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Nigerian Public Enterprise Privatization and Commercialization: Issues and Prospects

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Abstract

This paper explores the difficulties or issues associated with the privatization and commercialization of public firms in Nigeria, as well as potential solutions. Privatization and commercialization are essential strategies for a nation's economic development, especially in emerging nations like Nigeria. The primary performance of Nigeria's public companies has devolved into an illusion, and this has led to policy recommendations on the best ways to rescue them from their plight. There are too many issues with this privatization and commercialization initiative of public enterprises to list them all, though. This essay examines Nigeria's privatization and commercialization. The goals, difficulties, or issues associated with privatization and commercialization are also revealed. However, the study employs public choice theory and economic theory to analyze the discourse; to gather the required data, it uses secondary sources of data collection. Crucially, it also offered some direction on how to move forward with the successful privatization and commercialization of public companies in Nigeria. Promoting private initiatives that would establish market discipline, track performance, improve opportunities and accountability, and foster better management is the aim of privatizing and commercializing state-owned enterprises.

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

Introduction

The public sector has not exactly been known for its capacity to create wealth, both in actuality and in past experience. Also, public enterprises have traditionally been seen as drainpipes, which put a strain on budgets and place an unnecessary burden on the economy. The need to disconnect the public sector from tasks when the private sector can execute just as well became a matter of national policy. Instead, the government should focus on building infrastructure, maintaining security, and creating an atmosphere that encourages more wealth creation (Sanusi, 2001).

There is ample evidence of documented mistreatment and exploitation of public enterprises in Nigeria. Most public businesses were the victims of significant manipulations carried out by their own staff members. However, there is a growing call in Nigeria to reduce the amount of inefficiencies, unethical behavior, and poor quality service that large public corporations provide. Commercialization, which is the transformation of public organizations to achieve high effectiveness and produce income at least sufficient to cover cost of production without changing ownership, and privatization, which is the procedure of moving the ownership of an enterprise from the government to the private sector or ownership by shares of the private owner being in majority (i.e. above 50%), are two possibilities that are being considered to transform the inefficient public enterprises (Jerome,2011, Egwu, 2011). The government's top priority is to ensure that commercialized and privatized companies offer high-quality goods and services that will raise the general public's level of living (Ayodele, 2012). Hence, the origins and confluence of privatization and commercialization have remained at the core of economic expansions and changes.

The economic shock of the 1980s made clear how much State-Owned Companies (SOEs) were responsible for the financial crisis. It was revealed that the hopes placed in SOEs to contribute to development were mostly unfounded. Instead of being a part of the solution, they turned out to be a part of the issue. SOEs were a financial burden on the country (Umo, 2012). He claimed that they had developed into havens for political favoritism and corruption. So, it was not surprising that one of the main components of the reform agenda for the structural adjustment program (SAP), which was implemented in the middle of the 1980s, included privatization.

Since almost all nations have adopted privatization as a policy issue as the world enters the 21st Century, it is expected to continue throughout Africa (Umo, 2012). Nigeria, however, has made a commitment to emulate a number of nations that have started the privatization of their economies. So, this essay will attempt to discuss Nigeria's privatization and commercialization of public firms. The concept, history, goals, theories, issues, and potential solutions related to Nigeria's privatization and commercialization of state companies will be examined in this essay. At this stage, it's crucial to consider the concepts of privatization and commercialization.

Privatization means introducing market forces to increase competition in order to reduce the state's traditional roles as a producer, welfare provider, and facilitator. In order to promote market forces in the economy, it signifies the easing of various restrictions. As a component of a broader economic policy, it is also a program for structural economic adjustment. According to Sharma et al. (2013), in a narrow sense, it refers to the denationalization of public companies or the transfer of ownership of public enterprises to private parties.

Privatization, according to (Umo, 2012), is the handing over of ownership and management of publicly-owned businesses. Thus, there are two types of privatization: partial privatization, which involves selling off only a portion or fraction of the government's common shares, and complete privatization, which involves selling off all of the shares. He states that the following situations might be suitable for privatization. Private sector privatization might signify several things, according to Brian Atkinson and Robin Miller (1998). First, it could mean that access to previously state-controlled places is now more open. Examples include the National Electric Power Authority and telecoms before they were sold to the private sector. To enable private operators to compete with public monopolies in these industries, licensing rules were changed. Furthermore, this suggests a change in the delivery of services from public to private.

Additionally, he claims that the second definition has more to do with private than public provision. Garbage collection is one instance; traditionally, local governments have been in charge of this. Legislation was subsequently introduced to permit the outsourcing of this service to private providers: Several government services are now performed by privately held businesses. Finally, privatisation, according to him, is the sale of publicly owned assets. Privatisation, according to Slarr (1998), is "a shift from the public to the private sector, not a shift within sectors": "the conversion of a state agency into an autonomous public authority or state owned enterprise is not privatisation, nor does the conversion of a private non-profit organization into a profit making form on its own imply privatisation."

According to Igbuzor (2003) the act or process of shifting firm ownership from the public sector (government) to the private sector (business). The Nigeria Economic Summit (1995) states that the term "privatization" refers to a variety of policies aimed at giving the private sector full or partial ownership and control over public enterprises in order to foster competition and emphasize the role of market forces over government. According to Ayanwu (1997), privatization can refer to any of a number of policies adopted by the government to make a public enterprise more open to competition or to introduce private ownership, control, or management into a public enterprise while also reducing the usual weight of public ownership, control, or management.

According to Akinbade (2012), privatization is one of the tactics used by governments to address the issues associated with the underperformance of public businesses and enterprises. According to him, the core of privatization is the sale of state-owned companies and businesses to private companies and individuals. It is the state's slow withdrawal from business ventures. Reducing state involvement in favor of the private sector is known as privatization. He continues, "Increasing the market's involvement in an economy is the broad definition of privatization." Public enterprises become private through the sale or transfer of this corporation's ownership and control to private individuals or businesses.

The term "commercialization" describes the process of reorganizing publically held businesses into profitable, self-sustaining firms. According to (Umo, 2012), this may mean that subsidies or subventions should be terminated in order for the business to become financially self-sufficient. This kind, referred to as full commercialization, comprises employing market-driven private sector principles and running a profitable business that can raise capital on the capital market (without using government guarantees).

Commercialization, according to Akintayo (1988), is not merely a strategy to reduce government spending; it is also a way to improve the delivery of services to those who need them. Additionally, the federal government might use it as a means of deciding not to sell all of its significant parastatals. Agbo (1989) claimed that commercialization was the way out of our collapsing economy. The Nigeria Economic Summit (1995) defined commercialization as the restructuring of a government-owned enterprise to enable it to function as a profitable enterprise independent of government subsidies.

According to Solanke (2012), commercialization re-directs a public enterprise's apparent bureaucratic and nonprofit focus in the direction of a more effective, economical commercial direction. Deregulation of state monopolies through the repeal of regulations limiting access to economic activities is one possible form. According to Akinbade (2012), commercialisation is the process of operating a government organization or business to make a profit. It means changing the focus of a public corporation's objectives from solely providing social services to making money. Commercialization appears to refer to the state-owned enterprise operating for financial gain.

Origins of Nigeria's Commercialization and Privatization

While privatization refers to the ownership and management of businesses by private individuals and organizations, commercialization merely means profit-driven operations based on forces of price mechanism. The government's primary duty under the commercialization and privatization program is to create the conditions and rules necessary for Nigeria's socioeconomic development to proceed more quickly. In 2005 (Alonge), On July 20, 1998, General Abdusalami Abubakar, who was the head of state at the time, announced that the government would privatize its holdings in telecommunications, power, crude oil refineries, petrochemical products coal and bitumen production, hotels, and tourism. As part of the program, 40% of the stock of the affected enterprises will be retained by the government, while the remaining 40% will be sold off to strategic buyers who have the required managerial, technological, financial skills.

Nigerians will purchase the remaining 20% on the stock exchange. When Obasanjo, then-president, took office, his administration's socioeconomic plan gave the privatization and commercialization program a strategic priority. Under the privatization and commercialization initiative, nearly sixty public companies in which the federal government has a minority or controlling interest will either completely or partially sell their ownership. Public Enterprises (Privatization and Commercialization) Act No. 28, 1998, the enabling law, lists companies in a number of industries, including manufacturing, power, oil and gas, telecommunications, hotels and tourism, aviation, and transportation.

The Bureau of Public Enterprises' primary responsibility is the privatization of the businesses (BPE). The sale of Nigeria Airlines, Nigerian Telecommunication Limited (NITEL), Nigerian Ports Authority (NPA), and National Electric Power Authority (NEPA) have advanced thanks to a daring plan. According to Alonge (2005), the goal of the privatization and commercialization initiative is to set the country's economy on a path for long-term growth and development. He continued by saying that it is a workable plan for reconsidering the role of the government in facilitating public enterprises. There is agreement that Nigeria must privatize and commercialize its state-owned businesses in order to keep up with global trends.

It was argued that investing heavily in state-owned businesses and statutory corporations by the government was once thought to be good economic policy. The paradigm at the time was that publically held businesses were more suited than private capital to promote and hasten national socio-economic development. Such state-owned businesses proliferated across a wide range of economic sectors, including housing, steel mills, petrochemical facilities, oil refineries, hotels and tourism, telecommunications, power, and aviation. Yet, the returns on investments made by successive Nigerian governments in public-owned firms totaling more than 800 billion Naira were less than 10%. The management of the governmental enterprises was subpar.

It was suggested that the government once regarded investing extensively in state-owned companies and statutory corporations as sound economic policy. During the time, the paradigm maintained that publicly traded companies were more fitted than private capital to advance and speed up national socio-economic development. These state-owned businesses dominated a wide range of economic sectors, including housing, steel mills, petrochemical plants, oil refineries, hotels and tourism, power, telecommunications, and aviation.

Theoretical Explanation

Economic Theory

Efficiency is the cornerstone of Nigeria's commercialization and privatization agenda. Commercialization and privatization, according to the government, are tools for effective administration and allocation. By raising the country's economic indicators, it would lessen poverty and, over time, diminish corruption. It would also boost the role of the public sector in the economy, ensuring jobs, a better standard of living, and a higher utilization of resources.

Commercialization, according to Evoh (2002), "is a system that is anchored in the fundamentals of the science of economics. The concept of commercialization is confined by the broad framework of economic efficiency. Using resources in a way that maximizes the production of products and services is referred to as being economically efficient. An economic system is considered more efficient than another if it can provide society with more goods and services while using the same amount of resources. This allegation is predicated on the idea that government-owned enterprises are usually exploited to further the government's non-commercial objectives, such as the creation of jobs and risky investment choices. But under commercialization, companies can only survive for so long as they turn a profit; if not, the market will reallocate its resources to other uses. Commercialization of the inefficient state-owned enterprises is currently the most admired economic tactic in history, claims Evoh (2002).

According to economic theory, a commercialization strategy will guarantee the advantages of a more competitive system, such as better quality, price, choice, and customer satisfaction of goods and services, in addition to attracting much-needed foreign investment that will help the country join the globalization process. Without a doubt, competition is beneficial because it guarantees efficiency. In exchange for more money and other forms of assistance, the World Bank and IMF persuaded the Nigerian government that economic liberalism was one of the benefits. Still, it is important to emphasize that true and committed leadership is necessary to commercialize the efficiency advantage. Another economic theory that supports commercialization in Nigeria is the liberalization theory.

More efficacy and efficiency are cited as reasons for economic liberalization since they would result in "larger pies for everyone." Yet, this liberalization refers to the lifting of restrictions in order to promote economic growth. Economic liberalization in emerging nations refers to a broader openness of their national economies to outside investment and money.

Theory of Public Choice:

Another name for this concept is the rational choice theory or the social choice theory. This tactic aims to provide guidelines for the proper actions of the government as well as an explanation of the behavior. Political actors act "rationally," that is, in a way that maximizes their "utility" or "satisfaction," according to the theory, which frequently applies new-classical economics principles to political behavior.

Howlett, Michael et al. (2003). In line with the public choice theory, the type of good or service will determine whether it is best provided by the public sector or the market system. Conversely, public choice theory attempts to apply the language and methods of analysis of economics to understand non-economic activities Olaopa (2012). Additionally, the philosophy argues that the market should provide private goods while the government should provide public goods.

Like many other developing countries, the perception of the Nigerian government has changed over time from the efficient and successful provision of public goods to the provision of private products. Not only has it failed on both fronts, but it has also overcommitted to the public sector by establishing an excessive number of state-run companies and keeping funding companies that have been losing money (Ugorji, 2005). Therefore, the economic problems of the 1980s demonstrated that government intervention in the provision of socially necessary services did not yield the intended results.

Because the government's ongoing budget deficit required external financing, there was only one "logical choice" that could be made, according to the recommendations of the country's external creditors: the country should start the privatization and commercialization of its economy. Public choice theorists generally come to the conclusion that institutions need to be created to prevent destructive utility-maximizing behavior, which promotes the interests of specific individuals while negatively harming society as a whole.

Privatization and Commercialization in Nigeria: Issues and Difficulties

According to Omoleke and Adeopo (2005), the practical challenges or problems affecting the success of Nigeria's privatisation and commercialisation of public enterprises program include a lack of political will at the highest level, difficulty in attracting genuine foreign investors, inheritances from a large labor force, salary areas, unfounded pension liabilities, and cross bank and non-bank debts. Others include the widely known corruption, Nigeria's unclear antitrust laws and lack of competition, the possibility of achieving distributional objectives, the emergence of the concept of the "core investor," and, finally, the requirement to harmonize corporate and societal expectations.

Insufficient Regulatory Framework: It should be remembered that when ownership changes hands, the operation of the privatized entity still commands market power 'to make or unmake,' and such market power can only be controlled by the existence of an effective regulatory mechanism or agency. The regulatory framework has grown to be a significant challenge. It entails passing relevant legislation and establishing the institutions required to control the pricing and product quality of a privatized monopoly in order to satisfy the interests of all significant stakeholders.

Reluctance to Privatize: One outcome of economic change is privatization. For instance, the majority of privatization in Africa started out as a key element of the divisive Structural Adjustment Plan (SAP). Due to restructuring, privatization typically results in job losses; therefore, unions, management, and employees oppose it out of concern for potential job losses.

Inadequate Capacity: This presents another challenge for commercialization and privatization. Government approval and political decisions are necessary for privatization, but its execution is highly technical and calls for a broad range of professional skills. Economists, financial specialists, accountants, attorneys, engineers, public relations specialists, and so forth are among the skill sets needed. The success of the project could be in danger if these have insufficient skill.

The Problem of Establishing Equity among Applicable Parties: All stakeholders expect a fair process because privatization entails the transfer of public resources. However, this is not always the situation. According to Umo (2012), underpriced privatized assets may occur accidentally as a result of technical incompetence or purposely by entrenched buyer interests. Second, the sale of assets may be concentrated in a small number of hands if the original income/asset distribution is concentrated in a few extremely wealthy organizations or individuals. Third, selling the assets could put the interests of the country in danger, much like selling the "family silver." Fourth, he claims that when buying privatized assets or shares, prospective buyers might not have access to financing or might run into financial constraints. A small number of people and organizations control the majority of the country's wealth, and its material resources do not advance the interests of the whole. One important issue is the government's hegemony in financing and funding public enterprises.

Lack of Transparency: The problem of transparency has been abandoned to the winds or the sea because public enterprises operate with government godfathers and accomplices. Another issue with privatization and commercialization in Nigeria is government policy insincerity.

The political and social issues: Some hold ideological opposition to both the structural adjustment plan (SAP) and privatization. Yuan et al.,2007. They contend that multinational capitalism imposes privatization and structural adjustment programs. They routinely reject the argument that, long before the IMF and World Bank showed up, Nigeria was searching for solutions to the issue of public sector investors. They do not think privatization of Nigeria makes sense.

Future Directions/Panacea

After reviewing the Nigerian experience with the privatization and commercialization of public businesses, as well as the issues or difficulties it has encountered, it is essential to call attention to the measures below as recommendations.

i. Transparency: This states that everyone involved in developing and carrying out the policies for the commercialization and privatization of public enterprises must be forthright, honest, and sincere. It also implies that decisions are made in a transparent manner and those laws and guidelines are observed when carrying them out. Therefore, transparency is essential to resolving this problem.
ii. To ascertain the operations, purpose, and efficacy of the policy of privatization and commercialization, a specialized study should be conducted.
iii. Policies that encourage the development of financial assets for investment that can eventually produce a consistent flow of income could make privatization and commercialization more financially secure. The effectiveness of those measures depends on the establishment of social and political stability as well as the maintenance of low inflation.
iv. In orders to avoid needless layoffs, the government should ensure that privatization is properly regulated and managed and that employee interests are upheld and safeguarded.
v. The government should make sure that measures are taken to lessen corruption in order to promote the process of privatization and commercialization.
vi. The government should also make sure that commercialization and privatization have a good impact on socioeconomic advancements in terms of job creation.
vii. The idea of increasing organizational efficiency and citizen living standards should serve as the foundation for privatizing and commercializing public companies.

Conclusion

Privatization and commercialization must be successful if the country's economy is to remain stable and grow. Through commercialization and privatization, the government can promote public sector reform while simultaneously increasing the sector's effectiveness and ability to contribute to the nation's economic expansion. In order to effectively privatize and commercialize public companies in Nigeria, the government must meticulously plan the process of relinquishing its managerial oversight while establishing new and substantial roles for these operations. To guarantee and secure the lives and businesses of foreign private investors and to accomplish the objectives of commercialization and privatization, the government needs to deal with issues of inflation, kidnapping, declining capital inflow, political instability, and unfavorable business environments. In the end, it will be necessary to assess the privatization and commercialization program's effectiveness by looking at the deregulated government sector on the one hand, and society on the other.

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