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Privatisation of Nigerian Public Enterprises: Lessons from Developed Countries

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Abstract

This paper evaluates the evolution of privatisation of state owned enterprises in different Nations, justifications and lessons from the programmes and it is hoped that it would serve as reference point to the Nigerian government, technocrats and other decision making bodies that have been charged with the task of achieving credible privatisation programme in Nigeria. The issues evaluated relates to the global perspective of privatisation, privatisation and Nigeria environment, conclusion and recommendations. This paper concluded that the privatisation programmes of the last two decades have significantly reduced globally the role of state- owned enterprises in the economic life of many Nations, particularly the developed countries. However, privatisation programme has thus far not reduced significantly the role of the state -owned enterprises in the most developing Nations like Nigeria.

Introduction

There is no single lexical item in the past two decades that has so enriched the vocabulary of economic discourse and researches other than privatisation. Thus, privatisation is the divestment from state- owned enterprises and transfer of ownership to private holding by government as a consequence of their poor economic performances and provision of inefficient services.

In recent years, there has been a privatisation boom in different national economies particularly in countries facing fiscal difficulties and Nigeria is no exception with a number of state-owned enterprises already privatised or in the process of being privatised. It was estimated that successive Nigeria governments to date have invested over 800 billion naria in the state -own enterprises and annual returns to this huge investment have been well below 10% yet, government has continued to subsidize their activities despite its dwindling revenue profile in order to enable them sustain and discharge social welfare responsibilities to the community (Olusegun, 1999: 3). However, there has been inefficient utilization of resources by state -own enterprises, their management and operation has been burden with endemic corruption and huge deficit often charged against public treasury. These coupled with their inability to enhance the social and economic well being of the people has placed government under tremendous pressure to initiate various economic reforms and restructuring programme to salvage the situation. Indeed, privatisation is one of such economic reform programme that has been adopted by Nations as panacea to the problem of state own enterprises. However, it can be argued that privatisation measures have been adopted and implemented under the framework imposed by the international finance institution, particularly in the third world countries, which has been by way of conditionalities attached to loans.

The privatisation of state-own enterprises in Nigeria has been as controversial as it is any where in the world. It has generated questions as to why, how, when and what to privatise. This paper therefore focuses on the experiences of other nations with privatisation programmes with a view to serving as reference point to the government policy planners, technocrats and others that have been saddled with the task of achieving a credible privatisation programmes.

Conceptual clarifications

Privatisation is based on the premise that private sector is an instrument for realising productive and allocative efficiency and higher economic growth. While the promotion of efficiency,

both economic and social are central to privatisation. Other objectives among which are: public deficit reduction, improvement of public finance, encouragement of competition and wider private sector participation in economic development, and the development of local capital markets (Obadan, 2000:2).

Privatisation: Global Perspective

To fully appreciate the differential impact of privatisation on the state's role in different economies, it is important to understand how this policy has evolved historically. Modern privatisation was associated with Margaret Thatcher's conservative government, which came to power in Great Britain in 1979 (Olashore 1991:135). Her government rolled out the shares of public sector substantially and brought in the private sector. Public utilities like British Electricity Board, British Telecommunications and British Airway that have been regarded as Safe haven from denationalisation were affected through sharpened competitive conditions (Vickers and Yarrows 1998: 426). Thatcher was credited with changing the policy name from denationalisation to the more appealing term 'privatisation'. Just like the prevailing situation in Nigeria, early sales were bitterly antagonised by the labour party, which threaten to nationalize divested firms such as British Aerospace are cable and wireless if elected. It was not until the immensely successful British Telecom initial public offering in November 1984 that privatisation was firmly established as a basic economic policy. However, the government of Konrad Adenaker in the Federal Republic of Germany in 1961 launched the first large-scale ideologically motivated privatisation "denationalisation" Programme of the post war era. The German government sold a majority stake in Volkswagen in public share offering heavily weighed in favour of small investors. Fours years later, the government launched an even larger offering for share in VEBA. Both offering were initially received very favourably but the appeal of share ownership did not survive the first cyclical downturn in stock prices and the government was forced to bail out many small shareholders. Twenty years later, another major western nation chose to pursue privatisation as a core economic and political policies (Megginson et al (1997:23). Thatcher government may not have been the first to launch a large privatisation programme, but it is without question the most important historically (Olashore, 1991:135).

The objectives conversed by the British government for privatisation in 1989 is virtually the same as those advanced by the Adenaker administration in Germany twenty years before and virtually every government that has adopted such programme in the past. Those objectives as described in Price Water House (1989) are to:

- i. raise revenue for the state;
- ii. promote economic efficiency;
- iii. reduce government interference in the economy;
- iv. promote opportunity to introduce competition;
- v. expose SOES to market discipline, and
- vi. development of the national capital market (Megginson et al 1997:36).

The success of the British privatisation programmes in general especially the British telecommunications offer in particular helped to convince many other developed countries to begin divesting State owned Enterprises (SOEs) through public offerings. The French government of Jacques Chirac which came to power in 1986 privatised no fewer than 22 companies estimated as 12 billion dollars before being ousted in 1988. The returning Socialist government did not execute any further sales but neither did it renationalise the divested firms. In 1993 the Balladur government launched a new and even larger French privatisation programme, which was continued under the Jospim administration. Jospim launched the largest France privatisation ever. That is 87.1 billion French telecommunications with public offering in October 1997. Several other Western European

governments including Italy, Germany and most especially Spain also launched very large privatisation programme during the late 1980s and early 1990s. These programmes typically relied on public share offering and were often launched by avowedly socialist government (Megginson et al 1997:43). Outside Western Europe fewer historical pattern can be observed. Japan has sold only relatively handful of SOEs in the past few years, but many of these have been truly enormous. The three Nippon Telegraph and Telephone share offering executed between February 1987 and October 1988 raised almost 80 billion dollars and the 40 billion dollars NTT offer in November 1987 remains the largest single private sector security offering in history. Elsewhere in Asia, government have tended to take an opportunistic approach to SOEs divestment by selling pieces of large companies when market conditions were attractive or when money was needed to plug budget deficits (Abdul-Rasaq 1999:9). India for fortyfour years of independence was married to state directed economic development policy till it adopted a major economic reform and liberalization programme in 1991 (Majundar 1996:3). Also, China launched a major economic reform and liberalization programmes in the late 1970's which has transformed the productivity of her economy in only twenty years, but to date there have been relative few outright privatisation of SOEs. Their privatisation programme has thus far featured prominently in the reform agenda, it was however adopted in response to highly disappointing SOE performance (Majundar, 1996:14). Further, the Latin American countries embraced privatisation with enthusiasm. For example, Chile's privatisation is important not only because it is the first but also the 1990 Telefons de Chile privatisation employed a large American depository receipt (ADR) share tranche that was targeted toward USA investors. Also, it opened the first important pathway which developing countries could use to directly tap western capital markets.

Privatisation and the Nigerian environment

The Federal government of Nigeria started the initiative to privatise through the establishment of the Technical Committee on Privatisation and Commercialisation (TCPC), an agency charged with responsibility for implementing the provision of the privatisation decree No. 25 of 1988. This committee (TCPC) has since been re-organised and is presently known as the Bureau for Public Enterprises (BPE). TCPC suggested five methods for the privatisation of SOEs namely Public Sales or Share, Public Placement, Sale assets, management buyout and deferred public offer (Verr 1994:6). At the time of inception of the exercise in 1988, Nigeria embarked on comprehensive programme of privatisation and commercialisation involving 146 enterprises, 111 of these enterprises were slated for privatisation and 35 for commercialisation (Abdulrazaq, 1999: 7). But, Hayatudeen (1990: 78) identified some of the benefits to be reaped from the programme of privatisation. This view was also corroborated by (Verr, 1994: 8) they include:

- i. Economic Growth: Privatised state owned enterprises are being subjected to market forces discipline and as such decision are based on rational economic considerations. This improves resource allocation utilization and economic performances of these enterprises and thus improves output and economic growth through greater investment, corporate expansion, improved efficiency, enhanced competition and consequently multiplier effect on the economy.
- ii. Unemployment effect:- in the short-run privatisation is expected to aggravate unemployment problems since privatised state owned enterprises would become more rational and as such will restructure and streamline their operations. In the long run, however, unemployment problems would be reduced as a result of growth that will accompany greater efficiency in the economy.
- iii. Cost of capital: Privatisation increases the depth and breath of the capital market especially when significant amount of the divestment of government interests are done through public

offering. This will help to correct the impression of Hemming and Mansoor (1987:15) that the thinness of domestic capital markets in developing countries necessarily places limits on the ability to finance privatisation from domestic resources. At the micro level this improves the access of such enterprises to capital market activities. Therefore this has tendency to reduce the cost of raising capital from the market (Curven and Holms, 1992:48). In addition, the disciplines which the capital market impose on listed enterprises also indirectly accelerates the growth of the economy, since listed companies are constantly on their toes to ensure good performance which enhances their access to funds in the market at low cost.

- iv. Development of entrepreneurial spirit: This is obviously the most important long-run effect of privatisation. The private sector, which may have been crowded-out by massive government interest in power and water supply, telecom, manufacturing, oil exploration and refinery, etc would recognise the benefits of filling the vacuum being created by government exist (Hayatudeen 1990:84).
- v. Enhanced exchanged rate: Privatisation improves the general economic environment of a nation. Thus, it encourages capital inflow and arrest capital flight. Odife, (1986:15) agreed that it is an instrument for attracting foreign capital to Nigeria. Where foreign investors are encouraged to acquire interest in privatised state owned enterprises, incremental equity inflow would improve the balance of payment position of the country and enhances the value of her currency. Thus reduces indirectly inflation rate, especially the rate attributable to the high cost of imported materials, arising from currency depreciation.
- vi. Labour relation: Privatisation could boost labour productivity through improved relation between management and labour. It provides an unusual opportunity for the implementation of employee's ownership schemes that if well structured could turn management and labour into partners in progress. Sengenberger and Campbell (1994:8) believed that this assertion holds for firms and industries in which trade unions hold a strong and secured position where there is cooperative industrial relations.
- vii. Provision of social infrastructure: The heavy operational losses of state owned enterprises that are avoided through privatisation coupled with the proceeds from the disposal of government investment in these enterprises and their attendant improved return on investment could be used to upgrade social services such as road, education, and health among others.

Conclusion

This paper has demonstrated that the imperatives which led to government entrepreneurial functions in the early sixties until recently though understandable, the changing circumstances the world over, occasioned by globalisation and the new world economic order have called for a redefinition of that role (Hammens and Mansoor 1987:73).

The state involvement in the ownership and control of public utilities has led to inefficiency and ineffectiveness in the operation of the public enterprises. The weight of academic research is now decided in favour of the proposition that privately owned firms are more efficient and more profitable than other wise comparable to state owned firms. The multinational agencies that count in the developing world now firmly advise countries to reduce the size of their state sectors. According to Herbert (1999:22) these state owned enterprises invariably constituted a drain on national budget because they have high profile of asset's base. He described them as "shambling giants" that drain funds out of national coffers. Further, Zayyad (1992:6) posited that a survey of Federal government investment as at November 30, 1990 was put at over N36 billion. Presently, replacement cost probably over N500 billion. The return from these investments never exceed 2% per annum which is less than 25% of its annual subvention to these sectors. Thus, there is a large amount of support for the

private enterprises under the system of rules and laws, which will maximize efficiency in the delivery of infrastructure, and associated services for the community. However, the efficiency of the public sector is often hindered by a number of factors including: lack of clear methods of measuring performance, the assignment of multiple goals which often conflict, lack of incentive to minimise cost, lack of managerial accountability and vulnerability to political interference. Therefore, with the economic policy of privatisation, assuming global orthodox within a relatively short space, of time Nigerians cannot afford not to be part of the process that has brought economic relief and innovation to the management of state owned enterprises in a world that has become a global village. The time to salvage them through private sector initiative is now.

Recommendations

The factors responsible for the non-performance of public utilities and the bad public image have been discussed. In this regard the following suggestions may suffice:

- Government should overhaul or refurbish all dilapidated and obsolete plants and machineries of public enterprises before the privatisation as this will positively make their offer attractive to investors.
- The Nigerian stock exchange should be involved in the sale of shares of the privatised enterprises to the public for the sake of transparency, fairness and objectivity as well as the development of the market.
- Foreign investors should be encouraged to invest in those privatised enterprises as such venture would attract foreign capital and technical know-how.
- In order to ensure uniformity in control and effective competition, all laws and structures in privatised enterprises should be standardised to be in conformity and applicable with similar enterprises in the international world, especially in the areas of audits and employee's welfare packages. Importantly, Obadan (2000:xii) posited that regulation is indispensable for the success of privatisation in liberalised Nigerian environment. He argued further that post privatisation regulation must be incorporated in the designing of privatisation programmes.

Effective regulation is vital as private capital when left alone can wreck havoc on the economy and the society. Also, that government should be prepared to deal with the problems of regulatory capture and life cycle problem of regulations.

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