

Privatization And Commercialization of Public Enterprises in Nigeria: A Reflection of The Preferences of The Ruling Elites

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Abstract- The study examined the politics of privatization and commercialization of public enterprises in Nigeria. The study used the theories of public choice theory and elite theory to buttress the points that privatization and commercialization policies are not the solution to public enterprises in Nigeria. It is in the views of the writers that privatization and commercialization programmes are not necessarily meant to benefit the public, but rather for the benefit of the ruling class. It is clearly pointed out that the main problem of public enterprises lies with the conflicting objectives of public enterprises meant to operate as business venture but at the same to provide goods and services at a subsidized price. Through empirical reviews in the study, it was revealed that: with political interference from government at the expense of economic rationality, public enterprises are still expected to make profits. Economic and political rationalities are hardly compatible. It was recommended amongst others that: Public enterprises in Nigeria should be managed as business ventures by granting them through the necessary laws the autonomy they deserve to function effectively without unnecessary interference by political office holders; Ministerial and parliamentary control measures should be straightened for proper and close supervision and oversight functions on the public enterprises.

Keywords: Privatization, Commercialization, Politics, Elite Theory, Conflict of Objectives.

I. INTRODUCTION

Public enterprises are mainly government owned business organization charged with the responsibility of providing service that are of public interest. One of the motivating factors for establishing public enterprises in Nigeria is to facilitate social and economic development in sectors that are not considered expedient for private sector investment by foreign and local investors.

It is believed that the role of Nigerian public enterprises were compromised in many instances leading to inefficient utilization of resources by public enterprises coupled with heavy dependent on the national treasury for financial operations and their activities characterized by mismanagement of funds and operations, endemic corruption, misuse of monopoly power and bureaucratic suffocation from supervisory ministries and its inability to enhance the social and economic well-being of the people which no doubt placed government under tremendous pressure to initiate various economic reforms with privatization and commercialization as means of such reform programme as panacea to public enterprises quagmire.

Public enterprises are established as a direct intervention measure of government in economic affairs, especially the need for rapid economic development. By 1980s, the quantum of resources required to sustain the public enterprises had become an unbearable burden on the affected nations.

An assessment of government success or otherwise in business enterprises in Nigeria especially, makes it very apparent that the business of governance should not be mixed with the running of purely business enterprises.

Thus, Privatization and commercialization became the next option, as the best approach to economic transformation. By the middle of 1980s, Nigeria started to privatize its Public Enterprises as part of the conditions of the International Monetary Fund, IMF. Since then, privatization and commercialization of Public Enterprises has been the priority of various

regimes and fully on ground in Nigeria. (Adekola & Raheem, 2016).

II. STATEMENT OF PROBLEM

Public enterprises were created by government to perform myriads of functions where the civil service were not hitherto capable of performing. Such objectives and functions include: The desire to use the public enterprise as an instrument of effective plan implementation in a context where it appears futile to devise a development plan for the private sector; the need to secure economic independence; the urgent desire to assure government control over “strategic” sector of the economy (e.g. central banking, broadcasting, iron and steel, roads, shipping, etc.); the need to separate some activities from the civil service and allow more autonomy in their running; the perceived need to provide employment for the citizens in context where the private sector offers very limited employment opportunities;

the need to ensure state control of key profitable enterprises with a view to generating revenues that will add to available national capital for financing development programmes and projects; the desire of some socialist-oriented regimes to use state control of key profitable enterprises to pursue the objectives of preventing the concentration of wealth or of the means of production and exchange in the hands of few individuals or of a group (i.e. promoting equitable distribution of wealth) (Obikeze and Anthony, 2004).

With these laudable objectives of public enterprises, it is not economically viable and efficient to later privatize and commercialise these public enterprises. However, some of the rationale behind the privatization and commercialization of public enterprises in Nigeria include: corruption within and outside public enterprises, mismanagement and misappropriation of funds, absence of competitive environment, incompetent management, inappropriate and excessive political interference.

These problems are not insurmountable; they can be controlled by government through the necessary control measures put in place.

The only obvious hindrance to the proper functioning of public enterprises has to do with the conflict of objectives. While public enterprises are established to provide essential services as a public utility, they are also expected to make profit as a business outfit. These twin objectives are contradictory and have been the main reason for non-performance of public enterprises. For example, despite political interference from government at the expense of economic rationality, public enterprises are still expected to make profits. Economic and political rationalities are hardly compatible (Obikeze and Anthony, 2004).

The crux of the matter is that if government knows its onions, public enterprises can be managed effectively to achieve its set goals without privatization and commercialization. The lackadaisical attitude of Nigerians and management of public enterprises which makes people to see them as being unproductive could be attributed to the regime type and the bureaucracies inherent in different regimes.

Government can make the necessary profits, and the turn over and outputs from public enterprises can be used in servicing its operation, reinvested and provide employment; if those who are responsible for management and operations of public enterprises are adequately supervised by the supervising ministries and parliamentary controls.

III. CONCEPTUAL, EMPIRICAL/ THEORETICAL REVIEW

The concept “privatization” entails the sale, wholly or practically, of SOEs to private interest while the “commercialization” in essence implies reorganization of SOEs to enable them change economic government subvention (Olukoshi, 1985).

By privatization, Davis (1988) perceives it as a policy of widespread or partial sale of public-owned asset to interested investors whether local or foreign. In respect of “commercialization” cited in Onuoha, et al (2017). “... a twin –policy of “privatization” and “commercialization” would have the effect of relieving government, the consequence of one, according to Davies differs markedly from the other. To be sure, although “commercialization” can be

defended “if the quality of goods and services produced by these commercialized establishments can justify the cost on the public”

Shirley and Walsh, (2000), privatization and commercialization of public enterprises rest on the fact that it’s an instrument of efficient resource allocation and management. Privatization and commercialization are, therefore expected to reduce poverty by improving the economic indices of a country.

In general, privatization and commercialization is expected, overtime, to lead to less corruption and red tape, and strengthen the role of the private sector in the economy, thus guaranteeing employment, improved quality of life, and lead to higher capacity utilization (e.g lower prices, make more choices available, and ensure faster delivery of goods and services, (Onuoha, et al 2017).

However, Critics of privatization and commercialization see the process as capable of leading to a negative effect on the distribution of wealth. This implies that privatization and commercialization can engender social inequalities. The second claim advanced against privatization and commercialization focus on the fact that it is capable of causing a reduction both in income levels and access to basic social goods and services.

Still, a third point is that privatization and commercialization would lead to an increase in prices of goods and services. There is also the argument that privatization and commercialization would lead to loss of employment. The most fundamental arguments against privatization and commercialization relate to the aspect of power relationships between the developed (and their multinational allies) and developing countries.

Most arguments label privatization as a neo-colonial agenda meant to exploit developing countries, while others see it as a neo-liberal view of development imposed by large co-operations or multinationals foreign capitalist’s countries and agencies such as the IMF and the World Bank. (Onuoha, et al 2017). The criticisms levelled against privatization and commercialization buttresses the politics inherent in

the policies. This simply means that, the government of the day simply privatize or commercialize for their own benefits, not necessarily for the benefit of the citizens. This in a sense reflects the preferences of the ruling elites.

Human rights lawyer Femi Falana has revealed that former President Umaru Yar’Adua stopped the sale of the Port Harcourt and Kaduna Refineries because his predecessor, Olusegun Obasanjo, did not follow due process.

According to Falana, a consortium led by Dangote Oil had offered to buy the Port Harcourt and Kaduna refineries but the late Yar’Adua opted against selling the national assets. ..., Obasanjo noted that Aliko Dangote in 2007 had offered \$750 million to operate the refineries under a public-private partnership agreement, but the money was returned by his successor, who claimed that the Nigerian National Petroleum Company Limited (NNPCL) wanted to run the assets. However, reacting in a statement ... Falana said Obasanjo had sold a 51 percent stake in the Port Harcourt refinery to Bluestar Oil for a fee of \$561 million.

Falana said that Bluestar Oil was a consortium comprising Dangote Oil, Zenon Oil, and Transcorp, stating that Yar’Adua believed the deal was not in the nation’s best interest and did not follow due process.

“Under the Privatisation and Commercialisation Act, the Vice President is the chairman of the National Council on Privatisation (NCP), a body that is charged with overseeing the privatisation and commercialisation of public enterprises,” Falana said.

“In utter breach of the Act, President Olusegun Obasanjo sidelined Vice President Atiku Abubakar and took over the privatisation of a number of public enterprises.

“Many interest groups in the country questioned the legal validity and moral propriety of the sales as they were consummated in the last days of the Obasanjo Administration. “The two powerful trade unions in the oil industry —the National Union of Petroleum and Natural Gas Workers (NUPENG) and the Petroleum and Natural Gas Senior Staff Association

of Nigeria (PENGASSAN) kicked against the privatisation of the two refineries on grounds of conflict of interest and lack of due process.”

According to Falana, they also alleged that the nation had been shortchanged as the shares acquired in the Port Harcourt refinery for \$516m were worth US\$5 billion. Falana explained that the deal was not in national interest, which led to the unions opting to go on a four-day strike. “Convinced that the deals were not in the national interest, both unions proceeded on a 4-day strike that almost paralysed the Nigerian economy in June 2007. (The Guardian, 2025).

The above buttresses the politics and selfish interest surrounding privatization and commercialization in Nigeria. In the study carried out by Onuoha, Umoh and Ufomba (2017): “The Impact of the Politics of Privatization and Commercialization of Public Enterprises in Nigeria on the Level of Productivity and Economic Viability:

The Case of ALSCON and NITEL”. It was revealed that NITEL was neither privatized nor commercialized, the study indicated further that the privatization of NITEL was inconclusive, whereas ALSCON was partially privatized which invariably means that government still controls the management of the enterprise as a share and stakeholder.

The study further revealed that the privatization process could least be said to have been free and fair in terms of highest bidder purchasing which by implication were cases of wrangling, disputes and irregularities in the bidding process.

The study revealed a negative and moderately strong correlation, between levels of politicization of the privatization process and productivity of the SOEs, similarly also for the economic viability of the SOEs.

IV. THEORETICAL FRAMEWORK

Two theories are used in this study, they are: the public choice theory and elite theory of policy making.

The Policy Choice Theory (Shleifer and Vishny, 1994). The theory sees SOEs as the paradise of corruption, primitive accumulation and political

patronage by both bureaucrats and political officeholders. Shleifer and Vishny (1994) argue that politicians used SOEs to pursue their own political objectives for instance by giving redundant jobs at SOEs to their supporters.

They gave two conditions for privatisation under this circumstance: one, when politicians who benefit from low taxes win over those who benefit from subsidizing supporters. Two, when conservative governments, favoured by taxpayers, replace leftist governments, favoured by public employees. The fear of collusion between politicians and civil servants to appropriate public goods through SOEs is also very popular. (Adelaja, 2007).

According to elite theory, public policy is simply the reflection of the values and preferences of the ruling elite. This view is rooted in the work of thinkers like Gaetano Mosca (1896), Vilfredo Pareto (1916), and Wright Mills (1956), who argued that a small, powerful group dominates decision-making in society. They contend that this elite group, whether through formal political power or influence over key institutions, shapes public policy to serve their own interests and maintain their position. (<https://www.scribd.com/doc/128958291/Elite-theory>)

The two theories explain how and why privatization and commercialization are carried out, which is all about self-aggrandizement. However, the elite theory explains the policies of privatization and commercialization very well and buttresses the writers’ views that privatization and commercialization policies of government are not necessary because it is an absurdity and a nonsense to the establishment of public enterprises.

The submission therefore is that privatization and commercialization are policies that are beneficial to the ruling class and political officer holders and policy makers.

V. SUMMARY AND RECOMMENDATIONS

Based on the various literatures and studies about the policies and politics of privatization and commercialization of public enterprises in Nigeria,

we submit that the Nigerian privatization programmes is a “grand caricature” ((Adelaja, 2007, p.31).

There are no sincerity, political will and seriousness to use privatization and commercialization policies for efficiency, effectiveness, accountability and availability of goods and services in Nigeria.

Hindrance to the proper functioning of public enterprises has to do with the conflict of objectives. While public enterprises are established to provide essential services as a public utility, they are also expected to make profit as a business outfit.

These twin objectives are contradictory and have been the main reason for non-performance of public enterprises. For example, despite political interference from government at the expense of economic rationality, public enterprises are still expected to make profits. Economic and political rationalities are hardly compatible

The following recommendations are advanced to solve the problems of public enterprises in Nigeria:

- i. public enterprises in Nigeria should be managed as business ventures by granting them through the necessary laws the autonomy they deserve to function effectively without unnecessary interference by political office holders;
- ii. Ministerial and parliamentary control measures should be straightened for proper and close supervision and oversight functions on the public enterprises;
- iii. There should be policy board as well as executive board. According to Adamolekun (2004), “the performance of a public enterprise is, therefore, largely, dependent on the quality of its board”. He identified two types of boards of public enterprises: the policy board and the executive board. The policy board is composed mostly of persons from outside the organization with the chief executive as the only internal board member. The policy board is more widespread than the executive board. Most public enterprises in Nigeria have policy boards. The executive board is composed mostly of persons who are heads of major units of the organization, with the chief executive as the chairman. There are

normally few outside members appointed to represent outside interests in the board. The Nigerian Railway Corporation is an example of a public enterprise that has an executive board. The main advantage of the executive board is that the body responsible for policy is not separated from management. Again, the appointment of a few outsiders to the board, apart from ensuring that perspectives from outside the enterprise are considered, also constitutes a form of control.

- iv. public enterprises should be fully commercialized and control by government personnel who run the enterprises for the purposes of maximization of profits, managing its finances while minimizing losses. This is to say, there should be a clear reconciliation of the two conflicting objectives of public enterprises. Since they are meant to make profits and make returns from what government invested in, prices of such goods and services should not be unnecessarily subsidized. Returns in investment should be the watch-word rather, while quality of goods and services should be standardized.
- v. There should be sufficient motivation and incentives for those involved in supervision of public enterprises for effective and corrupt free supervision. Equally, those specialist and technocrats working in public enterprises should be well paid and their recruitment should be strictly on merit. In other words, recruitment processes should be open to public view and scrutiny.
- vi. Only public enterprises that appear to be a duplication in terms of services delivered should be privatized

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