

AFRICAN RENAISSANCE

SEPT./OCT. 2006

Somalia

Reconstituting A Failed State

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African Renaissance

Vol 3. No.5 September/October 2006



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AFRICAN RENAISSANCE

Vol. 3 No.5, Sept/Oct 2006

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Adonis & Abbey
Publishers Ltd

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Adonis & Abbey Publishers Ltd

Adonis & Abbey Publishers Ltd
P. O. Box43418
London , UK
SE11 4XZ

Cover design: Ifeanyi F. Adibe

www.adonis-abbey.com

The Unintended Social Consequences of Privatization in Nigeria

OMOTAYO ADENIYI ADEGBUYI

Abstract

Some features of public enterprises are bureaucracy and uncared attitudes of most public servants; leading to waste, slow growth and inordinate dependence on government support for financing. The essence of privatizing these public enterprises was to give better and more efficient structure to the Nigerian economy while numerous benefits will accrue to the teeming population. However, some unintended social consequences prevailed. Which include the following:

- a) Unachievable objectives of the programmes due to corrupt practices.
- b) Low standard of living due to high cost of privatized services.
- c) Considerable percentage of middle classes dropped to lower classes.
- d) Unemployment due to mass retrenchment and early death of retirees.

Introduction

Privatization has become an important instrument for streamlining the public sector and promoting economic development in countries around the world. Privatization refers to divestiture of public sector enterprises – enterprises owned and operated by the state-to private owners and, more generally, the placing of a large share of the economy into the private sector. Privatization gained a major thrust in the 1980s when international donor organizations like the World Bank made it a major component of structural adjustment programs, established as a condition for economic assistance. Structural adjustment itself refers to “a series of economic policies designed to reduce the role of government in an economy by replacing government control with market incentives” (Nigerian Economist, 1989).

While the policy of privatization may have originated in the industrialized countries, it has been rapidly adopted in the developing world. Over the years in many developing countries there has been a slowdown in economic growth, especially in agricultural output. Increasingly, therefore, they are reducing the public sector and turning to

market-oriented reforms. Moreover, as a result of the declining economic growth in these countries, international donor organizations and creditors, such as the World Bank and the United States Government, have required certain structural reforms as a condition for economic assistance with privatization usually being a major component of this structural adjustment package.

Privatization is no doubt a fruitful economic policy if sincerely implemented. It can open new opportunities, increase private sector participation in the economy, expand capital market equity funding,

Empowered by the privatization and commercialization Act of 1988, the Federal Government in all had 89 enterprises privatized between 1988 and 1993 in her first phase of the three phased privatization programme.

inflow of foreign investment, job creation and engender continued deregulation, low cost of doing business, provide modern infrastructure, new technology and improved efficiency.

The new democratic government in Nigeria has expressed commitment to revamping the nations ailing economy through such policies as liberalization; privatization, resource control, commercialization, private sector dominated economic development strategy, deregulation, among others. But of these policies, privatization remains the most accentuated economic tool in our policy today irrespective of its shaky agenda and cloudy implementation.

Objectives of the Study

Over the years, so much has been written on privatization (e.g. Eze, 2000) and so many enterprises have been privatized by the Federal Government, yet no single piece has satisfactorily cleared the air on the politics, intrigues and nitty-gritty of privatization in Nigeria to boost people's understanding. Nigerians expected much from the exercise, but has privatization flourished and blossomed to people's expectations? Who is profiting from privatization, the government or the people? Has privatization contributed positively to economic development? What is the ripple effect of privatization on local economies? Has privatization brought about unintended social consequences? These are some of the relevant questions being addressed in this paper.

The paper is organized as follows. We begin by a brief introduction. Subsequently, we provide the literature review: Evolution of privatization in Nigeria, methods of privatization, objectives of privatization and the unintended social consequences of privatization. Finally, conclusion, policy implications and recommendations were given.

Evolution of Privatization in Nigeria

Privatization is a progeny of the controversial structural adjustment programme (SAP) embraced in 1986 by the then administration. However, full privatization exercise started with the setting up of the Technical Committee on Privatization and commercialization in 1988 but it was later truncated. In 1995, the committee was renamed as Bureau of Public Enterprises (BPE) and equally became a secretariat for the implementation of all government decisions on privatization in 1999.

The council (BPE) decides which enterprise(s) should be privatized within the three phases that have been planned out. According to Adetunji and Adegboro (2000), they claimed that the second phase would have included vehicle assembly plants, hotels, sugar plantations, paper mills and other manufacturing concerns.

In 2003, the presidency appointed Dr. Julius Bala to succeed Mallam

There are indications that the economy has been held captive in the atmosphere of economic mismanagement, painlessness and fiscal indiscipline.

Nasir El-Rufai, who was then named Minister of the Federal Capital Territory Abuja. However, Bala was sacked in March 2005 due to what international monetary fund described as poor performance through out the period he served as Director-

General of the establishment. The sack saw the enthronement of Mrs Irene Chigbue as the new Director General of BPE.

According to Ogwemoh (2004) assessment of performance so far is as follows: By the year-end 1993 divestment had been concluded in 34 companies through the stock market. Out of this number, 8 were first timers on the stock exchange after privatization; two of the 34 companies, United Nigeria Insurance Company Plc and United Nigeria Life Insurance Company Plc. (UNLIC) were involved in a merger. Federal Ministry of Defence also divested part of its holdings in Union Dicon Salt Plc.

In 2005 alone, privatization agency according to Mkpuma (2005) has privatized eight of the enterprises. Some of the enterprises are Afribank Nigeria Plc., NHL share in other hotels across the country, Apapa Port, Leyland Company, Bricks and Clay Companies, Central packaging Limited, National Fertilizer Company Nig. Ltd. (NAFCON) as well as oil companies.

Methods of Privatization

Privatization does manifest in different forms. In addition to simple ownership transfer, countries can also benefit from the privatization of management without privatizing the ownership of assets. You can have privatization through management contracts leases and outright

concession through which the private sector takes over responsibilities and services previously rendered by the public sector, particularly in sector where it is difficult to attract foreign investors (Bameke, 2003). A good example of this is our National Hospital, Abuja, which was privatized under management service contract.

Other forms of privatization include the transfer of public assets via management buy outs, initial public offers, employees buy out (not common) etc. A more concise analysis of the various routes to privatization is provided below:-

- i) Selling of nationalized concerns of private shareholders,
- ii) Share placement with institutional investors,
- iii) Issue of share traded on the stock exchange,
- iv) Joint venture with private sector having majority shares
- v) Sale of assets of the privatized company,
- vi) Relaxing the monopoly right to allow for competition (the type given to television and radio stations which brought AIT, DBN, CHANNELS, MITV, Ray Power etc into existence,
- vii) Allowing private contractors to tender for the provision of goods and services hitherto reserved for government enterprises as witnessed in our communication sector, intercellular multi-links, mobitel, Rel-tel are now on board with NITEL.
- viii) Selling majority share to core investors,
- ix) Golden share issue. This was mooted some times but yet to see the light of the day in Nigeria,
- x) Setting up an enabling Act for enterprises to perform, produced and sell goods and services as well as licensing some organizations to subdue monopoly with the emergence of GSM and other independent private operators. Private university and polytechnics have also come on board under this arrangement.
- xi) Government has now called for tender for road construction and maintenance by private organizations for a fee to be paid by all users,
- xii) Collection of government revenue is also being contracted out to private consulting firms.

Objectives of Privatization

Whatever methods of privatization chosen, the objectives to be achieved remain the same globally and summarized as follows:

- 1) Efficient utilization of the nation's scarce resources
- 2) Employment opportunities and job creation, for instance many people did not know that GSM revolution has been made possible by privatization and that MTN, V-mobile, and Globacom, which

recently came on board, have created over 25,000 jobs and over two-million mobil phone for Nigerians.

3) To re-invigorate, re-actuate and transform an ailing economy.

4) To better the lot of citizens and increase the standard of living via the delivery of enhanced quality services by such public owned enterprises in a cost effective manner. The government also plans to put in place consumer Assistance Funds and Rural Telecom Funds when NEPA and NITEL are privatized to guard against the possibility of high cost effect on Nigerians.

5) To eliminate government financial obligations to public enterprises thereby easing the strain on the budget and freeing economic resources for use in the provision of much needed infrastructure, development and social projects.

6) To create a better window in the global economy and allow participation in international trade.

7) To broaden and deepen the capital markets.

8) To avoid the concentration of wealth and economic assets in the hands of the powerful and wealthy.

9) To attract foreign direct investment, capital, technology and make managerial expertise available to Nigerians and the Nigerian economy. The analysis by Thomas Smith International (2005) shows that increased telecommunications penetration could be associated with higher foreign direct investment (FDI) for instance, a percentage increase in mobile penetration rates has been associated with a percentage higher rate of FDI/GDP in sub-Saharan Africa.

10) To guarantee consumers' satisfaction, improve the quality of goods and services and encourage competition.

11) To open up the economy to foreign investors and allow greater participation. For instance, inflow of foreign investment in telecommunication between 2001-2002 is about N150 billion of which 90% is from GSM.

12) To reduce all forms of economic wastages in public offices

13) To encourage economic growth and development and contribution to national development.

14) Maximizing social benefits and infrastructural development.

The Unintended Social Consequences of Privatization

Empowered by the privatization and commercialization Act of 1988, the Federal Government in all had 89 enterprises privatized between 1988 and 1993 in her first phase of the three phased privatization programme. In her second phased, between 1999 - 2005, Federal Government had privatized more than 32 enterprises. The enterprises include all government concerns including banks, insurance companies, hotels, flour

mills, fertilizer companies etc. The essence was to give better and more efficient structure to the Nigerian economy while the numerous benefits will accrue to the teeming population.

However, Nigerians hold divergent views on the performance and contributions of privatization in its two decades of existence in Nigeria and it is important that this be reviewed? To many Nigerians the innuendo of being a catalyst that has done more harm than good in alarming and disturbing manners glaring. They feel privatization creates insalubrious climate to the economy and should earnestly be discontinued since it does not bring about immediate improvement to the economy.

These people dismissed privatization as being of little or no economic benefit and creating an economic situation, which favours only a few individuals in government. It has also been criticized as impoverishing the nation and citizens, engendering insurmountable hardships and other economic woes within its little period of existence.

Some Nigerians do not see privatization living up to the expectations of salvaging the economy, judging from the heightening inflation, high and unsteady exchange rate, indiscipline, corruption, insincerity in public offices, embezzlement, among other anomalies. There are indications that the economy has been held captive in the atmosphere of economic mismanagement, painlessness and fiscal indiscipline. Even with the advent of fourth republic and the anti-corruption crusade, the situation does not seem to be getting better.

There is also the most contentious question unanswered as to whether the privatization exercise is not a breach of section (6) (c) and other similar provisions in chapter two of the 1999 constitution which states inter-alia that it shall be the goal of the government to provide social amenities, education and economic welfare for the citizen (Kekere – Ekun, 2002). If public utilities and organizations like NEPA, NITEL, NPA, MINT, Universities, Polytechnics etc. are transferred to people who now dictate the price, how will government discharge this obligation effectively to the citizenry? What legacies would this administration leave behind when all these valuable investments exchange hands? Such questions remain unanswered.

Clearly, the effect of privatization on the economy of this nation is worrisome if the existing economic indices and parameters already analyzed are anything to go by. Inflation, as a critical issue, is not being addressed, the health of the Naira in the foreign exchange market is deteriorating everyday, our foreign reserve is nose-diving, government deficit is rising, the expenditure profile is quite high. Prices of all items, including food stuffs, are skyrocketing beyond the reach of the common man, foreign economic and financial institutions are adopting a wait and see attitude in the face of the seemingly intractable situation. The standard of living goes from bad to worse as in the political front; uncertainty also pervades the air in every aspects of the economy.

Besides, the situations where only the juicy public enterprises are quickly privatized are condemned. For example, Federal Palace Hotel, Insurance Companies and Banks, Sheraton Hotel, etc are quickly privatized while the less attractive one e.g. Nigeria Railways Corporation and other sick companies are ignored. This trend according to Ibidunni (2005) obviously undermines the good intention in privatization and mocks the entire process.

It is necessary to see another side of the privatization coin. The apostles of privatization maintain that it is the concern of the government, like its counterparts elsewhere in the world, to judiciously utilize scarce public funds and resources entrusted to its care and forestall actions that are inimical to economic growth and aspiration of the citizens. The habit of investing public funds resources in unprofitable ventures or organizations beleaguered with corruption and inefficiency is over in Nigeria as it negates economic growth and development.

Vice President Atiku, who is the Chairman of National Council on Privatization (NCP), further justifies privatization at the launching of the World Business Forum on investment project in Nigeria on Tuesday July, 2002 and hinged "the stabilization of the nation's fledgling democracy on the ongoing privatization programme that people seem not to appreciate its potential for stabilizing our nascent democracy" as quoted in Punch Newspaper (2002).

The BPE boss has also said that since intention was being the choice of privatization, he condemned the insincerity of many of the "socialist" critics. He also punctured the feasibility of communism and socialism in the era of globalization and cited amongst others the example of the Nigerian MINT which for instance had been functioning and its managers were just there, whereas 60 percent of our cheques are printed abroad, 75 percent of the Nigerian currency was being printed in Germany et al since 1996 and 30 percent of our travel passport were printed abroad.

Despite his defense of the privatization exercise, it is difficult to exonerate the government from the allegation of being the architect of the nation's economic woes and hardships, poor resource management and inefficiency in our public establishments. Nigerians therefore, expected corrective measures to assuage the negative impacts of mismanaging the economy in the form of stringent economic discipline, proactive controls and supervision, and the recruitment of committed, competent, experienced and skillful employees to manage public establishments.

Conclusion and Policy Implications

It is astonishing and inexplicable that the government, through its agencies, prefers to privatize companies that do not have much or any direct bearing on improving the living standards of the people rather than those public utilities that impact very directly on the lives of the citizenry.

If for instance, the refineries had been privatized, they would have been working at improved capacity and efficiently. The nation would not have had any need to import fuel and, accordingly, would not have been affected by fluctuations in the prices of crude oil in the international market. By extension, the needless strikes of labour would have been avoided and productive man-hours lost in the process would have equally been utilized to improve the nation's gross domestic product. In the same vein, privatization of NEPA and deregulation of the energy sector would have led to a dramatic increase in industrial production in the country. It has the potential of unlocking the productive energy of Nigerians, especially those in the rural areas who have been unable to channel their energies into productive use due to lack of electricity.

Emphasis should be on selling public utilities, which, if transferred into private hands will become more efficient. All over the world, the rail system is relatively the cheapest means of transportation. But here, the rail system has become a huge joke and is not reckoned as a means of transportation. The railways should have counted among the first utilities to be privatized by the government, instead of being ignored. It is clear that if the railways had been functioning, the public outcry against incessant increases in fuel prices would not have been as fierce. People would have had an alternative and even cheaper means of transportation.

The Federal Government ought to therefore, look beyond the immediate gains of privatizing performing enterprises, and make hay to sell utilities that would in the near future make the economy to thrive and bring succor to the masses of this country.

Recommendations

Nigerians would obviously not resist policies that add great value to the economy and significantly improve the standard of living, be it privatization, commercialization, liberalization, deregulation etc. What the populace find distasteful is a situation where few individuals in power turn privatization to family or personal affair and dispose of valuable investments either to themselves, their associate or the general public at a given away value. Worthy of note in this regard are the following:

The Nigerians reserve the right to seek information, explanation and enlightenment on any aspect of privatization from the government or its agencies because these establishments belong to all. Refusal to respond satisfactorily or outright denials unjust, unfair, undemocratic and seriously contradicts democratic tenets.

If privatization is to achieve the stated objectives, execution should be in the best interest of the nation and well being of the citizen. Greater commitment and dedication are also expected of the government, NCP, and BPE members and their actions must be devoid of corruption.

Anti-corruption crusade in all public offices must be pursued with a

sense of purpose and sincerity without deceit, fear or favour. Appointments of public officers and senior managers must be devoid of all kinds of sentiments and corrupt practices but strictly on merit. This is the only way to make such officers accountable and punishable.

Proceeds of sold investments should be re-invested or used to address pressing needs and problems like food, unemployment, education, health, water, shelter and other top priority projects.

The study conducted shows there are not enough laws to protect investment in Nigeria. For instance, it was alleged that the sale of NITEL was bungled because the nation does not have sufficient communication laws. This further affected a lot of investors including First Bank of Nigeria. Therefore, there is need to review all enabling laws on privatization to become pro-active, pragmatic and relevant.

Efforts should be geared towards ensuring a solid agreement with core investors to protect the interest of Nigerian workers and drive social ills like unemployment out of our society.

There is the need to instill greater discipline in the entire public service; necessary rules and regulations should therefore be put in place to checkmate excesses of core investors. This is highly necessary to curb the possibility of private monopolies and prevent situations where some capitalists dominate an industry thereby hike prices of products and services indiscriminately.

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