PRIVATIZATION AND COMMERCIALIZATION OF PUBLIC ENTERPRISES IN NIGERIA: THE CHALLENGES OR PROBLEMS AND THE WAY FORWARD

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Abstract
This paper examines the challenges or problems of the privatization and commercialization of public enterprises in Nigeria and the way forward. Privatization and commercialization are vital tools for the upliftment of a country economic most especially the developing countries like Nigeria. The main performance of the public enterprises in Nigeria has becomes illusion and now brings about policy recommendations on how best to move them out of their predicament. However, the problems facing this privatization and commercialization programme of public enterprises are too many to mention. Therefore, this paper reviews privatization and commercialization in Nigeria. And also unveils the objectives, challenges or problems of privatization and commercialization. The study, however, adopts the economic theory and public choice theory to interrogate the discourse, it however, uses secondary source of data collection to gather needed information. Importantly, it also offered some way forward to make privatization and commercialization of public enterprises successful in Nigeria. Finally, privatization and commercialization of public enterprises is aimed at encouraging private initiatives that would, inculcates market discipline, monitor performance, create better opportunities and accountability and evolve better management.

Keywords: Challenges, Commercialization, Privatization Policy, Public-Private Sectors, Nigeria.

Introduction/Background
All over the globe, the public service as a matter of fact and experience has not been known for their capacity to create wealth. In addition, public enterprises have usually been perceived as drain pipes, thus creating budgetary strains and avoidable burden on the economy. It became a national policy imperative therefore, to disengage the public sector from those areas where the private sector has the comparable advantage to perform, while letting the state concern itself with the provision of infrastructure, security and the enabling environment for business of thrive through enhanced wealth creation (Sanusi, 2001).

The misuses and abuses of public enterprises in Nigeria are well chronicled and confirmed most of the public enterprises were subjected to serious manipulations by their own staff. However, there has been increasing clamour in Nigeria to reduce the level of inefficiencies, corrupt practices and poor quality delivery of public enterprises in major public sector.
Commercialization which is a reform of public enterprises to achieve high efficiency and generate revenue at least enough to cover cost of production without change of ownership and privatization which is the means of transferring ownership of enterprise from the government to private sector or ownership by shares of the private owner being in majority (i.e. above 50%) are two possible options being considered to revamp the inefficient public enterprises (Jerome, 2011; Egwu, 2011). The ultimate goal of the government is ensure sustained improvement in the quality product/service delivery of the commercialized and privatized organizations for enhance standard of living of the citizenry (Ayodele, 2012). The emergence and convergence of privatization and commercialization has therefore remained at the center of economic growths and transformations. The economic shock of the 1980s comes to expose the extent to which State-Owned Enterprises (SOEs) contributed to the economic crises. The expectations that SOEs would contributed to development were shown to be largely misplaced. They turned out to be part of the problem rather than the solution. SOEs constituted a fiscal drain on the nation (Umo, 2012). According to him, they had become havens of corruption and political patronage. It was, therefore, not surprising that the economic restructuring through the structural adjustment programme (SAP) introduced in the mid-1980s including privatization as one of the key elements in the reform agenda.

As the world has entered the 21st Century, privatization is set to continue as a recurring policy theme in African, since nearly all countries have embraced it (Umo, 2012). However, Nigeria is now committed to following the footsteps of several countries that have embarked upon the privatization of the national economy. This paper will, therefore, attempt to address privatization and commercialization of public enterprises in Nigeria. The paper shall, examine the concept, genesis, objectives, theories, problems or challenges and solution options associated privatisation and commercialization of public enterprises in Nigeria. It is important at this point, to look into concept of privatization and commercialization.

**Conceptual Clarification**

Privatisation means involving the market forces to create an atmosphere of greater competition so that the role of the state is regular, facilitator, welfare provider and producer could be reduced. It signifies liberalisation of different regulations to encourage the market forces in the economy. It is also a structural adjustment programme, for the economy as a part of the broader economic policy. In a narrow sense, it means denationalisation of public enterprises, i.e. transferring the ownership of public enterprises into private hands (Sharma, et al, 2013). It was also believed that privatisation can also take any of the following forms:-

- Private placement of shares.
- Additional investment in public enterprises by private entrepreneurs.
- Sales of assets of public enterprises.
- Reorganisation and splitting of public enterprises into separate entities like holding company and subsidiary company.
- Management/employee buy-out.
- Privatisation of management. It can be done either by management contract or through lease.
- Economic policy reforms like deregulation or liberation of economic activity. It means transferring some economic activity like transport, communication, electricity etc. to private hands.
Privatisation, according to (Umo, 2012) is the transfer of ownership and control of public-owned enterprise transferred is important, hence the concept of full privatisation (when all the government-owned ordinary share are divested) and partial privatization (when only a part/fraction of the shares are divested). According to him, privatization may be used to cover the following:-

- The process of management contracts involving the use of private sector expertise to manage a government entity for a fee.
- Contracting out activities once undertaken by the government to the private sector as when collection of full fees is contracted by government or its parastatals to a private sector firm.
- Engaging the private sector in a wide range of activities either in partnership with government or without government involvement (load shedding).

According to Brian Atkinson & Robin Miller (1998) privatisation can have several meaning, first according to him; it can mean the liberalisation of entry into areas previously controlled by the state. Examples are telecommunications and National Electric Power Authority before they were sold to the private sector. In these industries, licensing regulations were changed to allow private operators to compete with public monopolies. And this implies a movement from public to private provision of services. And second definition, according to him, refers to private provision rather than public provision. Example of this is refuse collection, which was traditionally undertaken by local authorities themselves. Legislation was then introduced which allowed this service to be contracted out to private operators. There are many government functions which are now undertaken by privately owned firms. And finally to him, privatisation is the sale of publicly owned assets. Slarr, (1998) conceives privatisation as ‘a shift from the public to the private sector, not shifts within sectors: according to him, the conversion of a state agency into an autonomous public authority or state owned enterprise is not privatisation, neither is conversion of a private non-profit organisation into a profit making form on its own connotes privatisation.

Igbuzor (2003) sees privatisation as the incidence or process of transferring ownership of business from the public sector (government) to the private sector (business). Nigeria Economic Summit (1995), defined privatization as a term used to describe a variety of policies, which are designed to transfers fully or partially, ownership and control of public enterprises to the private sector to encourage competition and emphasis the role of market forces in place of powers. Ayanwu, (1997) sees privatization as any of a variety of measures adopted by government to expose a public enterprise to competition or to bring in private ownership or control or management into a public enterprise and according to reduce the usual weight of public ownership or control or management. Akinbade (2012) view privatization as one of the strategies, which governments adopt to remedy or correct the problems of poor performance of public corporations and enterprises. According to him, in simple terms, privatization is the sale of public corporations and enterprises to private companies and businessmen. It is the gradual withdrawal of the state from economic activities. Privatization is rolling back the activities of the state in favour of the private sector. He further stress that, privatization is a broad concept about increasing the role of the market in an economy. It is the conversion of public enterprises into private ones through the sale or transfer of the ownership and control of this corporation to private individuals or companies.
Commercialization refers to the process of re-organizing publicly-owned enterprises to be self-sustaining and viable venture. This according to (Umo, 2012) this may imply that subventions or subsidies be stopped so that the enterprise becomes financially self-accounting. This variety is called full commercialisation and implies a profitable commercial operation with power to raise funds in the capital market (without government guarantees) and application of private sector (market) principles of operation.

According to Akintayo (1988) commercialization is not just cut-back of the size of government expenditure, it is a policy to improve the delivery of services that people are in need of it, it’s also perhaps the consideration by the federal government not to embark on total sell-out of all it strategic parastatals that made. Agbo (1989) sees commercialization as a way out from our battered economy Nigeria Economic Summit (1995) defined commercialization as the re-organization of enterprise wholly or partially owned by government to ensure that such enterprises operate as profit making commercial ventures without subvention from government. According to Ogunde (2002), The main thrust of Nigerian commercialization programme has been to:

- Provide enhanced operational autonomy at enterprise level.
- Evolve a more results-oriented and accountable management, based on performance contracts, strengthen financial/accounting controls at the enterprise level.
- Upgrade the management information system of the affected enterprises
- Ensure financial solvency of the public enterprises through effective cost recovery, cost control and prudent financial management
- Remove bureaucratic bottlenecks and political interference through clear role definitions between the supervising Ministry, the board of directors and the management public enterprises.

Solanke (2012) sees commercialization as re-directing the seemingly bureaucratic and non-profit orientation of a public enterprise towards a more efficient, cost-effective commercial direction. It may take the form of deregulation of state monopolies by the abrogation of legislation restricting entry into economic activities. Akinbade (2012) view commercialization as the process of running a public corporation or enterprise for a profit. It involves a change in the objectives of public corporation from being a mere social service provider to a profit-earning organization. Apparently, commercialization implies the management of a government-owned enterprise for a profit.

**Genesis of Commercialisation and Privatisation in Nigeria**

Commercialization simply denotes profit-oriented ventures based on forces of price mechanism, whereas privatisation refers to the ownership and control of enterprises by private individuals and organisations. Under the commercialisation and privatisation programme, the basic responsibility of the government is to provide the enabling environment and regulations for accelerated socio-economic development of Nigeria. (Alonge, 2005) On July 20, 1998 the then Head of State, General Abdusalami Abubakar announced that government would privatise its investments in telecommunications, electricity, petroleum refineries, petrochemicals, coal and bitumen production, hotels and tourism. Under the programme, government will retain 40% of the equities of the affected enterprises, while 40% will be alienated to strategic investors with the right technical, financial
and management capabilities. The remaining 20% is to be sold to the Nigerian public through the stock exchange. With the coming to power of President Olusegun Obasanjo, the privatisation and commercialisation programme was given strategic premium in socio-economic agenda of the administration.

The privatisation and commercialisation programme envisage full or partial divestment of interest in over 60 public enterprises in which the federal government owns minority or controlling interest. The enterprises which are scheduled in the enabling legislation know as Public Enterprises (Privatisation and Commercialisation) Act No. 28, 1998 cut across sectors such as electricity, telecommunication, hotels and tourism, aviation, transport, oil and gas, industrial and manufacturing etc. The bureau of Public Enterprises (BPE) is charged primarily to carry out the privatisation of the enterprises. It has been taking bold steps towards the privatisation of National Electric Power Authority (NEPA), Nigerian Telecommunication Limited (NITEL), Nigerian Ports Authority (NPA) and Nigeria Airways. According to (Alonge, 2005) the privatisation and commercialization programme is designed to put the national economy on the path of sustainable growth and development. He further stressed that, it is a practical approach towards redefining the role of government as an enabler in public enterprises. As it is the global trend, a consensus has emerged on the imperative of privatisation and commercialisation of state-owned enterprises in Nigeria.

The argument was that, in decades past, it was considered sound economic policy for government to establish and invest highly in statutory corporations and state-owned companies. Then, the paradigm was that the public owned companies were better equipped to stimulate and accelerate national socio-economic development than private capital. There was a proliferation of such state-owned enterprises in many areas of economic activities such as housing, steel plants, petrochemical, oil refineries, hotels and tourism, telecommunications, electricity and aviation. But the returns on investment of over an estimated 800 billion Naira on public-owned enterprises by successive Nigerian governments was below ten per cent. There was poor management of the public enterprises. These statutory corporations and state-owned companies suffered from fundamental problems defective capital structure, excessive bureaucratic control, low technology, gross incompetence and mismanagement, corruption and huge losses. However, to overcome these problems, according to Alonge, President Olusegun Obasanjo vigorously pursued the privatisation programme. The rational is that privatisation allows governments to concentrate resources on their core functions and responsibilities such as security, basic infrastructure, education, health and environmental protection. It is believed that the private sector is more efficient and service oriented in the management of companies. It is also to remove the financial burden which these enterprises constitute on the public treasury.

The three phase of the programme are:

(i) Phase I: Commercial and merchant bank and cement plants.
(ii) Phase II: Hotels, motor ad vehicle assembly plants.
(iii) Phase III: Nigeria Electricity Power Authority (NEPA), Nigerian Telecommunication Limited (NITEL), Nigeria Airways and Petroleum Refineries.
Objectives of the Privatization and Commercialization Programme in Nigeria
The primary goal of the privatisation and commercialisation programme is to make the private sector the leading engine of growth of the Nigeria economy under the administration of President Olusegun Obasanjo, the strategy for socio-economic development is private sector driven. The government intends to reintegrate Nigeria back into the global economy by attracting foreign direct investment in an open, fair and transparent manner. Other reasons include:

(i) To send a clear message to the local and international community that a new transparent Nigeria is now open for business.
(ii) To restructure and rationalize the public sector in order to substantially reduce the dominance of unproductive government investment in the sector.
(iii) To change the orientation of all public enterprises engaged in economic activities towards a new horizon of performances improvement, viability and overall efficiency.
(iv) To raise funds for financing socially-oriented programmes in such areas as poverty eradication, health, education and infrastructure.
(v) To ensure positive returns on public sector investments in commercialized enterprises, through more efficient private sector-oriented management.
(vi) To check the absolute dependence on state treasury for funding by otherwise commercially oriented parastatals. This is to encourage them to source for funds through the Nigerian and international capital markets.
(vii) To initiate the process of gradual cessation of public enterprises which are better operated by the private sector.
(viii) To create job opportunities, acquire new knowledge, skills and technology ad expose Nigeria to international competition.
(ix) Another idea behind privatisation was that it would involve market forces, create the environment of free competition and raise revenues for the government.
(x) Another reason given for privatisation is to improve competition by allowing several firms to compete in markets previously the monopoly of a nationalised industry. Privatised firms may also increase allocative efficiency since they are more likely to be in tune with the need to respond to market forces.

Other reasons by Onyemachi (2012)
- Improvement of the productive efficiency in public enterprises, as it is believed that the private sector can produce more efficiently than the public sector.
- To send a clear message to the local and international community that a new transparent Nigeria is now open for business.
- To restructure and rationalize the public sector in order to substantially reduce the dominance of unproductive government investment in the sector;
- To change the orientation of all public enterprises engaged in economic activities towards a new horizon of performance improvement, viability and overall efficiency;
- To raise funds for financing socially-oriented programmes such as poverty alleviation, health, education and infrastructure;
- To ensure positive returns on public sector investments in commercial enterprises, through more efficient private-sector-oriented management;
To check the absolute dependence on the treasury for funding by otherwise commercially-oriented parastatals and so, encourage their approach to the Nigerian and international capital markets to meet their funding needs.

To initiate the process of gradual cession to the private sector of public enterprises which are better operated by the private sector.

To create jobs, acquire new knowledge, skills and technology and expose Nigeria to international competition.

Privatisation also provides government with revenue which can then be used to cut taxes ad so gain political popularity.

Finally privatisation encourages a property-owning democracy by spreading share ownership. However, most shareholders only own shares in one or two companies and small shareholders have little real power in most of these industries.

**Theoretical Explanation**

Economic Theory and Public Choice Theory were adopted for this study.

**Economic Theory:** The commercialisation and privatization policy in Nigeria is anchored on efficiency. Government claimed that commercialization and privatization are instrument of efficient allocation and management. It would reduce poverty by improving the economic indices of the country and overtime lead to less corruption and also strengthen the role of public sector in the economy thus guaranteeing employment, improved quality of life and leads to higher utilization of capacities.

To Evoh, (2002) commercialization “is a system that is grounded in the basic principles the science of economics. It is within the large framework of economic efficiency that the principle of commercialization falls. Economic efficiency refers to the use of resources so as to maximise 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. In Nigeria, the main drive of commercialization is that it is an instrument of efficient resource allocation ad management is based on the argument that under public ownership, enterprises are often used to pursue non-commercial objectives of government, including employment maximization ad uneconomic investment choices. Additionally, under commercialization, 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 for other uses. Evoh (2002) argues that “Given the country’s economic woes commercialisation of the inefficient state owned enterprises is now the most hallowed economic policy of all times. According to the economic theory, commercialization 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. Economic efficiency is among the benefit of economic liberal ideas sold to the Nigerian government by the IMF and World Bank and conditions for further financial and other aid. However, it should be noted that the efficiency advantage commercialisation is contingent on transparent and committed leadership. Another economic theory driving commercialisation in Nigeria is the liberalisation theory.
The argument for economic liberalization includes greater efficiency and effectiveness that would translate to “bigger pie for everybody”. This liberalization, however, refers to the removal of control to encourage economic development. In developing countries economic liberalization refers to further opening up their respective economic to foreign capital and investment.

**Public Choice Theory**:- This theory is also refers to social choice or rational choice theory. This approach tries to explains the behaviour and provide sets of standards about what the government does. The theory is generally applies principle of new-classical economics to political behaviour, its chief assumption is that political actors, like economic one, act ‘rationally’, that is inculcating fashion, to maximize their ‘utility’ or ‘satisfaction’.

Michael Howlett et al. (2003). Public choice posits that the nature of goods and services determines whether they should be provided through the market system or through the public sector. However, public choice theory is an attempt to understand non-economic activity using the language and analytical tools of economics. Olaopa, (2012). The theory also argues that, private goods should be provided by the market whereas government should provide public goods. Like many other developing countries, Nigeria government has been seen over the years, as having gone beyond the effective and efficient provision of public goods to the provision of private goods. And it has not only failed on both scores, it has also over extended itself in its public sector commitments through the establishment of too many state enterprises and through continued financial support of those enterprises that have continued to lose money. Ugorji (2005). Hence, the economic problems of the 1980’s which proved that government’s intervention in the provision of social essential services has not yielded the much anticipated results.

Therefore, the fact that government’s consistent budget deficit needed to be funded externally gave room for only one “rational choice” based on the advice of external creditors, the rational choice that looked seemingly practicable was for the country to embark on privatization and commercialization of the economy. The general conclusion of public choice theorists is that institutions must be developed to curb destructive utility – maximizing behaviour that serves the interest of particular individuals while adversely affecting the society as a whole.

**The Problems or Challenges of Privatization and Commercialization in Nigeria**

The practical challenges or problems affecting the success of privatisation and commercialisation of public enterprises programme in Nigeria, according to Omoleke and Adeopo (2005) include lack of political will at the highest level, the difficulty in attracting genuine foreign investors, inheritances by way of large labour force, salary areas, unfounded pension liabilities and cross bank and non-bank debts. Others are corruption that is already household name, lack of clear competition and anti-trust policy in Nigeria, the possibility in achieving distributional goal, the emergence of the concept of “core investor” and lastly the need to balance the expectation from the enterprises with the social expectations. According to Umo, (2012) other problems or challenges are:-

- **Inadequate of Regulatory Framework**: It should be noted that, when ownership changes hands, the operation of the privatized entity still commands market power ‘to make or unmake, such market power can only be moderated through the existence of..."
an effective regulatory mechanism or agency. The regulatory framework includes the passing of relevant laws and creating relevant institutions to moderate the behaviour of a privatised monopoly in terms of pricing and quality of products as a means of serving the interest of all the key stakeholders have becomes a major challenge.

- **Opposition to Privatization:** Privatization is an offshoot of an economic reform programme. Most privatization in Africa, for example, emerged as one of the key element of Structural Adjustment Programme (SAP) which attracted a lot of opposition. Since privatization in most cases leads to job losses through restructuring, so therefore, it is opposed by unions, management and employees, because of fear of unemployment.

- **Inadequate Capacity:** This another challenge of privatization and commercialization. Privatization depends on political decisions and approval of governments, the implementation itself is highly technical requiring a multiplicity of professional skills. The required portfolio of skills rage from those of economists, finance experts, accountants, lawyers, engineers, public relations experts etc. If these are weak in their skills disposition, the success of the project can be seriously compromised.

- **The Problem of Establishing Equity among the relevant stakeholders:** The privatization has to do with the transfer of public resources, hence the expectation is that the process should be fair to all concerned. But this not always the case in many respects. According to Umo (2012), first, the privatized assets can be under-priced either deliberately by vested buyer interests or mistakenly by sheer technical incompetence. Second, the sale of the assets may be concentrated in a few hands, especially if the initial income/asset distribution is concentrated in a few extremely rich groups or individuals. Third, the assets disposed of may undermine national interest being tantamount to the sale of the ‘family silver’. And fourth, according to him, potential buyers may lack access or face impediments to credits for purchasing the privatized assets/shares.

- **Material resources of the nation do not serve the common goods while concentration of wealth is in the hands of few individuals and groups. Predominance of government in the financing ad funding of public enterprises is a major problem.**

- **Lack of Transparency:** Since the operations of public enterprises have their godfather and collaborators in government, the issue of transparent has been thrown into the winds or ocean.

- **Insincerity of policy** on the part of government is another problem of privatization and commercialization in Nigeria.

- **The social-political problems:** There are some people who are opposed to privatization just as they opposed to the whole Structural Adjustment Programme (SAP), on ideological grounds Yuan, et al (2007). To them, privatization ad structural adjustment programme are impositions of international capitalism. They often dismiss the explanation that Nigeria had been looking for solutions to the problem of public sector investors long before the International Monetary Fund and World Bank came on the scene. They do not even see any merit in the argument of Nigeria privatisation.

### The Way Forward

Having review the privatization and commercialization of public enterprises in Nigeria and also examines the problems or challenges its face, it is imperative at this point, to highlight the following steps as recommendation.
TRANSFORMATION AND COMMERCIALIZATION OF PUBLIC ENTERPRISES IN NIGERIA

- **Transparency**: This suggests that everyone involved in planning and execution policy of privatization and commercialization of public enterprises should be transparent, honest, and sincere. It also implies that transparency is taken and their enforcement is done in a manner that is in conformity with rules and regulations. Therefore, to overcome this problem, there should be a transparency.

- A specific research should be carried out to determine their operations, function and the success of policy of privatization and commercialization.

- The financial security of privatization and commercialization can be enhanced by policies which encourage the development of investment assets in the economy which are capable of providing a reliable income flow over a future period. To guarantee that policies, social and political stability must be firmly established and the rate of inflation must be kept low.

- The government should ensure that privatization is properly monitored and supervised and the interest of the employees is guarantee and protected to avoid being laid off unnecessarily.

- Government should ensure that measures are taken to support the process of privatization and commercialization through control of corruption.

- Government should also ensure that privatization and commercialization contributes positively to socio-economic improvements in terms of employment generation.

- The privatization and commercialization of public enterprises should be based on the premise of improving the level of efficiency of the organisation and standard of living of the citizen.

**Conclusion**

Successful privatization and commercialization is important for the stability and growth of the economy of the country. Privatization and commercialization are also means for the government to foster improvement of public sector, hence, increase the effectiveness and contribution to the sector economic advancement and development. However, successful privatization and commercialization of public enterprises requires the government to carefully plan the process of ending her involvement in the operation of public enterprises while charting new and meaningful roles to the efficient and effectiveness of privatization and commercialization in Nigeria. Indeed, the issues of insecurity, political instability, unfavourable business environment, capital inflow declined, inflation and kidnapping need to tackled by the government, so as to guarantee and secure life and business of foreign private investors and as well as achieved the objective of privatization and commercialization. Finally, effectiveness of privatization and commercialization programme must be seen in the deregulated government business on one hand; on the other hand, its impact must be felt in the society.

**References**


