



# Privatization and Commercialization in Nigeria: Political or Economic decision, woe or blessing?

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## ABSTRACT

This paper considers the issue of and on privatization and commercialization in Nigeria if it is a political or economic decision and whether the action is a woe or blessing to the country. In doing this, the researcher employed secondary source of information gathering, thereby defined some concepts such as; privatization, commercialization, politics, economy etc. Benefit, problems and reasons why government privatizes and commercializes her organization were considered. After which conclusion was reached through thorough examination if the decision could be considered to be woe or blessing, finally recommendations were made on ways by which privatization and commercialization in Nigeria can be more of blessings to both the government and the governed and not woe.

**Keywords:** privatization;  
commercialization; politics;  
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## CONCEPTUAL FRAMEWORK

### The Concept of Privatization and Commercialization

Nwabuzor (1992:39) given a dearth of capital and indigenous entrepreneurial capability and a distrust of foreign capital most countries choose the path of stated industrialization building on the colonial heritage, virtually every aspect of the economy was subject to varying levels of state intervention. Government administered price controls and increasingly regulated and intervened in labour markets, mining agriculture, manufacturing and financial markets.

Onuoha (1999:101) states that government ownership of business represents the ultimate in regulation of private business. In Nigeria, government participation in business dates back to the colonial days when those business were considered as vehicles for the "maintenance of minimum civilized standards as well as facilitating the maintenance of law and order in the territories.

On the other hand, the performance of public enterprise is not encouraging, Nwabuzor (1990:15) has this to say about public enterprise, the one point in which virtually all Nigerians will agree is that state-owned enterprises over the years have performed frustratingly poor.

It is necessary to attempt a clear definition of the concept, "privatization" and "commercialization" before we can go further. Public enterprises are business organizations established to provide certain services and carry out specific activities. They are state participation in production activities, which includes public owned enterprises controlled by the federal government or state-owned enterprises. In Nigeria, they are defined to comprise all organizations run by employees of any of the government or in the equity holdings.

### Commercialization

Commercialization can be defined as a substitute policy meant to imply the adoption by public enterprises of strict commercial objectives in all aspects of their operation including investment, recruitment, board appointment, pricing, setting new projects.

Under the Decree No. 25 of 1988 on privatization and commercialization, commercialization was defined as 'the re-organization of enterprises wholly or partly owned by the federal government such that these enterprises operate as profit-making (commercial) ventures and without subventions from the federal government.

Commercialization can be full or partial. Commercialized enterprises have powers to:

- a. Fix rates, prices, and charge for goods and services rendered.
- b. Capitalize assets
- c. Borrow money and issue debenture stock
- d. Sue and be sued in their corporate names

### Privatization

Dike (2002:12) defined privatization as the transfer of state-owned enterprises to the private sector. He went further to say that in commercialization, only privatization of management contracts, leases and concession may be involved. Under the Decree No. 25 of 1988, defined, privatization as the relinquishment of all or parts of the equity and other interests held by the government or its agents in the enterprise.

Privatization has served the strategic role of transforming state controlled economies and hence, changing the role of the state in economic development.

Privatization is the process of transferring an enterprise or industry from the **public sector** to the **private sector**.

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The public sector is the part of the economic system that is run by government agencies. Privatization may involve either sale of government-held assets or removal of restrictions preventing private individuals and businesses from participating in a given industry.

Privatization is an ongoing trend in many parts of the developed and developing world. Proponents of privatization maintain that the competition in the private sector fosters more efficient practices, which eventually yield better service and products, lower prices and less corruption. On the other hand, critics of privatization argue that some services -- such as health care, utilities, education and law enforcement -- should be in the public sector to enable greater control and ensure more equitable access.

The term has alternate meanings within business and finances. For example, if an individual or organization purchases all the stock in a publicly-traded company, that effectively makes it private, so that process is sometimes described as privatization. However, in contrast to the primary understanding of privatization, the company in question is in the private sector to begin with and remains there.

In short Privatization can be defined as the act of transferring ownership of specified property or business operations from a government organization to a **privately owned** entity, as well as the transition of

ownership from a publicly traded, or owned, company to a privately owned company. For a company to be considered privately owned, it cannot secure funding through public trades on a stock exchange.

### Potential benefits of privatization

- Improved efficiency.
- Lack of political interference.
- Short Term view.
- Shareholders.
- Increased competition.
- Government will raise revenue from the sale.
- Natural monopoly. A natural monopoly occurs when the most efficient number of firms in an industry is one.
- Public interest.

#### 1. Improved efficiency

The main argument for privatisation is that private companies have a profit incentive to cut costs and be more efficient. If you work for a government run industry, managers do not usually share in any profits. However, a private firm is interested in making profit and so it is more likely to cut costs and be efficient. Since privatisation, companies such as BT, and British Airways have shown degrees of improved efficiency and higher profitability.

#### 2. Lack of political interference

It is argued governments make poor economic managers. They are motivated by political pressures rather than sound economic and business sense. For example a state enterprise may employ surplus workers which are inefficient. The government may be reluctant to get rid of the workers because of the negative publicity involved in job losses. Therefore, state owned enterprises often employ too many workers increasing inefficiency.

#### 3. Short Term view

A government many think only in terms of the next election. Therefore, they may be unwilling to invest in infrastructure improvements which will benefit the firm in the long term because they are more concerned about projects that give a benefit before the election.

#### 4. Shareholders

It is argued that a private firm has pressure from shareholders to perform efficiently. If the firm is inefficient then the firm could be subject to a takeover. A state owned firm doesn't have this pressure and so it is easier for them to be inefficient.

#### 5. Increased competition

Often privatisation of state owned monopolies occurs alongside deregulation – i.e. policies to allow more firms to enter the industry and increase the competitiveness of the market. It is this increase in competition that can be the greatest spur to improvements in efficiency. For example, there is now more competition in telecoms and distribution of gas and electricity.

However, privatisation doesn't necessarily increase competition, it depends on the nature of the market. E.g. there is no competition in tap water because it is a natural monopoly. There is also very little competition within the rail industry.

#### 6. Government will raise revenue from the sale

Selling state owned assets to the private sector raised significant sums for the UK government in the 1980s. However, this is a one off benefit. It also means we lose out on future dividends from the profits of public companies.

### *Disadvantages of privatisation*

#### 1. Natural monopoly

A natural monopoly occurs when the most efficient number of firms in an industry is one. For example tap water has very significant a fixed cost, therefore there is no scope for having competition amongst several firms. Therefore, in this case, privatisation would just create a private monopoly which might seek to set higher prices which exploit consumers. Therefore it is better to have a public monopoly rather than a private monopoly which can exploit the consumer.

#### 2. Public interest

There are many industries which perform an important public service, e.g health care, education and public transport. In these industries, the profit motive shouldn't be the primary objective of firms and the industry. For example, in the case of health care, it is feared privatising health care would mean a greater priority is given to profit rather than patient care. Also, in an industry like health care, arguably we don't need a profit motive to improve standards. When doctors treat patients they are unlikely to try harder if they get a bonus.

#### 3. Government loses out on potential dividends.

Many of the privatised companies in the UK are quite profitable. This means the government misses out on their dividends, instead going to wealthy shareholders.

#### 4. Problem of regulating private monopolies.

Privatisation creates private monopolies, such as the water companies and rail companies. These need regulating to prevent abuse of monopoly power. Therefore, there is still need for government regulation, similar to under state ownership.

### 5. Fragmentation of industries

In the UK, rail privatisation led to breaking up the rail network into infrastructure and train operating companies. This led to areas where it was unclear who had responsibility. For example, the Hatfield rail crash was blamed on no one taking responsibility for safety. Different rail companies have increased the complexity of rail tickets.

### 6. Short-termism of firms.

As well as the government being motivated by short term pressures, this is something private firms may do as well. To please shareholders they may seek to increase short term profits and avoid investing in long term projects. For example, the UK is suffering from a lack of investment in new energy sources; the privatised companies are trying to make use of existing plants rather than invest in new ones.

#### **Evaluation of Privatisation**

- It depends on the industry in question. An industry like telecoms is a typical industry where the incentive of profit can help increase efficiency. However, if you apply it to industries like health care or public transport the profit motive is less important.
- It depends on the quality of regulation. Do regulators make the privatised firms meet certain standards of service and keep prices low?
- Is the market contestable and competitive? Creating a private monopoly may harm consumer interests, but if the market is highly competitive, there is greater scope for efficiency savings.

#### **Reasons for Privatization and Commercialization in Nigeria**

Government participation in business enterprises in most colonial African and the predominance of state-owned enterprises reflected a desire to control the economy after wresting political control from the colonialists.

Nigeria found that, in the absence of local enterprises and viable indigenous private sector, the government had to move into the large empty space left by society to take over the building economy.

Harvey and Henig (1997:77) See privatization exercise to include any initiative that increases the role of the market in areas previously considered the province of the state; this include not only the sale of the

state assets, but deregulation and contracting out of public services to private providers.

However, privatization simply means the divestment of government shares in enterprises there by allowing the ownership management and control to be in private hands.

Reasons why government wants to divest some of its companies are:

- i. Economic recession
- ii. Structural adjustment
- iii. Inefficiency of government enterprises.
- iv. Restructuring the economy

i. **Economic recession:** The Nigeria economic has been in a very poor state for quite sometime now. The level of unemployment is simply unacceptable. Apparently, the economic can no longer sustain the level of wastages associated with public enterprise. Also, as a step to get out of this malaise, a solution has to be found on how to reduce wastages. Privatization and commercialization are one of such solutions.

ii. **Structural adjustment:** Following the down turn in the Nigeria economy in the early eighties, the government of Allaji Shehu Shagari started the Austerity measures which were aimed at bring about a reduction in government expenditure and imports.

iii. **Inefficiency of government enterprises:** Over the years, government enterprises have become so inefficient as epitomized by the services they render to the public. Despite the fact that the government has and still continues to pump in a lot of money into the enterprise.

v. **Restructuring the economy:** Anyanwu (1993:10) argues that privatization will help public fund to efficient users, create a self-sustaining culture, attract foreign investors, and services will reflect real values.

#### **CONCLUSION AND RECOMMENDATIONS**

From the discussions above it is crystal clear that Privatization and Commercialization in Nigeria have achieved the purpose it is theoretically meant for by the proponents. This is because, Privatization and Commercialization as a policy(ies) is/are meant for effective and efficient delivery of services to improve the lots and betterment of the citizenry but which it has not been so in Nigeria. The reason for this is not far fetched, because Privatization and Commercialization process are not patriotically followed, in the sense that these corporations and parastatals were sold to political cronies, friends, associates, etc. at the expense of eligible that will be able to manage the affairs of these

investments, the result of which citizens are at the receiving end of suffering, e.g. epileptic/erratic power supply, poor telecommunication network, plane crashes, etc all because sincerity of purpose, transparency and patriotism was not involved in the process. And therefore, it is too much to conclude here that Privatization and Commercialization in Nigeria is more of if not all political decision than economic decision and thereby a woe and not a blessing, because despite the fact that people are paying through their nose to enjoy these services yet reverse is the case.

To avoid or correct the aforesaid situations the followings are recommended

✓ **Review the current privatized companies:-** This is pointing to the fact that the rule and procedures for privatization on the privatized companies were not properly followed if followed at all. This is because it is crystal clear that majority if not all the privatized companies were sold to families and cronies against the laid down procedures of the public that should be the real beneficiary of privatization.

✓ **Government must stop funding the privatized companies:-** Meaning that all the privatized companies should be allow to fund themselves without wasting public/tax payers money on them again in as much as they've been sold to the interested buyers, and this means that they are now privately owned by the buyers, why funding them with public/tax payers money again, if something is not fishing or not belonging to the people in the corridor of power or their cronies?

✓ **Openness and transparency must be employed while privatizing:-**What this is explaining is that another aspect and part of accountability in administration is Openness and transparency. Therefore, government and all stake holders involving in privatization must be Open and transparent in the future and subsequent privatization process in the country so as to cement the trust of the masses in them.

✓ **Government official(s)/ should not be allowed to bid for any company(ies) to be privatized:-** To corroborate the principle of openness, transparency and accountability, it should be enshrined in the constitution and privatization law and process that any government officials be it elected, selected or appointed must not and should not be allowed to bid for

any public enterprise(s) to be privatized, or in the alternative if such a person(s) must do so because of their fundamental human rights as a citizen, they can resign from such a public office in order not to use the influence and paraphernalia of office to illegally acquire the public property(ies).

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