INTRODUCTION

Following on the ‘success ‘of economic reforms in Central and Eastern Europe, best practice privatization re-emerged in most countries in the Sub-Saharan Africa during the 1990s. In Nigeria, privatization came as integral parts of Adjustment credits and was aimed at enhancing the efficiency of resource allocation of government. The core objectives are reducing fiscal deficits, building a broader tax base, attracting more investment and growing the private sector. But macroeconomic remedies merely solve the needs of the poor in the short run. Criticism centres on the alleged adverse effects of privatization on employment and the poor, as well as the perceptions of rampant corruption in the privatization process especially in developing countries. Whether this criticism is justified is a different thing entirely.

PRIVATIZATION IN NIGERIA

Public Enterprise sector had played an increasingly dominant role in the Nigerian economy, accounting for over 50 percent of the GDP and over 60 percent of modern sector employment. By 1986, the estimated number of State Owned Enterprises (SOEs) in Nigeria was 1,500 out of which 600 were under Federal Government and the rest under states and Local Governments. Like many other developing countries, Nigeria adopted the policy of privatization in the same year and in phase I of the programme, the Technical Committee on Privatization and Commercialization (TCPC) was established in 1988. The committee succeeded in privatizing about 34 firms cutting across several sectors through public floatation. The enterprises that have been wholly privatized were mainly in manufacturing and insurance sub-sectors.

The privatization of utilities such as power and telecommunications has made little progress in Nigeria. Admittedly, utilities are large and complex companies, frequently operated by self-serving management and strong labour unions. Indeed, opposition from both houses in the Nigerian parliament contributed to the slow progress in the Second Phase of the privatization programme (Mahmoud, 2003). As part of medium programme billed to terminate by December 2005, Bureau of Public Enterprises(BPE) plan a schedule of enterprises to be privatized. These include:

i. 3 Flour Mills
ii. 2 Fertilizer companies
iii. 4 refineries
iv. 5 Automobile plants
v. Railway property company
vi. 1 machine tools company
vii. NITEL/M-TEL
viii. Nigeria Airways and allied companies
BACKGROUND OF STATE OWNED ENTERPRISES IN NIGERIA.

The Federal Government of Nigeria was said to have invested more than US$100 billion in SOEs between 1975 and 1995. As at the end of year 2000 only 160 of these enterprises are in economic activities. Furthermore:

i. These enterprises drain a lot of resources from the Federal Government leading to a recent huge transfer of US$3 billion, US$0.8 billion, US$1.4 billion and US$44 billion in 1998, 1999, 2000 and 2001 respectively.

ii. About 5,500 board appointments exist in these non-performing firms

iii. Over 50 percent of all non-performing public sector debts in Nigeria were generated by these SOEs. For example, NICON Hilton—US$300 and Sheraton Hotel—US$250 million.

iv. SOEs in Nigeria returned only about 0.5 percent in profit. Without NICON Hilton and Central Bank of Nigeria (CBN), they would have provided negative returns.

v. They control over N1 trillion—more than an average Federal Government Budget.

The Second Phase of the Privatization programme started on the 20th July 1998 when the National Council on Privatization was established with the BPE as its secretariat. Some of the achievements of Phase 1 of the programme (1988-1993) include:

i. the creation of 800,000 new shareholders

ii. Over N3.3 billion of privatization proceeds realized

iii. 1,486,772,063 billion shares sold

iv. 280 board seats ceded by the Federal government

v. Treasury funded reduced

vi. The Nigerian capital market broadened and deepened.

PRIVATIZATION AND THE POOR

Management argues that, privatization will not help the poor because they cannot pay and that what is needed is yet another capital investment into the SOEs to ‘improve service’. In situations where privatization issue is subjected to public debates, they usually insist that privatization would lead to tariffs the poor cannot afford to pay. On their part, unions argue that jobs will be lost and this will only aggravate poverty among the populace. Neither of these arguments is supported by any empirical evidence. The poor around the world pay between 4 and 100 times as much for drinking water as middle and upper class families. By definition, tariffs paid by the middle and upper classes with access to utility services, rarely recover the real cost of the services provided and certainly do not provide incentives to “role out” services to the broader population (Meyerman, 2004).

Given the apparent wedge between targets and trends in Nigeria’s attempt to make the Millennium Development Goals achievable, we should be less concerned about increasing tariffs for the minority with services and be more concerned about reducing the costs of basic services to the population as a whole. When closely examined, most arguments against privatization in Nigeria like in many developing countries reveal that not to privatize is the worse option. The reason is that governments that have difficulties in regulating these enterprises are probably even less apt at operating them. Deficient capital markets that make sell-offs difficult make financing the deficits generated by the inevitable subsidies associated with SOEs even more difficult.
PRO-POOR STRUCTURAL ISSUES

Pro-poor issues should be considered as part of an integrated approach to structural reform. This will ensure that pro-poor structural reforms are compatible with the overall approach (Erhardt, 2000). For example, when liberalizing the service industry, the most important factor is ensuring that poor communities receive sufficient services. To achieve this, policy makers must establish a competitive, efficient and a well capitalized service industry. This will benefit all consumers to the extent that utilities are able to provide good service at a least cost and are able to fund capital expenditure to meet demand. It is also more likely to benefit the poor since inefficient undercapitalized utilities are unlikely to be able or willing to take risks or even expend huge capital in meeting the needs of the poor. It is often said that physical conditions, economic capabilities and social conditions suggest that for any enterprise to provide service to the poor, it may require non-standard service delivery mechanisms, service types and tariff and payment mechanisms. But more often than not, private utilities tend to have a one–size fits all approach to all service delivery and charges. Therefore, private sector participation helps, but in itself may not necessarily be sufficient as the tendency to ignore the poor and marginal areas remains.

POVERTY PROFILE IN NIGERIA

In Nigeria, economic and social policies have dearly accentuated poverty in the rural sector over the years. Among Sub-Saharan African countries, Nigeria had the second largest export income after South Africa in 1994 when the country earned over US$9 billion while South Africa earned US$23 billion. On a per capital income basis, Nigeria had the fourth largest export income per capita after South Africa, Angola and Zambia. Events since 1992 actually eroded many of the positive changes that took place during Adjustment era. Real GDP increased by 2 percent between 1992 and 1995 and real per capita private consumption fell by 1 percent (Thomas and Canagarajah, 2003). But the incidence of poverty (Po) declined from 43 percent in 1986-87 to 34.1 percent in 1992-1993, although the size of the poor population declined only marginally from 35.8 million to 34.7 million. The trend in the overall decline in the actual size of the poor population brought clearly how urban poverty increased while rural poverty declined in Nigeria. Within the same period, the number of poor in rural areas declined from 26.3 million to 22.8 million, while the number of poor in urban areas rose from 9.6 million to 11.9 million and in both areas (rural–urban), all households in extreme poverty are larger in number than the national average. The national average represents those headed by individuals with little or no education, who are predominantly self-employed and on average spend over 80 percent of their income on food.

PATTERN OF OWNERSHIP AND EFFICIENCY: EVIDENCE FROM THE NIGERIAN DATA

Although the World Bank claims that, private ownership itself makes a difference, there is no evident theoretical reason why that should be so. It was argued that, even if empirical research has shown that there is a positive correlation between economic efficiency and type of ownership, it is probably due to the latter variable merely mirroring the effect of other, more important determinants of behaviour. This kind of conclusion is supported by the observation that there now is disillusion with privatization in Britain that probably has much to do with the mere fact that many of the SOEs like telecoms; gas and even electricity that were privatized went from a state of public monopoly to that of private monopoly. In other words, despite changes in ownership, they were not forced by market forces to behave competitively.

Monitoring enterprise performance post-privatization is challenging task especially as private firms have no obligation to provide data and as such, general disclose only self-serving information. It is observed that, general macroeconomic conditions, including external economic shocks, a global economic downturn or boom or even the usual business cycle affect enterprise performance which
makes the analysis more difficult and time sensitive. This also makes establishing causality between privatization and enterprise performance a very difficult challenge. As privatization and its impact have ‘lead–lag’ characteristics, there must be criteria for evaluating its impact. Using profitability, output and employment to assess the impact of privatization in Nigeria, Elias (2001) made some interesting revelations. On profitability, using 3 ratios of Return on share (ROS), Return on Asset (ROA) and Return on equity (ROE), privatized firms in the study presented a mixed performance. For example, two companies: Aba textile and Royal Exchange Assurance recorded improvements on the three ratios. ROS equally recorded some negative changes after privatization of some of the companies. For instance, ROS fell from 14% before privatization to 7% after for UNIC Insurance. For Okomu oil and flour mills, it fell from 19% to 17.6% percent, 4.8% to 17.6 percent and 3.6% respectively.

On changes in output and employment, four of the firms recorded some improvements in their output in the post privatization years. These are Okomu oil, Aba textiles, Flour mills and Niycom. On the employment side, it has been recognized over the years that over staffing is one of the major complaints against SOEs and governments recognizes the likely trade-off between efficiency and profitability and large scale job losses. Empirical findings indicated that this outcome is far from being straightforward. For example, in the findings of Elias (2001), Okomu oil staff strength fell from 1000 before privatization to 993 after, while UNIC Insurance, Royal Exchange and Niycom recorded reduction from 701 to 697, 495 to 331 and 411 to 197 respectively. But other companies recorded additional employment after privatization. From an average of 159 to 163, 989 to 1795 and 1300 to 1468 for Naicom, Flour mills and Aba textiles respectively.
Most of the above findings only confirmed an earlier survey of 34 privatized firms in Nigeria by the World Bank in which all former SOEs under the survey presented marked improvement after privatization. Average turnover increased by 221 percent and profitability showed positive growth too where 19 of the firms recorded improved earnings. Investment turnover also showed most of the companies (62%) had increases in the ratio of turnover to capital employed. What appeared missing in the study is a variable that has direct impact on the poor-employment after privatization.

CONCLUDING REMARKS

Although economic growth is necessary for poverty reduction in Nigeria, there are some segments of the population that have failed to benefit from growth and corresponding improvements in welfare over the years. That was why governments in other developing countries pursued policies and programmes that “target” the extreme poor who are likely to be left out from the benefits of economic growth, while vigorously pursuing growth enhancing policies like privatization. This is partly due to non-automat- city of the trickle –down economics, that deliberate intervention must be made to target the poor.

In Nigeria, social aspects and impacts of privatization have been largely overlooked, reflecting the inherent tendency to focus on privatization transactions rather than on sector reorganization at large that includes wider social objectives. Both the impact of privatization on some services and the net employment reduction in divested SOEs in the country has negatively affected the vulnerable groups, intuitively the middle –lower group of the distribution, even if it is on the short-run. To make privatization to enhance the quality of economic growth, that is to increase the degree to which the poor share in the fruits of such growth, effective regulatory framework must be in place to ensure fair play. This will engender competition that will increase efficiency, reduces cost hence ensures the descending of the trickle-down effects to the lower strata.

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