on the ground for a long time and therefore needs privatization to serve as a necessary tool for jump-starting if so as to put it back on the path of sustainable growth pre-conditional for the membership of the present global economy. It was estimated that successive Nigerian governments to date have invested over 800 billion naira in state-owned enterprises and annual returns to this huge investment have been well below 10%. The government has continued to subsidize these enterprises despite their dwindling revenue profile in order to enable them sustain and discharge social welfare responsibilities to the country (Obasanjo, 1999). Nigeria earnest talk about a conducive environment for investments if the performance of its transport, telecommunications, energy sectors etc. remain dismal and epileptic.

It is also true that the performance of Nigerian enterprises were compromised in many instances by the political leaders who refuse the same resource and freedom of operation which are readily made available to expatriates however, there has been inefficient utilization of resources by public enterprises coupled with heavy dependent on the national treasury for financial operations and their activities characterized by mismanagement of funds and operations, endemic corruption, misuse of monopoly power and bureaucratic suffocation from supervisory ministries and its inability to enhance the social and economic well-being of the people no doubt placed government under tremendous pressure to initiate various economic reforms with privatization as one of such reform programme as panacea to public enterprises quagmire. From the foregoing, it therefore becomes pertinent to critically assess the rationale for privatization particularly in Nigeria with a view that government policy makers, technocrats, students and the public will have a better understanding of privatization programme in Nigeria.

Privatization: Conceptual Issues

The vast body of literature dealing with privatization shows a relative lack of interest in precisely defining its content. Privatization has become a generic term often employed to describe a wide range of policy initiatives designed to alter the mix in ownership and management of enterprises away from government in favour of the private sector. It covers a wide continuer of possibilities, from decentralization to market discipline.

Privatization is a phenomenon which could be variously interpreted. This is reflected in the various definitions and approaches ascribed to it. Narrowly defined, privatization implies permanent transfer of ownership right from a public agency to the private sector. It could also be seen as the sale of government-owned assets, the opening of certain markets to private sector competition and government-private sector joint ventures infrastructure project (Dickson, 2001:1). Privatization can be defined as the systematic transfer of appropriate functions, activities or property from the public to the private sector, where services (production and consumption) can be regulated more efficiently by the market and price mechanism. The end product of privatization is thus a significant change in the relationship between the government and the private sector, with the role or the level of involvement of the state in the economy being reduced, as more of the functions get shifted to the private sector. According to Kay and Thompson (1986) such a reduction in the level of the state involvement will in turn relieve the state not only of the burden of running the enterprises, but also remove the accompanying budgetary obligation (especially where some of the enterprises are making losses).

Privatization of public enterprises has become worldwide movement with first developed countries and secondly developing countries selling all kinds of enterprises. By 1992 some 7,000 enterprises had been privatized worldwide, some 2000 in developing countries (World Bank, 1995). A number of countries developed and developing have imbibed privatization programmes as a means of economic turnaround. United Kingdom, Italy, Germany, Spain, France, Japan, Mexico, Argentina, Brazil, Chile, Poland, Kenya etc. and even Nigeria have undertaken one form of privatization or the other. It has been described as an economic miracle mainly because it freed moribund industries from state control and improved their efficiency and productivity.

According to Anya (2004), privatization as a tool for economic management came to the front burner when Chile became the first country to turn public assets/businesses to private operations in the early 1970s. Since then, over 140 countries (both developed developing have embraced privatization as a route to economic growth and prosperity. While the details and strategies of the privatization exercise may vary in each of these countries, the ultimate objective is to liberalize the economics through increasing private sector involvement and capacity utilization. A critical aim is to free enterprises from control by rigid and bureaucratic structures and makes the management of such enterprises more flexible in their management and investment strategies. In Venezuela, it is termed capitalization while the Brazilians call it flexibilization. In other countries such as Argentina, United Kingdom and Mexico where it has worked, different tags have been adopted but the aim and purpose have remained the same.

Privatization involves the partial or total transfer of ownership of public enterprises to the private sector. Fully privatized public enterprises are those in which the government surrenders its ownership entirely. The partially privatized public enterprises are those that the government considers strategic and wants to keep under its supervision through minority shareholding. There are at least five forms of privatization (Ideye, 2002).

- Public offer of shares: the state-owned shares in the enterprise are offered to the public at large (i.e. replacing government ownership by public ownership).
- Private placement of shares: the state-owned shares in the enterprise are transferred to private individuals
- Debt equity swap: the ownership of a public enterprise is transferred to the private sector in settlement of its debts.
- Liquidation: the breakup and / or sale of the public enterprises assets.

- Deferred public offers: for example, the shares of the public enterprise are offered to its employees, etc.

Conceptually, privatization is regarded as a complementary measure for promoting effective competition between public and private firms in a manner that would be beneficial to both consumers and the economy in the medium to long term. It is an important element for promoting economic efficiency by curbing the monopoly of government over the ownership and control of public enterprises. Despite the different interpretations of the concept of privatization, the basic fact still remains that, transformation or shift takes place in the decision-making entity from public to private.

Performance of Public Enterprises and the Privatization in Nigeria: An Introspection

The Nigerian government for the better part of the first two decades following political independence in 1960's was visibly involved in the promotion, management and control of commercial and non-commercial enterprises in the economy. The intent was to generate faster economic self-reliance growth and development. The catalyst to the eventual burgeoning presence of public sector in the economy were from two main sources – the sudden and unanticipated increase in revenue occasioned by crude oil export in the early 1970's and the fostering of de facto state capitalist strategies. The result was that by the early 1980's Nigeria's public enterprises sector had become one of the largest in Sub-Saharan Africa. According to Lewis (1990) there were as much as about 275 and more than 600 federal and state owned enterprises, respectively. These contributed about 35% to the Gross Domestic product (GDP) and 500,000 work force representing one third of the public sector employment and almost 22% of total employment in the formal sector of the economy.

One major implication of the enlarged public sector presence in the economy was that the mixed economy in Nigeria was substantially tilted in favour of the government. Government thus dominated and contributed enormously in the economic activities of the country. Expectedly, actions and inactions of government impacted seriously on all facets of the economy. This was true both in government's revenue resources and expenditure patterns.

The second implication of the bloated presence of government in the economy was that the numerous enterprises made huge financial and material claims on government resources. The magnitude and extent became so extra ordinary that in 1986, the federal government openly acknowledged that about 40% of non-salary recurrent expenditure and 30% of its capital budget had gone to support investments in public sector enterprises estimated at N23 billion (N8 billion equity and N15 billion in loans). This even excluded the state and local government owned enterprises.

One single most important and unfortunate factor in the Nigerian public sector investments was the little returns on investment. According to Zayyad (1992) the federal government by 1985 had invested an estimated N23 billion in public enterprises with annual return on investment less than N500 million. Public enterprises is said to have consumed over $100 billion as at 1995 with control funds of over N1trillion – almost at par with current federal budget and return on investments averaged less than 0.5 percent (Bala, 2003). This dismal performance of public sector enterprises had grievous consequences for public finance, economic growth and development.

A deepening effort towards salvaging the worsening situation culminated into the 1986 Structural Adjustment Programme (SAP), which aimed at the restoration, in the medium term of healthier path of national economic development. A key course of action of SAP towards realization of policy intention was to reform public enterprises so as to lessen the dominance of unproductive investments in the economy improve their efficiency and intensify the growth potentials of the private sector. To achieve the above desired culminated into the packaging of a public enterprises reform program whose main thrust were divestment of government interest in a number of non-strategic enterprises and commercialization of others. A supportive decree, privatization and commercialization Decree was promulgated in 1988. This decree makes provision for the privatization and commercialization of federal government enterprises and other enterprises in which the federal government has equity interests. This decree gave breath and life to effective public enterprises reforms in Nigeria.

Rationale for Privatization

Privatization according to cap 369 laws of the Federal Republic of Nigeria (1990) is the relinquishment of all or part of the equity and other interest held by the federal government or its agencies in enterprises whether wholly or partly owned by it. Harvey and Henry (1997) see it to include any initiative that increases the role of the market in areas previously considered the province of the Stat (national or local). These include not only the sale of State assets, but deregulation and contracting out of public services to private providers.

Privatization is based on the premise that the private sector is an instrument for realizing protective and allocative efficiency and higher economic growth, while the promotion of efficiency – both economic and social is central to privatization. There are many number of reasons advanced for the privatization of public enterprise. According to Obikenze and Obi (2003) they include:

- **Inefficiency of government enterprises:** over the years government enterprises have become so inefficient, as epitomized by the epileptic services they render to the public. This is inspite of the fact that the government has and still continues to pump in a lot of money into them. Instead of improving, most of them seem to be retrogressing. Acting as drain pipes on the economy without making any meaningful contribution to our economic development via service delivery, the government decided to transfer them to private hands that have over the years proved to be better managers in order to reduce wastage.
- **Economic recessions:** The Nigerian economy has been in a very poor state for quite some time now. The level of unemployment is simply unacceptable. The excruciating foreign debt food crisis, poor infrastructure etc. are all evidences of the economic decay which the nation has found itself in. Apparently, the economy can no longer sustain the level of wastages associated with public enterprises. Also as a step to get out of this malaise, a solution has to be found on how to reduce wastes. Privatization is one of such solutions.
- **Structural Adjustment:** Following the down turn in the Nigerian economy in the early eighties, the government of Alhaji Shehu Shagari stated the Austerity measures which were aimed at bringing about a reduction in government expenditure and imports. These measures did not achieve much before the government was booted out of office by the military which also continued the search for policy measures that will review the economy. In 1986, the Babangida government introduced the World Bank/IMF

sponsored Structural Adjustment Programme (SAP) incidentally SAP had as one of its policy measures: rationalizing the extent of public sector participation in the economy through a programme of privatization and commercialization of these enterprises (Osagie, 1992).

- **Development Fad:** Hence the entire world is moving towards capitalism where the economic decisions of what, where and how to produce are left for the market forces, the system frowns at state ownership of the means of production. Nigeria is not left out of this global development fad which seems to have chosen capitalism as the best and quick means of development. Therefore the present privatization programme can be situated within the ambit of international capitalist development.
- **Restructuring the Economy:** Anyanwu (1993) argues that privatization will help restructure the Nigerian economy, reallocate public fund to efficient users, create a self-sustaining culture, and attract foreign investors, while goods and services will reflect real values.

  In precise terms, the programme of privatization worldwide has been driven by a number of factors most of which took their root from unabating economic difficulties, failure of state owned enterprises to perform as much or better than private sector (less of comparative advantages) and the imperative need for economic growth and development. Thus, no single factor, after all motivated the desire of many governments to divest from the economy. The case of public sector enterprises inefficiency, which is often cited as a key factor necessitating privatization is but a launch pad.

President Olusegun Obasanjo (1999) stated that: Privatization permits governments to concentrate resources on their core functions and responsibilities while enforcing the “rule of the game’ so that the market can work efficiently with provision of adequate security and basic infrastructure, as well as ensuring access to key services like education, health and environmental provision. The objective is to assist in restructuring the public sector in a manner that will affect a new synergy between learner and more efficient government and a revitalized efficient and service oriented private sector.

Privatization as an element of economic reform program is said to have the ultimate goal of improving the economy as a whole. It seeks to achieve this by:

- Freeing government from the bondage of continuous financing of extensive projects, which are best, suited for private investment by the sale.
- Reducing government borrowing while raising revenue.
- Encouraging efficiency and effectiveness in resource utilization.
- Promoting healthy market competition in a free market environment.
- Broadening enterprises share ownership thus engendering capital market development.
- Improving returns from investments.

Reform or restructuring of any sort usually elicit skepticism or even opposition from interest groups. It creates uncertainty and confusion in the minds of people as they remain petrified of future expectation. Such economic reforms are often mired in political and social intrigues amongst the elite who often claim to be in the vanguard of protecting the interest of their people. Along the same line of argument, Obadan (2000) summarizes the fears about privatization as follows:

> Fear of job losses, exploitation of consumers through price like and low quality goods and services, concentration of public asserts in the hands of small elite groups and worsening of income and wealth distribution. Fear of subjugation of social objectives monopoly of the privatization process by ethnic and other interest groups with easy access to capital, fear of lack of transparency, and hence corruption and nepotism, in the process, and fear of foreign domination.

For credible privatization programmes to be achieved, the above fears have to be addressed with appropriate policies and regulatory frameworks to accompany the privatization process (Abdullahi, 2006).

Concluding Remarks

From the foregoing discussion, there is no doubt that privatization is in general a public enterprises reform activity with many different faces. It is highly driven by diverse, multifaceted and complex economic social and political factors. The question however has shifted from whether to privatize to how to privatize effectively and efficiently. Thus, if properly implemented, privatization can yield substantial benefits in terms of enhanced efficiency, growth and better service delivery. But then, privatization has to be reviewed as one of the processes of economic reform and should be implemented with complementary macroeconomic policies to achieve desired goals. Such policies relates to economic and financial liberation and competition, and appropriate regulatory framework to ensure proper conduct for privatized enterprises.

Beside the above, Obadan (2000) suggests conditions essential for successful privatization, and these include: transparency of the privatization process, satisfactory use of privatization proceeds; political commitment; appropriate policy environment; adequate preparation; adequate financial resources; and appropriate instruments in relation to widespread ownership. Suffice to say that privatization is a process, a solution and a means to an end and not an end on itself. Thus if public enterprises were effectively managed under government ownership, we would not be talking about its privatization. But we want to believe that with privatization, the Nigerian attitude towards government owned property (no man's business or property) would change. Private owners would not be excessively profit motive driven bearing in mind that this can only come about with the effective and efficient use of these goods and services by the public.

Though the protagonists and antagonists in the raging controversy on privatization have remained pertinacious that it is rare for a completely new economic policy to move from novelty to global orthodoxy in the space of two decades, the fact remains that there can be no economic growth in the face of unproductive public investments thus, privatization is able to enhance growth to the extent that such is able to contribute to economic growth in the long run.

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