Privatization and Sustainable Economic Growth in Nigeria: An Impact Analysis

[1]Amos Asonge Jev and [1]Hamzat Hamisu Yakubu

[1]Department of Public Administration, Taraba State University, Jalingo

Abstract

This study mainly interrogates how contemporary privatization packages have impacted on economic development in Nigeria. The Nigerian economy has grossly underperformed relative to her enormous resources. The major factors accounting for the relative decline of the country's economic fortunes are easily identifiable as political instability, lack of focused and visionary leadership, economic mismanagement and corruption. The study uses a wide range of sources that are basically secondary in nature, including books, journal articles, theses, newspapers and magazines, workshops and government bulletins. Using a qualitative analytical approach, the study reviews the Nigerian economy, through policy regimes to the nature, structure and performance trends. The study argues that the focus of economic analysis of the classical economists was on conditions necessary for economic growth and development through an active private sector participation. Having examined some key economic variables, the study discovers that economic growth has risen substantially, with an annual average of 7.4 percent in the last decade. Unfortunately, economic growth under the privatization exercise has not resulted in the desired structural changes that would promote development, create employment and induce poverty alleviation. Similarly, there has been rising unemployment with current level put at 19.7 percent. Findings have also revealed that the corporate governance which privatization enforces has the propensity to subjugate the Nigerian economy to imperialist control. Based on these findings, the paper recommends diversifying the economy from oil and gas, funds realized from the sale of public entities should be reinvested in tangible public interest such as Health, Education, Agriculture and Water so that, the country's economy can move from the historical sluggish growth trend to a vibrant growth path that can transform the structure of the economy and enable the country to attain the desired sustainable economic growth and development.

Keywords: Development, Economic Growth, Policy, Privatization, Sustainable Development

Introduction

The basic aim of any country is to attempt massive economic growth and development which is a reflection of the efficiency of social, economic, infrastructural legacy and the management of the economy. It is against this conviction that many countries fought their political independence in order to achieve economic independence and progress. The private sector was the traditional structure of the world economy. The public sector emerged in Nigeria as a result of the need to harness rationally the scarce resources to produce goods and render services for economic improvements as well as for promoting the welfare of the citizens. The involvement of the government in public sector in Nigeria became significant during the period after independence.

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 Nigerian economy. One major aim of government at that time was to convert as much as possible the growing oil revenue into social, physical, and economic infrastructural investments. The Nigerian Enterprises Promotion Decree of 1972, which took effect on 1st April, 1974, with its subsequent amendment in 1976, provided a concrete basis for government's extensive participation in the ownership and management of enterprises. As a result of these developments, public enterprises at the federal level had exceeded one hundred in number by 1985; and these had spread over agriculture, energy, mining, banking, insurance, manufacturing, transport, commerce and other services (Nwoye, 2010).

The early 1980s witnessed steady economic deterioration and seemingly faulty economic policies. By the mid-1980s, reality had dawned on the nation's economy which resulted in the, retrenchment of workers in both private and public sectors. There was inflation, very high level of unemployment affecting both skilled and unskilled workers and low levels of plant capacity utilization. The problems of performance of public sector enterprises in Nigeria were further complicated by the downturn in socioeconomic development in the country due to the global economic recession and the collapse of the oil market (Sanusi, 2010). Nigeria's precarious fiscal and monetary posture could no longer sustain the requirements of its public enterprises, particularly since they performed below expectation in terms of their returns on investment and quality of services.

Based on this failure, the enterprises began to face criticisms. The criticisms centered on the inefficiency and ineffectiveness of the public enterprises despite huge government investment in them. This calls for privatization. Privatization in Nigeria was formally introduced by Privatization and Commercialization Act of 1988, which later set up the Technical Committee on Privatization and Commercialization (TCPC) chaired by Dr. Hamza Zayyad with a mandate to privatize one hundred and eleven enterprises and commercialize thirty four others. In 1999, the Federal Government enacted the Public Enterprises (privatization and commercialization) Act, which created the National Council on Privatization.

The 1999 Act also established the Bureau for Public Enterprises (BPE). The subsequent exercise brought with it controversies; given the fact that the initial impetus for privatization came from creditor institutions, especially the IMF and the World Bank. As part of the push for Structural Adjustment, many believed that there must be a hidden agenda in the form of economic exploitation. Against this background this study examined the impact of the privatization policy on the Nigeria economy.

Conceptual clarification

Privatization: The concept of privatization in recent times evokes sharp political reactions from many angles. It can be defined as the transfer of ownership and control of enterprises from the state to the private sector of the economy. Privatization involves the transfer of ownerships - in whole or in part-form, from state to the private responsibility (Savas,2000). On the other hand, the Privatization and Commercialization Act of 1988 and the Bureau of Public Enterprise's Act of 1993 defined privatization as the relinquishment of part or all of the equity and other interest held in the Federal Government or any of its agencies, in enterprises whether wholly or partly owned by the Federal Government.

Yakubu (2015, p10) defines privatization as the transfer of ownership of production and control of enterprises from the public to the private sector. Needless to give the numerous definitions of privatization, the most important point to note is that the whole issue surrounding privatization revolves around the ineffectiveness and inefficiency of the public enterprise despite the huge capital investment made by the government on them.

To put it more differently, the public enterprises were performing below expectation in terms of their returns on investment and quality of services they are producing to the citizenry. It is on this fundamental basis that privatization was ushered in as an economic reform that is aimed at creating employment and inducing the wide spread poverty that cut across the country. One can rightly say that privatization is the transfer of government shares and other benefits in enterprises that were before owned and managed by the government to private individuals. The major aim is to ensure efficiency and effectiveness.

Development: Development as a concept defies any easy or one sentence definition. To that extent, the question as to what constitutes development has been approached from the prisms of ideological persuasion of scholars. The Concise Oxford Dictionary of Politics (2009), views development as "fulfilment of the necessary conditions for the utilization of the potentials of human personality. As its simplest form, development is the increasing satisfaction of some basic needs such as food."

In economic terms, development has been understood as achieving sustainable rates of growth in income per capital to enable the nation to expand its outputs faster than its population. The emphasis here is much on the per capita income of the individual visa vis the contribution to the overall economy (Todoro and Smith 2011). They are concerned with poverty, unemployment and inequality. If they decline at any point, it signifies development and vice versa. Essentially therefore, there is a tendency to misconstrued what is meant by economic development and economic growth as it relates to the privatization policy.

The two terminologies mean two different things. Whereas growth refers to annual or marginal increases or unit increases, development on the other hand refers to the quality of living. Development means progress, whereas growth means incremental measurement with respect to say population, family size, household size, crop yields or exports etc. This is more from the angle of Geography as it focuses much attention on geographical variables. To sum it up for this discussion, we can make it clear that there can be growth without development but there cannot be development without growth.

Sustainable development: According to the World Commission for Environment and Development (1987, p.43) sustainable development is the development that meets the needs of the present generation without compromising the abilities of the future generation to meet their own needs. Sustainable development, therefore, emphasizes that any development embarked upon should lead to: poverty reduction, with people participating in decision-making that affects their lives; job creation and sustainable livelihood; women empowerment and effective participation; and environmental participation. In order words, sustainable development promotes development on a continuous basis. Sustainable development entails that development is a process; it is something that has no terminal points.

Policy: Policy has to do with initiative in order to improve the well- being of the people. Dye (1980) considers public policy as anything that government chooses to do or not to do. This definition may be misleading since it constitutes the action and inaction of government. Jenkins (1978) conceives of public policy as a set of interrelated decisions by a political actor or group of actors concerning the selection of goals and the means of achieving them within a specified situation. To Roberts and Edwards (1991:98) policy is a set of decision concerning the selection of goals and means of attaining them. Policy could be seen as the strategic use of the scarce resources to arrest an issue of national concern just like one we are dealing with it in this study.

The abysmal performance of the States owned enterprises necessitated the formulation and adoption of the privatization policy in Nigeria. No matter the angle one is looking at it, public policy is a complex exercise conducted by strategic thinkers in order to improve the wellbeing of the people most especially those living in the rural areas. Both the government and civil society organizations are major actors in policy formulation. Dlakwa (2008, p.15) rightly observes that neither the government nor the civil society owns public policy exclusively, rather the two key actors meet and determine public policy concurrently. But oftentimes, the government takes precedence over that of the civil society in the event of conflict of interest.

Neo-classical economic theory

The earliest arguments for state intervention in the economy within the neo-classical theoretical framework were closely linked with the views held by various scholars on the conditions necessary for import-substitution industrialization in the third world countries and the obstacles posed for it by the international division of labour as evidenced by the work of, Schatzl, (1973) and a host of others. Their arguments in support of state intervention were premised on various platforms within the neo-classical economic traditions. The Rosenstein-Rodan model for example, premised its support for state intervention on the need for a wide range of complementary activities in order to achieve rapid industrial growth. Bello (2005) also points out the substantial benefits that could be derived from, especially backward linkages, if concrete actions are taken by the state.

By the middle of 1970s, however, most developing countries following the state interventionist framework of accumulation began to undergo economic crisis. Therefore, criticisms emerged within the neo-classical school against state intervention in the economy in favour of privatization. The set of criticisms against state intervention from the neo-classical theory centered on various kinds of protection against trade, which induced inefficient, oligopolistic structures of production, thereby undermining consumer welfare, without delivering the technological developments and learning effects it had promised (Bello, 2005). The critics argued further that State policies on wages, interest rate and price encouraged inappropriate production techniques and drove interest rate close to zero. All these, according to Krueger (1981) combined to generate unwarranted levels of capital-intensity method in production and discouraged exports.

Neo-classical economists are careful to point out that it is not the role of the state to provide goods and services through public production; rather, it should play the role of an intermediary by mobilizing and channeling financial resources from private individuals who benefit from the production of goods and services. In order words, the government becomes a facilitator of private wants and private production. It reflects individual preferences in a collective format, and organizes the collection and disbursement of funds to satisfy these preferences (Gaibraith, 1993).

Another view advocated by Lal (1983) within the neoclassical school of thought while recognizing the reality of market failure, contends that any attempt by the state to intervene in order to correct this failure has produced bureaucratic failure of such dimensions that were greater than the market failure it had set to correct. And that any attempts to use planning modeling techniques to correct the bureaucratic failure have merely compounded the problem by magnifying the smaller effects of mistakes committed by individual economic agents at the micro-level to a higher, more pervasive national macro level. Due to these factors, the case for the market was reasserted, not because market failure was not recognized, but because the alternative to the market produced inferior outcomes. More so, the literature on public choice model within the neo-classical school of thought, according to (Krueger, 1981, p.3) is that ifthe state consists of a coalition of different groups sometimes acting in concert to promote common interests at the expense of the rest of the society, and sometimes breaking into component parts, purposing competing interest. In this case, the idea of monolithic state, acting to maximize social welfare in general serve more than a myth.

In view of this, many of the interventionist policies are dismissed as emerging either to favour the nationalists or an unethical copying of the Soviet model. In addition, arguments for privatization have challenged the notion that state intervention and extensive public ownership imply a more equitable interpersonal income and wealth distribution. Instead, it was argued by (Whitshire 1987, p.4) that “Privatization offered an important avenue for widespread share ownership; popular capitalism which will enable a wide range of ordinary workers to owned shares.”

More so, the responses to arguments against state intervention in the economy using the neo-classical framework also varied. For instance, the view championed by the “Neo Right” had been dismissed as unserious. This is because within the neo-classical paradigm since the era of Karl Polanyi, it had been recognized that there is nothing, inevitable or spontaneous about Laissez-faire. Therefore, any trumpeted calls for reversion of some previous Laissez-faire ideal model cannot, therefore, at the intellectual level be regarded as unserious (Yahaya, 1993). In like manner, it has been argued that there is still a case for state intervention in the economy. This means that in the market economy, state play a crucial role in their strategy and that the avowed success of their export promotion strategies was possible only because of the tremendous effects of a previous and many instance co-existing, import substitution strategy and geo-political factors.

In addition, the “discovery” by the public choice theorists that the state consists of different groups is a partial abstraction from the Marxist theoretical framework and does not make an unambiguous case for the market. In the neo-classical price -auction model, individuals and firms are also motivated by self-interest in the sense that individuals maximize utility and firms maximize profit. Also, state intervention in production requires additional costs of acquisition of information and processing and may generate managerial and operational inefficiencies. It is also obvious that systems of taxes, incentives, subsidies e.t.c. would also entail administrative costs and are also threatened by inefficiency and mismanagement. In the words of (Yahaya, 1993, p.35) ‘‘the argument for taxes and subsidies, merely advocate the substitution of some forms of state intervention for others which of the two is more costly and inefficient, and which will result in greater loss to consumer welfare, cannot, it seems be settled on an “a prior” basis.”

By and large, the notion that public sector is inherently more inefficient than the private sector which is tied up with the property right school arguments cannot withstand a close study. This is because of the well-known managerial function, which arose in the context of the separation between ownership and control in the modem private enterprises, which indicated that different goals would be pursued by both management and shareholders.

However, either private or public, accumulation goes on, especially if such private approach ignores the basic premises that public enterprises at least theoretically, fulfill important functions for capitalism at particular moments in their development, which cannot be performed by private capital. These functions include establishment of infrastructure; generating linkage; technological education; and development, research; education and training the work force; and the provision of certain aspects of social welfare so as to try to ensure system stability. These functions are required in the interest of the capital in general, and yet cannot be provided, except by accident by private capital. Thus, the appropriation of the resources of the public enterprises by private agents even if invested, will not substitute for these functions (Yahaya, 1993).

From the foregoing, therefore, an appraisal of the performance of the state enterprises should take into consideration measures which will test its capacity to perform these functions. A reappraisal of the frontiers of state intervention vis-à-vis the market should be based on the outcome of such analysis. Agreeing with this logic, a peculiar position is arrived at in which the criteria that are required for an empirical evaluation of the performance of state and private enterprises adopting or using the neo-classical framework are the same. In view of this, the necessity for conducting a concrete analysis of specific forms of intervention in specified settings and private control of the economy are similarly derived from the same premise. Therefore, any policy for large-scale privatization as being implemented in Nigeria must be based on an exhaustive study, which can demonstrate the unambiguously poor performance of public enterprises.

Privatization and sustainable economic growth in Nigeria: Impact analysis

Impact of privatization can be positive or negative on ingredients of the economy like government, organizations, employees and the general public through economic phenomena such as income, investment, inequality, wages or consumption due to rise in prices and highlights its positive effects due to improvement of quality of goods and services. This section therefore, examines the positive as well as the negative impact of privatization on the Nigerian economy.

The following are some of the positive impact of privatization on the Nigerian economy.

i. Privatization has been impactful in the sense that it has broadened and deepened the capital market (Mahmoud, 2008). With market capitalization rising from N8.9billion in 1987 before privatization and stood at N13.924 trillion as at the end of October, 2011. This shows that privatization programme significantly added the deepening and broadening of the Nigerian capital market. This will, in-turn, attract investors that have the technical know-how to invest in the country’s economic fortunes. The recapitalization of the banking sector is another area of gains felt by the citizens. They now have confidence in the banking sector.

ii. Privatization has led to revenue/tax increase as corporate taxes accruing to the Federation Account or State Board of Internal Revenue has increased significantly. This is evidenced in the unprecedented meeting of targets or surpassing the target sets for the Federal Inland Revenue Service (FIRS) over the last seven years (2007-2014). Tax is the amount of money levied on goods and services by the government on any of its goods or services. The growing revenue here could be used by the government in the provision of basic amenities. Privatization has interestingly led to the establishment of performance management system by the privatized entities e.g Benue Cement Company Gboko now Dangote Cement Plc, Gboko plant) which as a result has helped improve efficiency, expansion and capacity utilization through implementation and continued improvement (Bassey, 2009). More so, Dangote Cement, Gboko plant management by the end of the 2005 financial year got the desired result with the turnover of 4.1 billion naira. Apart from the share holders fund which improved from a deficit 1.34 billion to a surplus of 8.354 billion in 2006 financial year. Similarly, profit after tax grew from 2.243 to 3.105 billion in 2006 (Francis, 2011).

iii. Nigeria's Gross Domestic Product (GDP) which is the total value of goods and services produced in a country within a period of one year has significantly skyrocketed as evidenced in recently re-based exercise by the Federal Office of Statistics (FOS) in April 2014 realizing a positive result showing that Nigerian's GDP figures has now overtaken that of the Republic of South Africa as the largest economy in Africa and the 26th largest in the world. This increased GDP is as a result of productivity from privatized entities. This increased GDP witnessed as a result of increased in production from privatized entities is something one needs to worry about. This is because this increase in GDP announced by government did not resulted in the improvement of the various sectors of the economy to bring about meaningful development. More so, Ogabol (2010) argued that privatization has considerably reduced the scope of political patronage in the form of unnecessary encouragement of board appointment to incorporate supporters. Also Anya (2000) observed that 280 directors relinquished their appointments thereby guaranteeing a complete re-structure of the privatized entities by the owners. This is because the increased GDP has not resulted in the improvement of the various sectors of the economy to bring about meaningful development.

iv. Privatization has further promoted public confidence in the financial sector. The Central Bank has focused attention, in facilitating economic development in Nigeria through its developmental role and in recognition of the fact that the financial sector needs to support real sector activities. ₦500,000,000,000 fund according to Sanusi (2010) was injected into the economy, out of which N300 billion is for power/infrastructure and aviation sectors and N200 billion for the refinancing and restructuring of existing bank loan portfolios to manufacturers and small and medium enterprises. This was done in order to strengthen the industry, protect depositors' funds, safeguard the integrity of the industry and restore public confidence.

v. With privatization, the telecommunication sector had gone from strength to strength absorbing both skilled and unskilled workers, having about 90 million active line users which is why it is rated above all other privatized sector of the economy (Kalakaiye, 2013). With privatization, the channels of radio and television signals have increased in terms of varieties and duration of services rendered to the people.

Major Findings

Economic growth under the privatization exercise has not been inclusive, broad-based and transformative. Agriculture and other social services have been neglected. The implication of this trend is that the Nigeria economy has not witnessed the desired structural changes that would make manufacturing sector the engine of growth, create employment, promote technical development and induce poverty reduction. Available data put the national poverty level at 67.7 percent. Similarly, there has been rising unemployment with current level put at 19.7 percent by the National Bureau of Statistics. With privatization, the cost of products and services of the former public enterprise has gone up, which in turn has negatively affected the standard of living of the average Nigerian with 67 million now living on less than US$1 per day (Eminue, 2006). This belied the assertion that the market through the privatization progamme is the veritable platform for Nigerian's development. The better reality of the Nigerian situation is not that the poverty level is getting worse by the day but that more than 67 million live in condition of extreme poverty with most of this number living in the rural areas where most of our natural resources are located. Though government has come up with various poverty led alleviation programmes in order to reduce the wide-spread poverty and unemployment, not much has been achieved.

Conclusion

In this paper, attempt has been made to examine the effect of the privatization process on the economy of Nigeria overtime and to see whether the exercise has any value on the economic development of Nigeria. The study concluded that the assumption that the developmental problem of Nigeria is caused by the poor performance of the public sector and, that privatization is the magic for Nigerian economic transformation is unsupported by facts surrounding the exercise as demonstrated in this paper. The privatization as a policy is fundamentally flawed in several respects, which underscores the underdevelopment of the Nigerian economy. Issues which must be resolved if Nigeria is to move forward are; the unequal process that informs the system; the monoculture and dependent nature of the Nigerian economy and the asymmetrical relationship that is inherent in the globalization regime which Nigeria is blindly subjected to.

The paper also debunks the fact that privatization will integrate the Nigerian economy. Evidence has shown that the bulk of government revenue is coming from oil and gas industry. Agriculture which was the main source of government revenue before the discovery of oil is neglected. Against the backdrop of the forgoing, it is important to state at this point that if privatization is carried out with sincerity of purpose, almost every group will come out ahead as a result of divestiture. Given the enormity of the socio-economic problems facing Nigeria, there is every reason to worry about our actions. This is because any reform that does not take into cognizance the welfare of the people both in the short and long run is not worth implementing.

Recommendations

The following recommendations were made based on the findings of this study;

i. There is the need for the government to diversify the economy away from crude oil and gas as this would enable other sectors to make meaningful contributions to economic growth.

ii. Government should ensure that funds realized from the sale of public entities are invested in tangible public interests such as education; health and transport as this will not only enhance economic development but will also check drift of rural-urban migration.

iii. Government should pursue policy measures that will reinvigorate other sectors of the economy and enhance employment generation potentials, including implementing youth employment safety net that will carter for the teeming unemployed youth.

iv. There is need for effective communication between government Ministries, Departments and Agencies (MDAs) and workers on the implementation of the economic programmes to ensure transparency and industrial harmony.

v. There is also need for the government to look into the concerns of the workers of the privatized agencies regarding the actual value of their entitlements for speedy payment to ensure transparency and industrial harmony.

Government should therefore, be very cautious with the exercise. It should be implemented with care so as to reduce its negative effects on the living standard of the people and by extension, avoid selling the main stream of our economy to few national and international investors at the expense of the welfare of the majority of Nigerians. Indeed, we should embrace economic reforms with every dense of cautions so as not to become victims but partakers of the gains of the entire process. The goal of any government policy or economic reform is targeted at improving the well-being of the citizens. Anything short of that goal is unacceptable and should be not be pursued.

References

Anya S. (2000), Privatization in Nigeria. Retrieved 9/8/2010 at *www.nigeriaembassy.in/profAnya* html

Bassey, E. (2009). "A case of performance management in the public sector in Nigeria". *International journal of business management*. Vol. 4 No. 4

Bello, K. (2005). *The effects of privatization programme on the manufacturing sector* (1988-1992). Kano: Flash Printers.

Concise oxford dictionary of politics (2009). Washington D.C USA

Dlakwa, H.D (2008. *Concepts and models in public policy formulation and analysis*: Kaduna: Pyla max services limited

Dye, T.R. (1980). *Understanding public policy*. London: Prentice hall.

Eminue, O. (2006). "Investment-led poverty reduction in employment (IPRE) Initiative" *Nigerian journal of policy administrative studies* Vol.1, No. 1 January.

Francis O. (2011). "Rationale for the privatization of public enterprises in Nigeria. Theoretical explanation". *Nigeria journal of political and administrative studies* Vol.2, No.2 pp 94-102.

Galbraith, K. (1993). *Economic and the public purpose*. Harmondsworth: Penguin.

Jenkins w. (1978). *Policy analysis: A political organizational perspective.* New York: Mortin Robinson

Kalakaiye, A. (2013). "Deregulation and privatization in Nigeria. The advantages and disadvantages so far". *African journal of business and management* Vol.2, No.13.

Krueger, A.O. (1981). *Trade and employment in developing countries*, Vol.1-3. Chicago: NBER

Lal, D. (1983). *The poverty of development economics*. London: TEA.

Mahmoud, M. (2008). *Privatization and poverty reduction in Nigeria*: NESG policy dialogue series.

Nation bureau of statistics (2017) various issues.

NCP- National council on privatization. Hand book 2nd Edition (2005)

Nwoye, V. (2010). Privatization of public enterprises in Nigeria*:* The view and counterview: Retrieved 19/8/2010 at *http ://www. globalizaaj a. com!doc-enle0062pri .htm.*

Ogabol, (2010). "Privatization, job security and performance Efficiency of privatized enterprises in Nigeria: A crucial assessment". *Journal of arts science and commerce. Researches world*.

Robert G. and Edward A (1991) *A dictionary of political analysis*. London: Edward Arnold.

Savas E.S (2000). *Privatization and public partnership*. New York: Chattam house

Schatzl, S.P (1973). "Pirate, capitalism and the inert economic of Nigeria" *Journal of modern African studies*. Vol. 22. No. 1

Sanusi, L.S (2010). Growth prospects for the Nigerian economy. A paper presented at

Igbenedion University, November 26th

Todoro, M.P and Smith S C (2011). *Economic development*. New York: Addison Wesley

Whitshire, J. (1987). *Privatization: The British experience*. Melbourne:L EDA/Longman.

Yahaya, S. (1993), “State versus market: The Privatization programme of the Nigerian state” in A. Olukoshi (ed.) *The policies of structural adjustment programme in Nigeria*. London: James Currey Ltd.

Yakubu H.H (2015). The effect of privatization on the Nigerian economy. *An unpublished M.Sc. dissertation*. Dept. of political science, Benue State University Markurdi

WCED (World Commission on Environment and Development (1987), (Burdthland Report), *Our common future*, Oxford University Press.