



## The Impact of Privatization and Commercialization in Nigeria



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### Abstract

This paper examined the activities/policies of privatization and commercialization of public enterprises in Nigeria and how they have affected the development of the Nation. Although, some of the problems facing public-owned enterprise were examined as well. It looked at the pressure on the International Monetary Fund (IMF) to fully implement the structural adjustment program that leads to massive deregulation, privatization, and commercialization of publicly owned enterprises. In addition, it looked at the merits if any, of privatization and commercialization through extensive theoretical review of the performance of the private enterprise in Nigeria. Theories, rationale, and challenges of privatization and commercialization were addressed. The conclusion was that privatization is a good policy measure, which must be pursued with vigor, truth, sincerity, and transparencies even though the government is using such policies to foster a new division of labor between the public and private sectors in a bid to order, increase the efficiency and contribution to the development of both sectors. Privatization and commercialization in Nigeria will be a mirage unless institutional reforms take place. The government should create an environment favorable for private economic activity. This can be done by showing zero tolerance for corruption, nepotism, and misuse of public funds and property by both government and non-government officials.

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## 1. Introduction

Historically, the concepts of privatization and commercialization were first put to practice during the golden age of the Han Dynasty in China. In this era, the Mining Dynasty of China handover manufacturing industries private individuals in the society to manage. Subsequently, Winston Churchill's government privatized the British steel industry in the 1950s. This was followed by Western Germany's which sold its majority stake in Volkswagen to small investors in a public share offering in 1961.

The success of these privatized enterprise and the perception that privatization would go a long way in addressing market deficits and capital shortfalls, promote economic development, reduce mass unemployment made leadership of Margaret Thatcher, Ronald Reagan, World Bank, and International Monetary Fund clamored for large-scale privatization in the 1980s through the introduction of structural adjustment programme (Oji *et al.*, 2014). Accordingly, the introduction of structural adjustment program propels much government in different countries to embark on the massive transfer of publicly owned companies to private individuals (Alabi, 2010).

In Nigeria, structural adjustment program did kickstart not until 1986 when the International Monetary Fund (IMF) insisted that one of the conditions the foreign loans requested by the then Shagari's Administration can be granted was to divest ownership in the management and control of some public enterprises (Adeyemo & Adeleke, 2008). This debate resonated to Buhari/Idiagbon and General Babangida government that finally announced an intention to divest its holdings in certain key sectors of the economy and subsequently promulgated the Privatization and Commercialization Act No. 25 of 1988. Against this backdrop, privatization has hitherto been described by some authors as neo-liberal policies and idea packaged and sold by the western metropolis through their agencies such as World Bank and International Monetary Fund (IMF) (Gberevbie *et al.*, 2015).

However, several other studies have noted that privatization of public enterprises would help to overcome the misuse of monopoly power, defective capital structure, mismanagement, corruption and nepotism (Abdullahi, 2014; Dappa & Omi 2014). Indeed, a public enterprise in Nigeria tends to be characterized by incessant corruption, inefficiencies, ineffective to they're bureaucratic in nature that is responsible for many government failures. These low performances in addition to technological shortcomings of many public enterprises appear to have made many studies to suggest that privatization or divesting inefficient public enterprises could save costs and generate more revenue for the government. Nwoye (2011) specifically argued that privatization and commercialization of public enterprise will not only facilitate the provision of capital and technology to strategic areas where the private sector either shy away from or lacked the capacity to invest, it will also increase capital formation, encourage foreign direct investment, production of essential goods at lower costs, create employment and generally contribute to the economic development of the country. Several other evidence has revealed that because many of the public Enterprises in virtually all tiers of government in Nigeria were either equipped with low or second-grade machinery, the performance of these public enterprise has remained very dismal with no options but to privatized them (Obadan, 2000).

### *Statement of the Problem*

Some of the problems facing public owned enterprise were high corruption, lack of transparency, inefficiency, ineffectiveness, inconsistency, and incredibility. The challenges appear to mark a caused drastic failure of some public enterprise like National Electric Power Authority (NEPA) and Nigerian Telecommunication (NITEL) and Nigeria Railway. In addition, the low performance of these enterprises, coupled with the pressure on the international monetary fund to fully implement structural adjustment program saw massive deregulation or privatization of public owned enterprise. Against this backdrop, this paper looks at whether privatization and commercialization in Nigeria were desirable through extensive theoretical review of the performance of privatized enterprises in Nigeria. The paper also looks at the concept, theories, rationale and challenges in privatization and commercialization of Public Enterprises. It ends with suggestions that may help to further enhance and sustain the performance of privatized enterprises if they found to be desirable in Nigeria.

### *Objectives of the Study*

1. To examine the concept, theories, rationale, and challenges in privatization and commercialization of Public Enterprises in Nigeria
2. To determine whether privatization and commercialization in Nigeria were desirable through the performance of some enterprises that were privatized and commercialized in Nigeria.

### *Review of Related Literature*

In this sections, the study reviews relevant literature related to privatization and commercialization of public enterprise. It specifically reviews the concept, theories, rationale, performance, and challenges facing privatization and commercial of public enterprises.

## **2. Research Methods**

### *2.1 Conceptual Framework*

The terms commercialization and privatization cannot be defined without first of all having a clear understanding of Public Enterprise. According to [Nwoye \(2011\)](#), the public enterprise is a corporate body created by the legislature with defined powers and functions in which public authorities hold the majority of the shares and/or can exercise control over management decisions. It is a corporate body owned and controlled by the central or regional government. It is established with no privately exchangeable rights to the profits. The government has the legal right to appoint and dismiss directors. [Ayodele \(2011\)](#) opined that the absence of private rights to profits and the power of the government to appoint directors are conditions which are compatible with a wide range of public institutional forms. Public Enterprises may cover any commercial, financial, industrial, agricultural or promotional undertaking – owned by the public authority, either wholly or through majority shareholding – which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts. Such undertakings may have diverse legal and corporate forms, such as departmental undertakings, public corporations, statutory agencies, established by Acts of Parliament of Joint Stock Companies registered under the Company Law” ([Dimgba, 2011](#)).

Drawing from the above definition, public enterprises appear to take three distinct forms; (i) Departmental undertaking; (ii) Statutory Corporation and (iii) Joint Stock Company with shares owned by State. This means that there are public enterprise established for privately remunerative – provided by market through Directly Productive Investments (DPI); socially profitable but not privately remunerative – provided by State, like road building, irrigation, through Social Overhead Capital (SOC); privately remunerative but not capable of private execution, like heavy industry, high technology involving capital-intensive investments like power, transportation, etc – also provided by the State with/without the help of the market; and natural monopolies. The privately remunerative but not capable of private execution provided by the State with/without the help of the market can be transferred to the private sector when the capitalist development in these countries attain sufficient maturity to enable them to handle the capital-intensive investment. Thus, privatization and commercialization of public enterprise usually take place along with fundamental restructuring, planning, and policy by the government.

### *2.2 A Brief Historical Perspective on Development of Public Enterprises in Nigeria*

The public sector emerged in Nigeria as a result of the need to harness rationally the scarce resources to produce goods and services for economic improvement, as well as for the promotion of the welfare of the citizens. The involvement of the public sector in Nigeria became significant during the period after independence. The railways were probably the first major examples of public sector enterprises in Nigeria. At first, conceived mainly in terms of colonial strategic and administrative needs, they quickly acquired the dimension of a welcomed economic utility for transporting the goods of international commerce, like cocoa, groundnut, and palm kernels. Given the structural nature of the colonial private ownership and control of the railways in the metropolitan countries, it would hardly be expected that the Nigerian Railways Corporation could have been started like any other project than as a public sector enterprise for such mass transportation. ([Abubakar, 2011](#))

The colonial administration was the nucleus of necessary economic and social infrastructural facilities that private enterprise could not provide. Facilities included railways, road, bridges, electricity, ports and harbors, waterworks and telecommunication. Social services like education and health were still substantially left in the related hands of the Christian Missions. But at this initial stage government itself moved positively into some of the directly productive sectors of the economy; the stone quarry at Aro, the colliery at Udi, and the sawmill and furniture factory at Ijora. Those were the early stages ([Dimgba, 2011](#)). The emergence of the crude oil industry into the Nigerian economy, after the civil war in the 1970s, with the associated boom intensified governmental involvement in production and control of the Nigeria economy. One major aim of government at that time was to convert as much as possible of the growing

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oil revenue into social, physical and economic infrastructural investments. The Nigerian Enterprises Promotion Decree of 1972, which took effect on 1 April 1974, with its subsequent amendment in 1976, provided a concrete basis for government's extensive participation in the ownership and management of enterprises. Given these developments, Public Enterprise at the federal level had exceeded 100 in number by 1985; and these had spread over agriculture, energy, mining, banking, insurance, manufacturing, transport, commerce, and other service activities (Obadan, 2000). Before long, the range of Nigerian Public Enterprise had stretched from farm organizations to manufacturing, from municipal transport to mining, from housing to multipurpose power, and from trading to banking and insurance. At the state and local governmental levels, the range of activities that had attracted public sector investment also had become quite large. Thus, a variety of enterprises – with the public interest in terms of majority equity participation or fully-owned by states and local governments, as well as other governmental entities – became visible in various parts of Nigeria. Between 1975 and 1995, it was estimated that the Federal Government of Nigeria had invested more than \$100 billion in Public Enterprise (Nwoye, 2011).

### 2.3 Conceptual definition of Privatization and commercialization

The concept of privatization and commercialization has been used interchangeably. However, the two concepts have a different meaning. According to (Ayodele, 2004), privatization is the process of transferring ownership and control of a government-owned business to private individuals. It is a transfer of ownership right from a public agency to the private sector. It is the sale of government-owned assets and the opening of certain markets to the private sector.

Privatization has also been defined by Privatization and Commercialization Act of 1988 and the Bureau of Public Enterprises Act of 1993 as the relinquishment of part or all of the equity and other interests held by the Federal Government or any of its agencies in enterprises whether wholly or partly owned by the Federal Government. This definition means that privatization can be full or partial. Partial privatization occurs through equity dilution, joint ventures, management contract, and lease. Full or complete privatization is the complete transfer of ownership and control of a government enterprise or assets to the private sector. It is the transfer of the ownership (and all the incidence of ownership, including management) of a public enterprise to private investors.

Similarly, Ezeani (2006) defined privatization as a deliberate government policy of stimulating economic growth and efficiency by reducing state interference and broadening the scope of private sector activity through one or all of the following strategies ; transfer of state-owned asset to private ownership, through sale of share, control or management of state-owned asset, encouraging private sector involvement in public activity and shifting decision-making to agents operating in accordance with the market condition. Solanke (2012) also defines privatization as the sale of operation, granting vouchers to serve recipient or contracting out whichever ways it is defined the main idea is the changing of business status service, industry from government or state or public to private ownership or control. Several other studies have also defined privatization as a 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. It is a shift from the public to the private sector, not shifts within sectors. To this end, a product of privatization is 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.

On the other hand, commercialization is the practice of making a profit from services or activities formerly offer free or at a low price to the public. It is the practice of making an activity profitable that was totally free. It can also be seen as is the efficient running of a government enterprise with the major motive of making a profit. Section 14 of the 1999 privatization and commercialization act though did not distinguish Privatization and Commercialization; severities opined that commercialization is the reorganization of enterprises wholly or partly owned by the Federal Government in which such commercialized enterprises shall operate as profit-making commercial ventures and without subventions from the Federal Government. The Act provides that commercialized enterprise shall operate as a purely commercial enterprise and may, subject to the general regulatory power of the Government of the Federation(a) fix the rates, prices and charges for goods and services it provides.

Unlike the privatized enterprises, in commercialization, the government would continue to be the sole owner of the enterprises, they would also continue to have a financial stake in the enterprises to be commercialized (Oji *et al.*, 2014). However, the Technical Committee on Privatization and Commercialization (TCPC), now Bureau of Public Privatization (BPE), would ensure that all the checks and balances are in place to minimize government interference and to encourage optimum performance by the managers of those enterprises. Commercialized enterprises should adopt commercial orientation and financial self-sufficiency. They are expected to be better managed and to make a

profit. They are expected to be run like privatized enterprises in the future except perhaps in the case of utilities. It should be self-sufficient in both its recurrent as well as capital expenditure needs. Enterprises to be partially commercialized would be expected to operate like the fully commercialized ones in terms of better management and profit orientation but because of the 'public' nature of the goods and services provided by those enterprises and in order to keep the prices of their products or services as low as possible for the public, government would still provide financial grants for the capital projects of the partially commercialized enterprises. They would be expected to earn enough revenue to cover their operating costs. From the foregoing, it is clear, therefore, that when a public enterprise is fully commercialized, the expectation is that it should operate as a purely commercial enterprise without subventions from the Federal Government.

Drawing from the above for privatization and commercialization to take place only is the existence of public enterprises, which need to be converted into private enterprises. Secondly, there is the reasoning that private ownership or control or management would be better than public ownership. Finally, privatization is premised on the fact that there are problems with public ownership of enterprises and privatization is part and parcel of a reform agenda to turn around these enterprises so that they can deliver goods and services more efficiently and effectively. Both privatization and commercialization have 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 favor of the private sector (Kifordu *et al.*, 2016). They are a variety of measures adopted by the government to expose a public enterprise to competition or to bring in private ownership or control or management into a public enterprise and accordingly to reduce the usual weight of public ownership or control or management. Privatization and commercialization of public enterprises remove the burden accompanying budgetary obligation (especially where some of the enterprises are making losses). Removal of government restrictions on private economic activity and divestiture of the state assets particularly State-Owned Enterprises (SOEs) into private hands reduce government expenditure, promote efficiency in the running of businesses, promote innovation, create avenue for private investment, provide government with short-term revenue and reduces the problems of corruption, nepotism associated with public corporation. Most importantly, privatization and commercialization abolished monopolies or barriers to entry, increase competition and increasing government revenue as evidence in the Nigeria telecommunication industry. It is on the one hand that several studies opined that privatization and commercialization are akin to deregulation of a country's economy. In this essence, full participation of private individuals in the country's economic activities is crucial to ensure competitive economic system devoid of monopoly and allow price mechanism of demand and supply's principle of economy to prevail. According to greater weight to the private sector creates efficiency market economy and propels foreign direct investments.

#### 2.4 Theoretical Framework

The privatization policy in Nigeria is anchored on efficiency. The government claimed that privatization is an instrument of efficient allocation and management. It would reduce poverty by improving the economic indices of the country and over time lead to less corruption and red tape strengthens the role of private sector in the economy thus guaranteeing employment, improved quality of life and leads to higher utilization of capacities. According to Evoh (2002) privatization "is a system that is grounded in the basic principles of the science of economics. It is within the large framework of economic efficiency that the principle of privatization falls. Economic efficiency refers to the use of resources so as to maximize the production of goods and services. An economic system is said to be more efficient than another in relative terms; if it can provide more goods and services for the society without using more resources. A situation can be called economically efficient if no one can be made better off without making someone else worse off, no additional output can be obtained without increasing the amount of input and production proceeds at the lowest cost.

In Nigeria, the main drive of privatization is that it is an instrument of efficient resource allocation and management is based on the argument that under public ownership enterprises are often used to pursue non-commercial objectives of government, including employment maximization and uneconomic investment choices. These activities are very often inconsistent with efficient and financially viable performance and lead to poor managerial supervision and economic woes in Nigeria. According to Ikehukwu (2013), the major argument for privatization is in terms of efficiency is the switch from public to private ownership resulting in the adoption of more precise and measurable objectives on the part of the owners of which creates the environment and incentive to monitor and control management effectively. Additionally, under private ownership, firms will only remain in existence as long as they are viable. Should they cease to be viable their resources will be reallocated by the market to other uses. Evoh (2002) supported

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this argument saying that given the country's economic woes privatization of the inefficient state-owned enterprises is now the most hallowed economic policy of all times. According to the economic theory, privatization policy will not only attract much needed foreign investment which will integrate the country in the globalization process but also ensure the advantages of a more competitive system, quality, price, choice and satisfaction of goods and services. Competition in no doubt is desirable as it ensures efficiency.

However, the fundamental responsibilities of the government which is to promote and ensure social equity by providing for the less privileged in the society may be in jeopardy. This is because privatization focused on efficiency and profit maximizing by dealing with a deadweight loss of subsidizing state-owned enterprises and the redundancy of labor as evident in the recent power sector deregulation (Omoyibo, 2011). Therefore, while efficiency is the benefit of economic liberal ideas sold to the Nigerian government by the IMF and World Bank, it is imperative to note that the efficiency advantage of privatization in Nigeria is contingent on transparent and committed leadership. For instance, most privatizations in Nigeria were done to serve the interest of the more powerful members of the society. The fixed charge of seven hundred and fifty nairas (750) on use or not use of electricity immediately after sales of the power holding company in Nigeria is clear evidence. In Nigeria, according to John Campbell, a former American Ambassador to Nigeria (1998-2000), those that hold power do not want it to change they want to hold on to it to impoverish the people so as to determine and define the waves and directions of politics, since they do not have jobs, factory or industry, it's only politics the job they can do best. According to political school of thought, privatization is seen as or associated with power or transfer of power (state-owned enterprise) to private individuals and denies the seller. Since politics is who gets what, when and how of society's limited resources, privatization to this view is an economic policy for the redistribution of a country's economic resources and political power in favor of private capitalist interest through ownership transfer of public enterprises to private capitalist interest through the instrument of state power (Omoleke, 2008). In this case, the forms welfarist pretension has given way for the institutionalization of the regime of Marketization and profiteering. This helps us to see and understand why privatization policies are adopted by the government even when the proceeds of the sale may not cover more than a few years of dividend from the public enterprises. As a matter of fact, most of the privatized state enterprise like NITEL, PHCN and others were devoid of transparency to the extent that subsequent government scrutinized how they were actually sold.

Another economic theory driving privatization in Nigeria is the theory of *laissez-faire*. This theory postulates that privatization allows individuals to reap the advantages of the market system and competition through efficient service delivery. However, people behave out of rational self-interest or do what is best for them. This has the potential to abuse and destroys the primary purpose of privatization (efficiency), which ultimately makes everyone worse off.

Similarly, liberalization theory posits that a minimal regulation and outright removal of government control promote greater market efficiency and effectiveness and economic development. The neoliberal theory claimed that the government has no business regulating the economy not to talk of owing business itself. The theory believed that government is most effective when it is lean and this done by leaving the regulation of economic activities into a market force. In this way, the government will dispense sound social spending, and eliminated the budgetary deficit and open economies to foreign trade and investment and allow limitless repatriation of profits, so that they can encourage foreign direct investment. Omoleke and Adesopo (2005) noted that this ideology of liberalism or neoliberal thought come as a result of change or new discourse in ideologies concerning the fundamental role of the state and the relative merits of the private and public sector. The simple assumption is that as the state cannot be as efficient as a private entity in the production of the same output. According to Omoleke and Bisiriyu (2005), liberalism came in the mid 20th century as a result of the campaign against state-chartered monopoly by the dominant business groups in America. In response to this new form of monopoly in the mid 20th century, a moment arose to fight over what it considered big business strangulation of free competition championed by new generation capitalist whose source wealth through financial manipulation. Key to this ideology of liberalism particularly its new form is the heavy reliance on market forces, which its advocate claims to be the most efficient mechanism for allocation of scarce resources.

This ideology of liberalism was transported to the 3rd worlds through the United Nations agencies especially the IMF and World Bank. Hence from in the 1960s onward, the third world's subjected to social shocks to force them to engage in what is called defensive adaptation. It was for this reasons that the IMF led the 3rd world through so-called industrial take off in the 1960s, import substitution of 1970s and structural adjustment programs in 1980s. Washington consensus imposed the so-called IMF conditional ties for debt forgiveness among which are fiscal austerity, privatization, and market liberalization. Those countries that refuse to accept this conditioning were placed under extreme stress and in most cases overthrown. Those that accepted it were forced to swallow the bitter pills of liberalization, privatization withdrawal from social services. Whether the particular form of privatization program is

ill-suited to the economic problems of a particular country was not taken into account. The above was one of the major drives for privatization of public enterprises in Nigeria.

According to [Nwoye \(2011\)](#) Nigeria and other African countries were strongly adjusted by the world lending agencies particularly IMF and world bank to divest their public enterprises as one of the conditions for economic assistance with intensified and push for economic liberalization Nigeria and other African leaders were told that privatization as an economic reform would help cut public sector inefficiency, and waste, provide greater scope to the private sector, attract more investment, bring new technologies and have relived the economy. Thus many countries including Nigeria embarked on the privatization of her public enterprises. It is against this background that the IBB administration (1985-1993) proposed the Structural Adjustment Program (SAP) as a kind of reform which would affect the goals, administration, and management of the public sector's enterprises for purposes of efficiency. One of the main objectives of SAP was to pursue deregulation and privatization leading to the removal of subsidies, reduction in wage, expenses, and retrenchment in the public sector ostensibly to trim the state down to size. [Odukoya \(2007\)](#) was of the view that the reason for privatization was agitation for reform of public finance involving the overhaul of public enterprises to satisfy international obligations and aspirations and that realization that private sector investment and the opening up of the political space were preconditions for market economies growth and development. Despite this, many theories believe that economic liberalization through the introduction of SAP was packaged by western countries to Nigeria during the economic downturn, global economic recession and the collapse of the oil market to make the country remain under the colony of the western countries. The world leading international bodies particularly IMF and World Bank told Nigeria that economic reform through the implementation of the goals of SAP condition the country because it is heavily dependent on foreign loans and aids. Equally important, in Nigeria, privatization has failed because it works and entrenches the interest of the elite class. The state through some selective privates class defined the control over the means of production, this why the resultant social forces of production have not been able to support any socio-political transformation that would engineer collective mass action of an active society.

### 3. Results and Analysis

#### 3.1 Privatization and Commercialization of public Enterprises in Nigeria

Many countries of the world embarked on privatization programs at different times. Chile introduced privatization program in 1974. The United Kingdom implemented a rigorous privatization program during the regime of Margaret Thatcher in the 1980s. The British decision to embark on privatization program was largely informed by the need to cut back on public spending rather than the need to promote efficiency and competition. The 1990s witnessed the implementation of privatization programs in many countries of the former eastern bloc like Russia, Romania, Czechoslovakia etc. Indeed, it has been documented that more than 8,500 State-owned enterprises in over 80 countries have been privatized in the past 12 years ([World Bank, 2003](#)).

In Nigeria, the actual implementation of commercialization and Privatization started in 1988 with the inauguration of the Technical Committee on Privatization and Commercialization as contained in Decree No. 25 of 1988. This act marked privatization exercised which started with the commercialization of some enterprises like the Nigeria Railway Corporation (NRC), National Electric Power Authority (NEPA), Nigerian Telecommunication Limited (NITEL), the postal services, Nigerian Port Authority in which BPE employed concessions rather than outright privatization. Concessions entail allowing some private company to run ports for five to ten year. The company is automatically granted some level of ownership right. Essentially, the privatization program in Nigeria started with the commercialization of public enterprises. This was inevitable because it was less cumbersome and easier to achieve. It only entails detaching the enterprises from government departments and ministries and made them be a cost accountability centers as done in the private sector.

Thereafter, certain enterprises like the Ikoyi Hotel, Federal Palace Hotel, African Petroleum, National oil, and Unipetrol were sold to Nigerian. Others privatized enterprise were Aluminum Smelter Company Plc, Anambra Motor Manufacturing Company Ltd, Peugeot Automobile of Nigeria Ltd, Nigeria Airways, National Fertilizer Company Nigeria, Jos Steel Rolling Company Ltd, Oshogbo Steel Rolling Company Ltd, Katisina Steel Rolling Company Ltd, Calabar Cement Company Ltd were all short down prior their privatization.

It is also important to note that public enterprises Act in 1999 empowered Bureau of Public Enterprises (BPE) to take over the activities of The Technical Committee on Commercialization and Privatization (TCPC) initially served as the secretariat and implementation of privatization reform. The Act also made provision for the establishment of

National Council on Privatization (NCP). The NCP is the lead policy-making body in charge of privatization and commercialization in Nigeria.

The study showed that between 1975 and 1999, \$200 billion was spent on public enterprises and that the funding of these enterprises has been a drain on the treasury (Jerome, 2008). President Obasanjo specifically said that about USD800 million dollars were lost due to the unreliable power supply by NEPA and another USD4000 million through inadequate and inefficient. This means almost all the public enterprises privatized were not effective. For examples, the Delta Steel Company Plc was shut down in 1995 until privatized in 2005, Ajaokuta Steel Company Ltd and National Iron Ore Mining Company Ltd were not completed, Aluminum Smelter Company Plc was shut down. Similarly other than the Anambra Motor Manufacturing Company Ltd and Peugeot Automobile of Nigeria Ltd, all the motor vehicle, and truck assembly companies were shut down. Other than non-performance of this enterprise prior to their privatization, there was a high level of debt overhang, staff and pension liabilities, and corruption. Due to a debt level of Nigeria Airways, National Fertilizer Company Nigeria, Jos Steel Rolling Company Ltd, Oshogbo Steel Rolling Company Ltd, Katisina Steel Rolling Company Ltd, Calabar Cement Company Ltd, Nigeria Sugar Company, Bacita, and Nigeria Newsprint Manufacturing Company Limited were liquidated.

More striking, the reform in power sectors appears that privatization is disgust for self-serving interest. For examples, 10 billion dollars were invested in PHCH during Obasanjo's regimes yet the sales of the company did not cover the accumulated arrears or benefits of their former staff let alone to pay the creditors of the former NEPA. Similarly, \$500 million paid by Transcorp for 51% of NITEL shares was insufficient to cover the staff benefits. Study there noted that privatization carried in many sectors of the economy was avenues to promote the interest of few elites, foster the welfare of a particular group, encourage employee ownership, and restore full rights to former owners of property expropriated by previous regimes. As a matter of fact, from 1999 to 2010 the objectives of privatization were not been achieved due to various factors including debt overhang, pension liabilities, tax liabilities, staff salaries, unfavorable economic climate, and corruption.

Drawing from this, the paper is in doubt if the successor companies (SC) that took over the generation, distribution, and transmission of PHCN would perform to the expectation of Nigeria. A critical look at the unfair seven hundred and fifty (#750) naira charge on electricity consumers without improvement in the electricity supply over a year show the insensitive of the 11 successor distribution companies (Transmission Company of Nigeria (TCN) which include Abuja Electricity Distribution Plc, Benin Electricity Distribution Plc, Eko Electricity Distribution Plc, Enugu Electricity Distribution Plc, Ibadan Electricity Distribution Plc, Ikeja Electricity Distribution Plc, Jos Electricity Distribution Plc, Kaduna Electricity Distribution Plc, Kano Electricity Distribution Plc, PortHarcourt Electricity Distribution Plc, Yola Electricity Distribution Plc. The generation companies are Shiroro Hydro Power Plc, Kainji Hydro Power Plc, Afam Power Plc, Sapele Power Plc, Ughelli Power Plc, and Geregu Power Plc.

### *3.2 Rationale for Privatization and Commercialization of public Enterprises in Nigeria*

Privatization and commercialization are based on the premise of efficiency management. Against this backdrop, Gberville *et al.*, (2015) highlighted the following rationales. These which include:

- 1) To overcome inefficiency enterprises: over the years government enterprises have become so inefficient, as epitomized by the epileptic services they render to the public. This is in spite 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. It is assumed that because public enterprises are funded wholly or partly by government and also run by the government they are run inefficiently. Consequently, in terms of public enterprises, privatization will introduce new technologies and promote innovation while the private investors will upgrade plant and equipment, increase productivity, including utilization of industrial plant, improve the quality of the goods and services produced, introduce new management methods and teams and allow the enterprise to enter into domestic and international alliances essential to its survival.
- 2) To manage 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 evidence 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.



- 3) Structural Adjustment purpose: Following the downturn 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. 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 the healthier path of national economic development. A key course of action of SAP towards the 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 was 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 with the expectation that the private sector would do better in managing the economies. For instance, the proponents of SAP opined that implementation open up the economy for private individuals would reduce the high level of inflation, huge domestic debt, high level of unemployment and low growth rate of the national economy, the chronic deficit in the balance of payments position. Thus, the privatization of the economy would lead to greater accountability, better factor allocation, the ceasing of public subventions of industries.
- 4) Other rationale for privatization were to reduce the financial drain on the state in the form of subsidies, unpaid taxes, loan arrears and guarantees given, mobilization of private resources to finance investments that can no longer be funded from public finances, generation of new sources of tax revenue, limitation of the future risk of demands on the budget inherent in state ownership of businesses, including the need to provide capital for their expansion or to rescue them if they are in financial crisis. A cursory look at the appropriations made between 1970 and 1999 and 1999 and until present day will show that no appropriations were made to the public enterprises listed for privatization. Instead, the proceeds of the sale were paid to the government treasury for the purpose of the appropriation.

### *3.3 Problems Facing the Implementation Privatization and Commercialization of Public Enterprises in Nigeria*

The idea of privatization is that the state should ensure the supply of services where necessary. It should ensure that essential goods and services are provided but not aimed to be the sole producer or delivered. Whereas in the past government was seen as often squeezing out market supplies, it is now expected to support their development and promote competition. The task now is that with the fast incorporation of Nigerian State into the market-oriented system, there seem to be some hindrances to grapple with in actualizing the dreams of public enterprises reform. According to [Obadan and Ayodele \(1998\)](#) and [Obadan \(2000\)](#), the relative success in the public enterprise's reform has some crucial problems which are economic, political and ideological. These problems are summed up as follows:

- 1) Socio-political and ideological: Theoretically privatization of Public Enterprises (PEs) has some ideological underpinnings as conceptualized by the classical or neo-classical and the liberal neo-liberal schools of thought. Privatization was seen by some as a carry-over of the structural adjustment program and also seen as a caricature of the international capitalist imposition especially the World Bank / IMF. The structural adjustment of the 1980's was seen as an inevitable circumstance that pervaded the world economic order then. The socialist ideologue also sees public enterprises reform as a path towards consolidating capitalism.
- 2) Uncooperative Attitude of some government officials (Enterprises managers and staff): Some officials were recalcitrant over the policy or privatization as this would undermine the status quo, particularly the supervising ministries. [Obadan \(2000\)](#) argued that the former supervisory ministries misconceived the program as a way to reduce their power as the affected PEs will be insulated from all ministerial controls and interference, and somehow silently opposed to the policy arrangements. Similarly, managers and staff of these privatized PEs are against the reform as it would undermine their position. Some of these criticisms overtly or covertly may have devastating implication on the program.
- 3) Weak market alternatives: As applicable to poor developing countries, Nigeria has less mature formal business sectors, with higher start-up cost, less capacity to invest, and less exposure to competition.

- 4) Geopolitical and income-group spread: The enabling decree laid emphasize 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.
- 5) Government capacity: Closely related to the attitude of the public officials and managers of PEs over the delays in the implementation of PE reforms has to do with whether the government has the administrative and political ability to undertake its new roles. The government must have the capacity not only to make initial diagnoses and assessments to decide on policy implementation and also to administer the state's roles once PEs reforms have been established.
- 6) Poor funding of the National Committee on Privatization and Bureau of Public Enterprises: The essential economic reform mandate of the Bureau and the various NCP sector steering committees is threatened by poor funding.
- 7) The Problem of inaccessibility to credit: Many prospective equity holders did not have enough funds to process their application forms, contrary to the expectations of government. The perceiving problem of financial limitations, the government directed all licensed commercial banks to extend to all interested persons. In spite of this directive, the banking system did not respond favorably due to what they called "operational lapses". The financial problem thus dampened the enthusiasm, particularly of paid workers whose salaries are not high enough to cope with the financial requirement to benefit from the policy. However, it may, therefore, be necessary for Employer's Association to provide assistance for their employees, in terms of share purchase loans that will relief and relax the high tension of workers with respect to this programs
- 8) Institutional Investors versus Small Individual Investors: On many occasions, there were reports of over-subscription in the shares for the 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.

#### 4. Conclusion

In conclusion, privatization and commercialization of public enterprise is an end itself, but as a means to get government interested in fostering a new division of labor between the public and private sectors in order to increase the efficiency and contribution to the development of both sectors. Therefore, the success of privatization should be judged not in terms of the sale or contract itself or the price paid to the government, or even the survival or expansion of the enterprise sold, but rather, on the basis of whether there are net benefits to the economy (). Privatization must result in better service at lower prices as desired by consumers who, oftentimes, 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. On the basis of this the following recommendation is made:

Privatization is a good policy measure, it should be pursued with vigor, truth, sincerity, and transparency. The privatization equity loan program of government should be reactivated and made available. In addition, the government should endeavor to set aside politicking when privatizing or avoid selling off public property to cronies and family members. Put differently, privatization and commercialization in Nigeria and the attraction of private investors to infrastructure delivery will be a mirage unless institutional reforms take place. The government should create an environment favorable to private economic activity. This can be done by truly committed to the reduction of the opportunities for corruption and misuse of public property by government officials.

Most importantly, there should be infrastructure privatization as this may unleash large inflows of foreign direct investment and help develop local capital marks. In addition, bold privatization programs can send a clear message to international capital markets, the wider investor community and the local populace that governments are committed to improving economic management. The need to manage Nigeria's economy efficiently can also be felt when considered along 183 countries. Doing Business 2012 is in its ninth edition. Doing Business 2012 in a series of annual reports investigating the regulations that enhance business activity and those that constrain it in developed and developing countries have consistently shown that Nigeria lags behind other countries in Africa. Out of about 183 countries, Nigeria came 114 in 2008, 118 in 2009, 125 in 2010, 133 in 2011 and 133 in 2012. Countries like South Africa, Botswana, Zambia, Morocco, Kenya, Egypt, Ethiopia, Uganda, and Tanzania have consistently done better than Nigeria in this index. For instance, in 2011 and 2012, South Africa came 36 and 35 respectively. Globally, the last two decades have seen a fundamental shift in the paradigm of infrastructure delivery around the world. Governments in

industrial and developing countries alike are retreating from owning and operating infrastructure and are focusing more on regulating and facilitating infrastructure delivery services provided by private firms. This shift will offer the promise of more efficient investment in and operation of infrastructure services, as well as the potential to shift the burden of new investment from public budgets to the private sector. In 2005, the Infrastructure Concession Regulatory Commission Act was passed to provide a regulatory environment for the attraction of private sector participants to the delivery of infrastructure in Nigeria. This is consistent with the Government policy in fostering public-private partnership (PPP) in infrastructure delivery. In a sector where the Minister has a domineering role, no private sector participant will feel safe to invest. There was, therefore, the need to confine the Ministers to policy formulation where an independent regulator like the Nigerian Communications Commission and the Nigerian Electricity Regulatory Commission will regulate the key economic sectors. PPP can only thrive where the proper regulatory environment is created.

In addition, the Nigerian Ports Authority Act, No 38 of 1999 should be repealed, the government should separate landlord from operations and regulatory functions in ports and harbor; promote efficiency in ports operations nationwide; encourage competitive, qualitative and cost effective sports services; encourage private investment in port infrastructure and implement bill for the creation of a National Ports and Harbour Authority that will perform regulatory functions. Similarly, the government should create a conducive business environment for petroleum operations through the implementation of petroleum bills in order to establish a commercially oriented and profit-driven National Oil Company; deregulate and liberalize the downstream petroleum sector; create efficient and effective regulatory entity; promote transparency, simplicity and openness; promote the development of Nigerian Content in the petroleum industry; protect health, safety and environment; and optimize domestic gas supplies, in particular for power generation and industrial development. Moreover, the Nigerian Railway Corporation Act, 1955 should be repealed; clearly separate the roles of policy making, regulation and operation; provide a platform for the introduction of private sector concessionaires, Furthermore, provide economic and safety regulation by establishing National Transport Commission; to promote competition in the provision of railway services nationwide, provide compulsory acquisition of land and Greenfield developments; and finally repeal the Nigerian Postal Service Act, 1992 in order to promote the implementation of the National Postal Policy; establish a regulatory framework for the postal industry; promote the provision of modern universal, efficient and easily accessible postal services; encourage private investments; ensure fair competition in the postal industry.

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#### *Statement of authorship*

The author(s) have a responsibility for the conception and design of the study. The author(s) have approved the final article.




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