Privatization of Public Enterprises and Productivity: Nigeria’s Dilemma

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Abstract
In recent times in Nigeria, there has been a policy shift to the commercialization and/or privatization of public enterprises. This was aimed at enhancing their level of productivity, and ensuring overall national development. However, the performance of these privatized enterprises has been replete with varying contradictions. This study appraised the post-privatization performance of the privatized enterprises in Nigeria. In assessing the productivity of the privatized public entities in Nigeria, certain indices were used for analysis, such as profitability, output and employment. Analysis showed that certain factors such as corruption, lack of transparency, etc, have led to low level of productivity in the goal attainment of the policy. Consequently, suggestions were made for the sustainability of the reform and a better level of productivity in Nigeria.

Keywords: privatization, commercialization, productivity, public-enterprises, reform

INTRODUCTION
Public enterprises were established, to enhance Nigeria’s socio economic development, especially after independence in 1960. The major concern in this regard had been to accelerate development and economic self-reliance through “economic nationalism.” Public enterprises thus reflect one of those instruments by which government intervenes in economic development rather than allow market forces to dictate the pace of development. According to Ayodele (2004), Nigeria relied heavily upon public enterprises, up to the mid-1980s, for the development, management and allocation of utilities and social services. They were seen as major instruments not only for the mobilization and allocation of public investment resources, employment generation and income redistribution, but also for determining government finances and the acceleration of overall economic development.

Adeyemo (2005), reflecting on Turkey, Mexico, India and Nigeria, noted that the establishment of public enterprises was premised on what he considered as obstacles to economic development in the post-independence states. It is also instructive to note that in Nigeria like many developing countries, public enterprises are used as employers of last resort. According to Hemming and Mansor (1988), state owned enterprises enable governments to pursue goals of social equity that the market ordinarily ignores. Similarly, Ugorji (1995) observed that public enterprises had been established for political reasons. Many government undertakings were used to provide jobs for constituents, political allies, and friends. The location of public enterprises and the distribution of government employment have further been defended on the need to maintain federal character and promote national integration. Other factors that accelerated the growth of Nigeria’s public sector were the indigenization policy of 1972 as enacted by the Nigerian Enterprises Promotion Decree. It was designed to control the commanding heights of the economy. The policy further provided the much needed legal basis for extensive government participation in the ownership and control of significant sectors of the economy.

According to Adeyemo (2005), Nigerian public enterprises have come under gross criticism in spite of the impetus given to them. Their problems were so enormous that many Nigerians became greatly disillusioned. These criticisms vary from the lack of productivity/profitability to reliance on large government subsidies. Ogundipe (1986) once argued that between 1975 and 1985, government capital investments in public enterprises totaled about 23billion Naira. In addition to equity investments, government gave subsidies of N11.5 billion to various government enterprises. All these expenditures contributed in no small measure to increase government expenditures and deficits.

Generally, public expectations from these enterprises were largely unmet, despite the sizable proportion of public budgetary investible funds which were being allocated to them. In addition, public enterprises suffered from gross mismeasure and consequently resulted to inefficiency in the use of productive capital, corruption and nepotism, which in turn weakened the ability of government to carry out its functions efficiently. (World Bank, 1991). However, given the financial impacts of the global economic crisis on the Nigerian economy, the public...
sector-led development strategy became unsustainable. This in turn propelled radical economic adjustments and reforms, one of which is the emphasis on less of government in the production, management and the allocation of resources in Nigeria. Consequently, Nwoye (2010) stated that Privatization in Nigeria was formally introduced by the Privatization and Commercialization Act of 1988, which later set up the Technical Committee on Privatization and Commercialization (TCPC), chaired by Dr. Hamza Zayyad, with a mandate to privatize 111 public enterprises and commercialize 34 others. The Federal Military Government promulgated the Bureau for Public Enterprises Act of 1993, which repealed the 1988 Act and set up the Bureau for Public Enterprises (BPE) to implement the privatization program in Nigeria. In 1999, the Federal Government enacted the Public Enterprise (Privatization and Commercialization) Act, which created the National Council on Privatization (NCP) chaired by the Vice President.

According to Adesanmi (2011), the government, set up the Bureau of Public Enterprise (BPE) to privatise and commercialise, as the case may be, public enterprises with the objective of reducing or eliminate the drain on public treasury. It also seek to reducing corruption, modernise technology, strengthen domestic capital markets, promote efficiency and better management, reduce debt burden and fiscal deficit, resolve massive pension funding problems, broaden the base of ownership of business. Others include generating funds for the treasury, promoting governance, attracting foreign involvement and attract back flight capital. Whether the BPE has met and realised these objectives is a matter that is open for debate.

This paper attempted to assess the operation of the privatization scheme in Nigeria, determined its level of performance/productivity. It also proffered objective solutions for the amelioration of gaps.

**Theoretical/Conceptual Discourse Privatization/Commercialization**

The concept of privatization is based on the neoliberal school of thought. It is based on the doctrine of competition and profit motive founded on free-market pricing and freedom from the interfering hands of state regulation (Wikipedia, 2011). Privatization according to this theory could reap the advantages of the market system and competition, namely; effectiveness, productivity, and efficient service. Privatization would thus, strengthen market forces with some degree of deregulation, economic liberalization, relaxation of wage and price controls (Ugorji, 1995: 543). Privatization and in some cases commercialization have grown in popularity and acceptability globally. It has also become an important instrument that government can use to promote economic development, improve the production and distribution of goods and services, stream-line government structure, and reinvigorate the industries controlled or managed by the state. (Adeyemo, 2005). It is derived from the international capitalist imposition, especially the World Bank/IMF, which stipulated economic liberalization/privatization as pre-conditions for providing development loans to the less developed countries (LDCs).

According to Ugorji (1995), Privatization has become an acceptable paradigm in the political economy of states. It is a strategy for reducing the size of government and transferring assets and service functions from public to private ownership and control. Privatization is based on four core beliefs:

1. Government is into more things than it should be.
2. Government is unable to provide services effectively or efficiently.
3. Public officials and public agencies are not adequately responsive to the public.
4. Government consumes too many resources and thereby threatens economic growth.

According to Dimgba (2011) Privatization is a phenomenon which has been a necessary concomitant to the principle of liberalization, which involves the transfer of control in terms of ownership and management from the government to private investors.

In Nigeria, this theory has not gone unchallenged as to its relevance to many Sub-Saharan African countries. From the view point expressed by Professor Aluko, the assumption of the inherent efficiency of the private sector should be questioned. He argued that in Nigeria, much of private sector profits are not always the result of efficient operation and increased productivity but rather often represent money that private contractors make through inflated contracts, patronage and corruption. He argues that most of the richest people in Nigeria’s private sector make their money, for the most part, through their public sector connections and influence. (Adeyemo, 2005). Operationally, Nigerian commercialization and privatization Decree No 25 of 1988 defines privatization/commercialization as the reorganization of enterprises wholly and partly owned by the government in which such enterprises shall operate as profit-making ventures and without subventions from government. The decree also distinguishes between full and partial commercialization as well as privatization. The fully commercialized enterprises are expected to operate on a commercial basis-raise fund from the capital market without any form of government guarantee. Such enterprises are expected to use private sector procedures in the running of...
their business. It is expected that such enterprises would require no government subvention, but as a result of their high social service content; their operation cannot be left to individual shareholders. Such enterprises are expected to generate enough revenue to cover their operating expenditures. The government may therefore give them subventions to finance their capital-intensive projects.

Guided privatization as stipulated in the second phase of the privatization scheme, at its reactivation in 1999, conceives privatization as: 
*The transfer of government owned shareholding in designated enterprises to private shareholders, comprising individuals and corporate bodies.* 
(Ayodele, 2004)

Towards this end, guided privatization was to be implemented in the context of “one enterprise at a time, so that the lesson of experience will be used to improve upon the programmers” (FGN, 1998).

**Definition of Productivity**

According to Amali (1996), there was not much concrete interest in articulating empirical literature on productivity improvement in Nigeria until the middle 1970s. The first documented efforts on productivity improvement in can be traced to the second national development plan. It was in the course of its implementation and arising from the wages review commission report submitted by Chief Samuel Dabo that productivity was first addressed as a critical issue in public service administration in Nigeria.

The growing increase in public finance, public management of corporations led to radical expansion of the focus on public service administration from mere enacting of policies to establishing formidable basis for the socio-economic development of newly independent African countries. The growing concern for public sector productivity can be traced to the conscious need for the promulgation and implementation of policies and programmes that have direct investment potentials for resources management in the public sector of the economy. Productivity has been defined in various ways by various authors. One definition of productivity by Kendrick (1980) is

“It is a relationship between output of goods and services and the input of basic resources-labor, capital goods and natural resources. It is therefore O/I. It is a relationship, a ratio not a quantity.”

Another author, Schermerhon(1993), views productivity from a manager’s point of view. It is the quantity and quality of work performance with resource utilization. It is quantified as quantity +quality+ resources.

The definition that shall be the focus of this research is the one given by the European Productivity Agency (EPA). It defines productivity as: 
*“An attitude of mind. It is the mentality of progress and of the constant improvement of that which exists. It is certainty of being able to do better today than yesterday. It is the will to improve on the present situation no matter how good it may look. It is the constant adaptation of economic and social life to changing conditions. It is the continual effort to apply new techniques and new methods and it is the faith in human capabilities.”* (Amali, 1992)

The operational phrases in the definition are; attitude of mind, progress, improvement, new techniques. For many, these phrases might be alien to the public sector, since it is usually associated with inefficiency, negligence, static nature, red-tapes, nepotism etc. With privatization these problems are supposed to be eradicated with better managerial techniques for profitability, but unfortunately, in Nigeria’s case, efforts at these had been a mirage.

**PRIVATIZATION AND PRODUCTIVITY IN NIGERIA**

In assessing the productivity of privatization in Nigeria, certain indices have been used for analysis. Elias (2001) provided the indices as; profitability, output and employment.

**Profitability**

Using 3 ratios viz Return on share (ROS), Return on Asset (ROA) and Return on equity(ROE), some of the privatized firms in a study presented by Elias (2001) recorded some negative changes after privatization. For instance,

1. UNIC Insurance------- ROS fell from 14 % before privatization to 7 % after privatization.
2. Okomu oil ---------ROS fell from 19 % to 17.6 %.
3. Flour mills --------ROS fell from 4.8 % to 3.6 %

In addition, in the senate probe of privatized enterprises, the Managing Director of the Nigerian Insurance Company (NICON) acknowledged that NICON had not made any profit since its takeover. (Awom and Ukaibe 2011)

**Output**

With the emerging arithmetic of the sales and concessions of some of the enterprises, compared with their book value and collateral investment made by years of public funding, it would appear that the nation had been pillaged. According to Adewale (2011), It was revealed at the Senate panel on privatization, sitting in October 2011 that:

- Nigeria spent between 1973 and 1995 about $100bn to establish public enterprises, but, more than a decade of privatization, just a meager $1.6bn has been realized as gross earnings from the exercise.
Most of the companies have been sold at giveaway prices. The $3.2 billion Aluminium Smelter Company of Nigeria (ALSICON) located in Akwa Ibom State was sold to a Russian firm, Russel for the sum of $130 million, while there was an agreement with the buyer to spend $120m on the dredging of the Imo River. This was even when it was clear that the two should have been fully separated.

The N225bn Delta Steel Company was sold for a mere N4.5bn to a foreign company. Global Infrastructure, an Indian company, which did not participate in the bidding process, was sold 80 percent of the shares of $1.5 billion Delta Steel Company at the sum of $30million.

The Nigerian Re-Insurance Corporation that was worth N50bn was sold to Global Fleet for N1.5bn. The incontrovertible evidence that the Re-Insurance was sold cheaply, is that the buyer, shortly after taking over the ownership, reportedly used only two of the company's assets to secure a N41 billion loan from Union Bank Plc.

Folio Communications paid nothing for the Daily Times acquisition. It had to sell its assets before it could pay N1.2 billion to the Bureau on Public enterprises.

The multibillion dollar Ajaokuta Steel Company was sold for a fraction of that amount; then had its assets stripped by the concessionaires. These pricey assets along with the multimillion dollar parts in the complex were eventually shipped out of the country by the concessionaires, The senate President lamented, “It has, indeed, been of great concern to the Senate that most of the privatized companies are under performing. That is our own perception, and that is the perception of so many Nigerians.”(Awom and Ukaibe.2011)

Employment
According to Danjuma (2005). Privatization was built into the structural adjustment programme(SAP) of the 1980s. It was believed that privatisation would among other goals, create more jobs for Nigerians, as well as eliminate corruption in public enterprises. Contrary to expectation, the country has suffered massive job losses over the years. Abubakar (2011).

Many of the sold companies have collapsed, while others are dancing at the precipice. A study conducted by Abubakar (2011) revealed the following:

- Privatised companies in the steel sector that used to employ up to 20,000 workers now have less than 4,000 after the exercise.
- The Daily Times Plc which was acquired by the Folio Communication Ltd in July 2004 has since been out of circulation. Folio inherited 900 as members of staff. Currently, they have 120. They have dislodged over 700 Nigerians.
- The Electricity Metre Company of Nigeria, Zaria that was sold to Dantata Investments Ltd in December 2002 is not performing. The company had fired about 90 per cent of its work force while carrying out only skeletal operations.
- Peugeot Automobile of Nigeria (PAN) sacked 226 workers, as lack of patronage and unfavourable government policies stifle its operations.
- The Federal Super-phosphates Fertilizer Company Limited in Kaduna has virtually closed shop. The fertilizer plant was acquired by Heiko Consortium in an open bid process in September 2005. The company has not been able to pay workers salaries in months.
- The Ajaokuta Steel Complex which was sold (60 per cent Concession) to Indian Global Infrastructure Nigeria Ltd on May 17, 2007 has since been returned to the Federal Government while its labour force of 6,000 has been reduced to around 1,000.
- The Nigerian Sugar Company, Bacita Kwara State, sold in 2005 to Joseph Dam & Son has stopped sugar production, While the Savannah Sugar company in Adamawa State acquired by Dangote Industries Limited is producing.
- The Zum Steel rolling mill in Jos and the Osogbo Steel rolling mill have been grounded. Both of them were privatised in November 2005. Their continual closure has cost the nation billions of naira.
- Other steel companies sold include: the Ajaokuta Steel Company (concessioned), the Nigerian Iron Ore Mining Company, Itakpe in Kogi State; Delta Steel Company, Ovwian Aladja, and the Katsina Rolling Mill. Of all these, it is only the Katsina Rolling Mill that is functioning, while the Delta Steel Company is operating at around 10 per cent capacity.

According to Adewale (2011), “the primary drive for the so-called private sector is quick and super profits they could appropriate by cheaply seizing hold of formerly public enterprises. In reality it was not a desire to contribute to economic development and job creation”

In addition to the above given scenario, Adewale (2011) concluded that the common factor with all the privatized companies is the huge loss of jobs. From the foregone it can be deduced that the Nigerian privatization policy has not provided the indices of productivity given as profitability, output and employment. If productivity is based on the indices given above, it can be concluded that the
privatization policy has not led to a productive economy, since its inception.

PROBLEMS OF THE PRIVATIZATION POLICY
In the course of the study, some problems which militate against productivity in the privatization process were identified.

Corruption
Ayodele (2011) noted that the senate probe of the activities of the BPE in August 2011 was nothing but “a reality show of monumental frauds and daylight robbery perpetrated in the name of privatization exercise”. The Senate probe provided Nigerians the platform to hear from the horse's mouth, what has become an open secret – that privatization is not only a brazen pillage of the country's patrimony, but also an unmitigated fiasco. The corruption cases exposed were among others:

a) The Nigerian Re-Insurance Corporation that was worth N50bn was sold to Global Fleet which is owned by Jimoh Ibrahim, a major financier of the PDP (the ruling political party) for N1.5bn. The incontrovertible evidence that the Re-Insurance was sold cheaply, is that Jimoh Ibrahim, shortly after taking over the ownership, reportedly used only two of the company's assets to secure a N41 billion loan from Union Bank Plc. For companies like Ajaokuta Steel and Daily Times, the only activities that have been taking place since their sale are the stripping of their assets by the new owners,(Ayodele,2011)

b) Billions of Naira disappeared from Government accounts all in the name of privatization. Much of the receipts from the buyers have not been officially accounted for, by the officials of the BPE. It has been shrouded in accusations and counter accusations. (Abubakar, 2011)

c) It is more shocking that from 1999 till date, the EFCC and ICPC has never audited, investigated or prosecuted any public officer/ Government official for economic sabotage or crime arising out of privatization.

d) Superior technical bids most times do not decide the successful bid for a firm. Selected core investors are suddenly incapable of paying for firms after being certified as technically and financially sound. Companies with small asset turnover are concessioned to handle larger public agencies, bigger than their capacities.

e) Financial records of privatized firms are often not audited or at best incoherent. Due diligence is conducted at the data room of the BPE instead of a full physical and financial audit of the Government firm creating room for manipulations and distortions. Landed Assets of substantive or principal Government corporations are manipulated and converted as those of subsidiaries. Asset acquisition agreements or share purchase agreements are often lopsided or inchoate leading to unnecessary court litigations. (Ayodele, 2011)

Lack of Transparency
The government agency charged with the responsibility of selling off these public companies- Bureau of Public Enterprises (BPE)-has so far raked in N510billion after selling some 145 public owned firms, but the BPE has yet to make public the report of the post privatisation evaluation exercise it conducted in year 2010. BPE stated that “the report is not for public consumption.” (Abubakar, 2011).

Advertised criteria for selection of bidders and consultants are different from those used for selection, there are no responses or acknowledgments to expression of interest sent in by bidders and consultants, surreptitious and unadvertised sales, lack of consultation with stakeholders, hidden fees or charges, undervaluation, extension and re-extension of payment deadlines, sudden changes of preferred bidders to alternative bidders, undue political interference, due diligence conducted by non professionals instead of external independent auditing and law firms, galumphing practices etc. Service delivery standards certainly need to be enhanced through strict internal control mechanisms to best global standards.

Lack of Co-Operation from Some Government Officials
Some officials were recalcitrant over the policy or privatization as this would undermine the status quo, particularly the supervising ministries. They misconceived the programme as a way to reduce their power as the affected Public enterprise will be insulated from all ministerial controls and interference, and silently opposed the policy arrangements. Similarly managers and staff of these privatized Public enterprises are against the reform as it would undermine their position. Some of these criticisms overtly or covertly may have devastating implication on the programme.

Weak Market Alternatives
As applicable to poor developing countries, Nigeria has less mature formal business sectors, with higher startup cost, less capacity to invest, and less exposure to competition.

Geo-Political and Income-Group Spread
The enabling decree laid emphasis on equity in the spread of shareholding. But contrarily there were marked imbalances in equity shareholders distribution among income groups and the different segments of the society. Some income groups or geopolitical entity tends to have cornered the market.

Government Incapability
The government did not have the administrative and political ability to undertake its new roles. For any positive results in execution of the scheme, government must have the capacity to make initial
diagnoses and assessments to decide on the policy and to administer the state’s role once the privatization policy has been established.

**Poor Funding of the Bureau of Public Enterprises**

Adeyemo (2005) revealed that the National Assembly appropriated only N406, 056,000 to the BPE in the 2002 budget as against the N1.6 billion proposed. A breakdown of the BPE proposal showed that out of the N.6 billion proposed as the personnel budget, only N166 million was appropriated. In the recurrent expenditure, N240 million was appropriated out of the N329 million proposed. In the 2001 budget, BPE made budget proposal of N1.4 billion, the sum of N520 million was approved for it. This 61 percent cut grossly affected the work of the committees and the conclusion of some of its sector reform activities.

**Lack of access to Credit**

Many prospective investors did not have enough funds to process their application forms, contrary to the expectations of government. Perceiving problem of financial limitations, government directed all licensed commercial banks to extend to all interested persons. In spite of this directive, the banking system did not respond favorably to the call. This handicap thus dampened the enthusiasm, especially of paid workers, whose salaries are not enough to cope with the financial requirements of the policy. This problem could have been avoided if Employers were able to provide assistance for their employees, in terms of share purchase, loans, etc.

**Preference for Institutional Investors**

On many occasions there were reports of over-subscription in the shares for offer of sales. This, in most cases, arose from the intervention of institutional investors to broaden their investment portfolios. This intervention, incidentally, obstructed the chances of small individual investors in getting the quantities of equity shares they desired (Obadan and Ayodele. 1998).

**Lack of Public Accountability**

Since all the faulty or controversial decisions are made by Government officials in the exercise, the question arises as to who owes the responsibility and accountability to whom in the several privatization scandals that have unfolded in recent years. Can a Regulator regulate itself? The National Assembly that ought to check the excesses of our Privatization Czars all seem compromised in their functions or don’t have enough information. The Judiciary is doing its best but it still lacks the basic information required to sweep the entire process clean of corruption. Government itself can ensure public accountability of the entire exercise by passing the Freedom of Information Bill and allowing the National Assembly more supervisory roles. There ought to be checks and balances in the functions and responsibilities of Government officials, stakeholders and affected enterprises.

**CONCLUSION**

In conclusion, if privatization must of necessity bring forth the desired benefits it has to be viewed not as an end itself, but as a means to get government interested in fostering a new division of labour between the public and private sectors in order to increase the efficiency and contribution to development of both sectors. Therefore, the success of privatization should be judged not in terms of the sale, the contract itself, the price paid to government, the survival or expansion of the enterprise sold, but rather, on the basis of the net benefits to the economy.

Privatization must result in better service at lower prices as desired by consumers who, often times, are not much bothered about economic philosophies. If privatization does not bring tangible benefits in one form or another, the opponents of privatization who argue that the benefits are not worth the cost would feel justified. As Adeyemo (2005) also correctly observed, the primary argument for privatization and commercialization is that the efficiency and profitability of the investments will improve after the exercise. At the end of the day, it is perhaps only a clear demonstration of such improvement that will convince people who hold such (opposing) views.

According to experts, the solution to the privatisation challenges in Nigeria include: A workable privatization model, improving its framework, enactment of effective oversight laws, fighting corruption, transparency of the bidding process by the BPE, public accountability, regular audit of the process/earnings, enhancement of corporate governance among investors and most importantly, making public the BPE’s post privatisation monitoring and evaluation exercise reports, on the concerned privatised companies.

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