

# Impact Assessment of the Privatization Policy on the Nigerian Economy (1999 – 2015)

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**Abstract** – *The precarious socio-economic situation of Nigeria in the 1980s coupled with the poor performance and returns of investments on the part of state-owned enterprises was adduced by the protagonists of this policy for the large scale of privatization of public enterprises in Nigeria. The contradiction that later surround the policy of privatization in Nigeria is noted in radical-Marxist, classical-liberal as well as a neoliberal operational framework in a mixed economy. Thus, the main objectives of this paper are to examine the Nigeria privatization program on the eve of President Obasanjo administration to the exit of Goodluck Jonathan regime (1999-2015). The researcher, having implored the historical perspective of this policy, uncovered the following contradictions about the privatization program: that corruption, inefficiency, ineffectiveness, insincerity among others that the policy hoped to address hitherto remain the same. The researcher afterward made the following recommendations. That if the privatization policy is to achieve its desired objectives that are economic development: that the policy should be pro-poor with the goals of redesigning public agencies to deliver quality services and the funds realized from the privatized enterprises should be reinvested in a tangible public interest like education, health, and other social services.*

**Keywords** – *Privatization, Public Enterprises, Globalization, and Nigeria*

## INTRODUCTION

Privatization as an agent of globalization that has taken over many developing countries at the end of the last century has not left the African continent without its share. Before the advent of globalization, there was different political and economic system in the world. Some countries practiced capitalist system, some operated socialist while some operated both economic

systems called mixed economy system. However, at the tale end of the 20<sup>th</sup> century, which also happens to be the end of the ideological war between West and the East, the market system structure of the economy became the only economic system in the world.

According to Igbuzor [9], the only option through which government can adopt for effective and efficient means of production that can engender sustainable growth and development is through the market economy. He maintained further that the government has just discovered that the only alternative for economic prosperity is through privatization of public enterprises. According to Nwoye [13], the involvement of Nigerian government in public enterprises can be traced to the colonial days, when the government was responsible for the provision of social services to the citizenry. I.e., pipe borne water, electricity, roads, education, health among others.

These roles continued after independence in 1960 and equally expanded owing to the discovery of oil and the government's desire to fast track development. The intention of the government to bring about socio-economic development precipitated to the decree that was promulgated in 1972 which later took effect in 1974. This order was to empower the government to take over the enterprises that were privately owned by the multinationals. The decree also propelled the government to participate in virtually all the sectors of the economy. The above assertion was corroborated by Omoleke [16] when he opined that the public or government enterprises became an essential tool of government intervention in the developmental aspiration in the 1970s. He went further by quoting the Nigerian Second National Development Plan that says: the main aims of these enterprises, is to fast track national economic development under the condition of scarcity and structural imbalance in private sector organizations. There are also serious considerations

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arising from the risk of allowing critical areas of the economy in the hands of private individuals, especially under the direct and controls of multinationals.

The above scenario culminated in the establishment of government enterprises such as energy, mining, banking, insurance, agriculture and other social services. According to Aminu et al. [2], they asserted that by the 1980s, the number of public enterprises in Nigeria was more than one hundred (100).

However, in spite enormous human and material resources Nigeria is endowed with, as well as substantial investment in public enterprises between 1960 to 1980s, the performance of these companies have nothing to write home about regarding service delivery and investment returns. This claim was supported by World Bank [21] when the assessment was carried out in power sector in Nigeria with other twenty developing countries in the world; the research shows that Nigeria energy sector performed entirely small among these countries with the lowest generating capacity cum revenue returns. This terrible assessment coupled with the poor performance of other government enterprises was adduced as the reasons that propelled the government to embark on large-scale economic reforms in Nigeria.

### **Concept of Public Enterprises**

This section is to review some related literature and theoretical arguments of various scholars or authors on the subject matter of privatization. Literature review often attempts to express the linkage, convergent and divergent views in literature. It is against this backdrop; this section will x-ray some arguments, theories vis-à-vis rationale for privatization policy in Nigeria.

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The concept of public enterprises has no agreed meaning the following definitions shall be adopted in this paper. Efang [5] defined the concept as an institution or companies that owned or controlled or financed by the state in which the government has the larger equities or assets, whose responsibilities are by making profits and equally provide social services and have their managerial autonomy.

According to section 34 of privatization and commercialization Act of 1999, public enterprises is defined as any enterprise, board, corporation or

parastatal setup through the Act of Parliament in which the government or ministry or extra-ministerial department, joint venture or any business organization i.e. NITEL, NEPA, and among others.

Obadan [14], viewed the concept as an organization that its primary duties are the provision of goods and services that other agencies of government have no power that is sufficient to ensure their control over the business or enterprises irrespective how actively that control is exercised.

Omoleke [16] viewed government enterprises as a unique institution, corporate in outlook established by the state for the entrepreneurial purposes. In a precise and concise perspective, the concept of a public corporation can be defined as an enterprise set up or established, controlled, financed and managed to provide social services to the people at reasonable prices. These enterprises are more often than not established through the Act of Parliament.

### **Rationale for Public Enterprises in Nigeria**

Several reasons have been advanced for the creation of state-owned enterprises in Nigeria. Among them are the following: Economic development is one the key reasons that propelled the government to established enterprises in Nigeria. This claim was corroborated by Omoleke [16] when he asserted that government businesses and corporations in Nigeria became a tool of government intervention in the development process, especially in the 1970s. He posits further that SOEs in Nigeria played a significant role in the Nigeria quest for economic development, self-reliance, and independence.

Affordability of services is another factor justified for the government involvement in an enterprise in Nigeria. According to Raji [19], he opined that there are some services, the government believed that leaving them in the hands of private individuals will lead to naked exploitation of the downtrodden masses. These include education, health, water, and several others.

Similarly, another important reason for the establishment of public enterprises is to generate employment. The government makes over fifty percent (50%) of employment in state enterprises. This fact was supported by Nellis [12], when he opined that, the rationale for government enterprises in Nigeria is to forestall an increase in employment. This point was also corroborated by Imhonopi and Urim [11] when they both maintained that public corporations are set up to fulfill the desire of the government to pursue objectives relating to social equity that the market forces would ignore. Notable among these goals is for the

government to provide employment and easy to access to essential goods and services.

Another serious reason government involves in an enterprise in Nigeria is for security reason. This position was equally buttressed by Raji [19] when he advanced that some services could not be left in the hands of the private sector because of the sensitivity of such services. These services include Nigerian Security Printing and Minting, Nigerian Police, Armed Forces, Ports Authority and among others, cannot be left in the hands of private individuals in order not to pose a security risk for the country.

### **The Challenges of Public Enterprises in Nigeria**

There are various challenges bedeviling government enterprises in Nigeria, according to Nellis [12], Imhonopi and Urim [11], Raji, [19] and Omoleke [16]. However, for the benefit of this paper, these challenges shall be summarized as follows: The issue of corruption, bad leadership, frequent change of government policies, lack of maintenance culture, inefficiency, favoritism, tribalism and among others, are all responsible for the failure of Public Enterprises in Nigeria.

### **The Concept of Privatization**

The concept of privatization has no universal meaning. Hence, the following definitions shall be adopted for the sake of this study. Nigeria privatization and commercialization Act of 1988 and the Bureau of Public Enterprises (BPE) Act of 1993, cited in Arowolo and Ogunowa (2012), defined privatization as a relinquishment of part or all of the assets held by the government in enterprises whether wholly or partly owned by the government. According to Olowu and Orji [15], privatization revolves around the transfer of government properties in designed public enterprises to private individuals. Osunde [18] perceived privatization as the transfer of assets, ownership and control of government-owned enterprises from the public to the private sector.

In summary, privatization involves the transfer of properties or assets from the government to private individuals. In a similar vein, it means a change of ownership, especially from the government to individuals or disengagement of government from an enterprise.

From the definitions above, three things are glaring; first, for the policy of privatization to work, there must be government enterprises, which need to be re-organized into private firms. Secondly, there is an assumption that private ownership or control or

management would perform more effective and efficient than government enterprises. While the last one is that, privatization is based on the fact that, there are challenges in public ownership and privatization is the only alternative that can turn around these enterprises for quality service delivery.

### **Privatization in Nigeria Context**

The prevailing socio-political conditions and, coupled with bad economic policies of the 1980s, snowballed to economic reform that was carried out by the government to stabilize the economy. Based on the above fact, the government was advised by the international institutions, i.e., International Monetary Fund and the World Bank, to disinvest its public enterprises and carry out large-scale economic reform. These reforms include privatization as to cut down public sector inefficiency and waste, provide enough space for the private sector, bring in modern technologies, and hence rejjig economic growth. It is against this background, according to Arowolo and Ologunowa [3], the then military government promulgated an Act in 1988, which later culminated in a Technical Committee on Privatization and Commercialization (TCPC), with the power to privatize 111 government enterprises and commercialized 34 others [8]. To further strengthen privatization policy, immediately Nigeria returned to civil rule in 1999, the federal government enacted public enterprises (Privatization and Commercialization) Act, which established the National Council on Privatization (NCP) and the Bureau of Public Enterprises (BPE), to embark on a large-scale privatization program in Nigeria.

### **Theoretical Perspective on Privatization**

Several schools of thought have argued for the policy of privatization. However, the following theories shall be adopted to explain privatization in this study. Radical-Marxist, Classical-liberal, neoliberal, Public choice theory, and pragmatist theory. According to Radical-Marxist theory which was developed by Karl Marx (1848) in his book titled Communist Manifesto, the involvement of the state in the provision of goods and services is seen as complementary to the overall development aspirations of the country.

Contrary to the theory above is the free-market ideology of the Classical-liberal economic theory of Adam Smith (1776). The wealth of the nation, which favors the unleashing of the competitive profit motive by emancipating free-market pricing from the interfering hands of state regulation [20]. It maintained that the character of the traders and that of government

was unreliable, that public management was negligent and wasteful because public employees have no direct interest in the outcome of their actions. The theory holds that for the development to be enhanced there is need to remove all forms of barriers to trade, which are engendered by state intervention. This intervention is being seen as the beginning of inefficiency. Adams Smith clearly demarcated the state from engaging in any form of economic activities. He strongly opposed to centrally planned economy. To him, planned economy will always hinder efficiency and effectiveness. Neoliberal theory only furthers the classical theory by giving more credence to privatization policy in contemporary time.

The public choice theory posits that the nature of goods and services determine whether they should be provided by the forces of demand and supply or the public sector. Public choice advocated that private goods should be provided by the market while public goods should be made available by the government. In sum, the theory opined that public goods provide separable private benefits (e.g. Education and Health) the recipients of the private benefits should be made to pay for the net proportion of the price that represents the private benefit [17]. This theory was supported by Adeyemo [1] when he argued that, Nigeria over the years has gone beyond the effective and efficient provision of public goods to the delivery of private goods. Moreover, this has often led to the failure on the part of government due to excessive involvement in the establishment of too many public enterprises and continued financial support of those failed enterprises. He went further that, this scenario has created an unprecedented high level of public sector deficits that financed through heavy external borrowing, high inflation, and balance of trade deficits. The end product of this tendency is that privatization would enable the government to cut public expenditures and reduce its involvement in activities that the private sector can undertake.

The last school of thought is a pragmatist theory. The theory provided an alternative through which the government can involve in the provision of social services to the people, but, with the highest level of efficiency. The students of this school of thought opined that the private sector may operate efficiently in resources allocation and service provision; they held that some functions are germane to the public purposes. Thus, such functions like provision of basic education, health and transportation should be retained by the government and be operated by profits that characterized the market operation. The Nigerian

commercialization is in line with this school of thought. The last two theories shall be the base of our discussion in this paper

### **Objectives of privatization in Nigeria**

According to Fasanwon [7], privatization is expected to achieve the following objectives in Nigeria. To reorganize and prioritize the public enterprises to reduce the dominance of unproductive investment in the economy. To increase government revenue to invest in tangible public interest like education, health and other infrastructural that would bring about development. To redesign public enterprises towards quality service delivery and overall efficiency, to ensure public sector is more profit driven. To ensure public sector are no longer rely on government subvention for their operation, to bring about new technologies and innovation. Moreover, to create a conducive investment environment for both local and international investors and among others.

### **The Impact of Privatization on the Nigerian Economy**

The effects of privatization shall be considered in two ways. Positive impact and negative impact of the policy on the Nigerian economy

Having reviewed so many literatures on this subject matter of privatization, the following are the arguments raised by its proponents, to justified the positive impact of the policy on the Nigerian economy. It increases government revenue and reduces the financial burden on public enterprises; it increases private participation in the national economy, it increases productivity and efficiency of service delivery, it brings about accountability especially to the shareholders, privatization discourages or even removes all forms of political interference and unnecessary government spending on unproductive enterprises.

While the following are some of the negative impact advanced by the critics against privatization policy in Nigeria. The policy has increased the gap between the poor and rich; it has led to unemployment especially the workers of those privatized enterprises, is being perceived as an imposition of International Monetary Fund (IMF) and World Bank. Nigeria privatization has been adjudged as one the fraudulent policy in the world and Nigeria privatization is also being carried out without due regard to the rule of law.

### **CONCLUSION AND RECOMMENDATION**

In the study carried out so far, it can be deduced that the desired objectives of the privatization policy

which includes: efficiency, quality service delivery, accountability, transparency, among others has not been achieved. The study having implored the approach historical research discovered the following discrepancies in the policy; that corruption, inequality, unemployment, poverty which the privatization hoped to address remain the same after the implementation of the policy. It is on this ground, the paper now submits, that privatization policy is not the only solution to Nigerian ailing public enterprises. That if the policy is to achieve its objectives, there is a need for government to put in place a mechanism through which these companies could be assessed after the privatization exercised to see whether the policy has snowballed to economic development.

Having x-rayed the effects of the policy of privatization, it is imperative to recommend ways forward for considerations: The revenues accrued from the sale of government properties, should be reinvested in a tangible public interest, such as education, health, and other social services. There is a need for government to keep reliable data on the employment levels, especially before and after the privatization exercise to see whether employment is increasing or decreasing as to douse unnecessary tension of labor unions.

Also, the government should take it as a matter of importance, to put in place a mechanism through which irregularities and another form of corruptive tendencies associated with the policy could be curbed. The government should ensure that few individuals do not dominate the economy through their ill-gotten wealth. The Nigerian government should try as much as possible to resist any move by the international institutions such as the IMF and World Bank via WTO to re-colonize us in the name of economic liberalization and privatization.

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