



Privatisation and Employment Generation in Nigeria: Myth or Reality (1999–2007)

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Abstract

Full privatisation was embraced by the federal government of Nigeria in 1999 with the enactment of the Public Enterprises (Privatisation and Commercialisation) Act no. 28 of 1999 which is often referred to as BPE Act of 1999. Subsequently, the boards of both Bureau of Public Enterprises (BPE) and its parent body National Council on Privatisation (NCP) were inaugurated. This empowered them to privatize public enterprises to reduce state monopolies, government bureaucracy and bad management as to create employment (jobs) and redistribute wealth, expand local business which will increase the quality of goods and services among others, thereby turning public to private monopoly hence economic growth. It appears that privatisation in common with the wider neo-liberal policy agenda has failed to meet expectations. Hence this paper is desired to determine the myth and reality of the correlation between privatisation and employment creation in Nigeria between 1999 and 2007 as to determine whether unemployment was one of the macroeconomics problems that affects economic growth has been minimized through privatisation.

Keyword: Employment, Public Enterprises, Privatisation, Economic growth and Performance

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INTRODUCTION

The government of Federal Republic of Nigeria involvement in the ownership of public enterprises (PE) dates back to the colonial era. The federal government set up or established some PE to provide essential services like electricity, railway and water among others. However, the independent era marked a watershed in the spread of PE. The late Dr. Nnamdi Azikiwe who was the first Primer of Eastern Region and leader of National Council of Nigerian Citizens (NCNC) and later the first and only ceremonial President of Nigeria justified the involvement of government in business thus:

As a party whose aim among others is the achievement of a socialist commonwealth, we have begun in earnest to tackle the fundamental problem which must confront any government...our first task as socialists, is to control the means of production and the medium of exchange. Realising the difficulties in creating a society in the midst of capitalistically inclined compatriots and expatriates, we decided that our first move is to devise a means of co-existence with the economic force at work. We, therefore established two giant public corporations, the Finance Corporation and the Department Corporation, to expand our economy by stimulating and diversifying investments, in order to achieve equilibrium in the interest of producers and consumers (cited in Ekekwe, 1986, p. 106).

The realisation of the above task has remained largely elusive because of inhibiting factor as corruption, wastefulness, inefficiency and over staffing. Moreso, the management of Nigeria Public Enterprises has high propensity towards profligacy, hence dismal performance of these parastatals (Orluwene, 2013, p.20). Thus, the Nigeria government had to adopt privatisation policy which its broad goal is to make the private sector a leading engine of growth of the Nigerian economy and its specific objectives among others is to create jobs (employment generation), acquire new knowledge, skill and technology and expose Nigeria to international competition (NCP, 2000, pp. 63-64). This paper, therefore, is to determine the myth and realities of the correlations between privatisation and employment (job) generation in Nigeria between 1999 and 2007.

Theoretical Framework

Many theories exists that look at the ineffectiveness of the government in running its own enterprises. Hence the inability of the public sector to tackle market failures was questioned (Bayliss, 2006). Generally, the neo-liberal economic reform policies is an attempt to re-other rules of accumulation by reorganizing the domestic economic policies of backward social formation as to remove or minimize the economic and political barriers to production on global scale. Neo-liberalism is meant to allow market forces to determine choices, structures and process through which such choices are defined and expressed, only broad superintending role is reserved for the state in the management of the economy or economic processes. In order to achieve this employment situation/relations have to be reordered. Hence, the two major theories of employment are broadly classified as classical theory and Keynesian theory.

The classical theory of employment is rooted in the prevalence of full employment. The broad features of classical theory of employment as enunciated by Adam Smith among other scholars were the assumption of full employment of labour and other productive resources, and the flexibility of prices and wages to bring about full employment. Classical

economists believed that labour and other resources are always fully employed. Thus the general over-production and unemployment are assumed to be impossible. And that unemployment is temporary or abnormal and cannot persist for a long time (Abdulkadir, 2011, p. 5). The world-wide great economic depression of the 1930s that led to widespread unemployment, low output and low national income through the whole world upset the classical theorists and gave rise to Keynesian theory of employment. According to Keynesian theory, volume of employment depends on the level of national income and output. Increase in national income would mean increase in employment. Thus Keynes theory of employment and theory of income imply that the deficiency of effective demand is due to the gap between income and consumption. The gap can be filled by increasing investment and hence effective demand, in order to maintain employment at high level. Effective demand means the total money spent on consumption and investment. Indeed, the Keynesian development paradigm recommends that governments even through deficit financing should stimulate demand and use of idle resources to increase employment. It emphasizes the need for public sector to play a leading role in preventing market failures and assumed the responsibility for producing a wide range of goods and services. The classical and Keynesian discourse is not the major concern of this paper. But suffice it to say that the drive towards privatisation is a sign of the failure of the Keynesian economics to deal decisively with the world economic realities of the early 1970s and 1980s, particularly amongst oil importing countries, and of course Nigeria (Adewale, 2011).

And because neo-liberal economic reform cannot be of public interest, since the public has been dispossessed in the first place to private interest and the state has withdrawn from provision of social services, wages and employment. Therefore, the day to day operations of the economy and other issues such as the value and determination of employment or job creation among others is determined by market forces and therefore cannot be for public interest (Orluwene, 2013, p. 5).

A Brief History of Economic Reforms in Nigeria

Agriculture products was the major involvement of colonial Nigeria in international market and the colonial master (British) saw the dire need to develop infrastructural facilities to meet the needs of the colonial economy as to facilitate the evacuation of agricultural products overseas. At independence in 1960, the political economy of Nigeria was capitalism but there was a substantial level of state ownership of modern industry, transportation and commerce. But PE assumed an increasing diverse and strategic development role in Nigeria economy since independence as to consolidate the political independence, maintain control over natural resources and foreign enterprises which tended to be monopolized (Orluwene, 2013, p. 35).

In another dimension, Nellis, Adeyemo and Salami (2008, p. 402) adduced reasons for its creation. He observed that there are many reasons that explain why African states have created and sustained public enterprises:

Institutions and pre-dispositions inherited from centralised interventionist colonial regimes, a tendency to associate liberal capitalism with colonialism and imperialism, the post war ascendancy of the leftist/statist political ideologies, the apparent absence or embryonic nature of the indigenous private sector, the conversion of failing private enterprises into public enterprises to forestall increase in employment, the attractiveness of public enterprises to politicians who use them as patronage mechanism to distribute jobs to both the mighty and minor-those are but some of the more important

historical economic, social and political factors which have led almost every African state to create large public enterprises sector (p. 402).

Public enterprises (also called parastatals) are organisations set up by government to provide services, carry out industrial or commercial businesses or regulate activities or practices in some sectors, which are considered as fundamental to the entire economy (Onyenwuenyi, in Nwanuegbo, 2005, p. 304). They are organisations that emerge as a result of government acting in the capacity of an entrepreneur.

After the civil war which was between 1967 and 1970, petroleum product increased rapidly. For example, the total federal revenue increased from £153.2 million (N306.4 million) in 1966 to N7,791 million in 1977. Petroleum revenue as a percentage of total rose from 26.3 per cent to more than 70 per cent by 1974-77. The government's control of the extraction, refining and distribution of oil meant that, the state became the dominant source of capital. By the mid-1970s, petroleum accounted for about 75 per cent of total federal revenue. Manipulating government spending by politicians, bureaucrats, army officers, and their compradors and clients, became the means for fortune. As a result of the rapid growth of the state bureaucracy and the establishment of several federally funded parastatals, the size of the government sector relative to the rest of the economy increased substantially in the late 1970s. In addition, the government gradually expanded its controls over the private sector, levying different taxes and subsidies, favouring investment in key sectors, providing tax and tariff incentives to vital sectors, protecting favoured industrial establishment from foreign competition, awarding import licenses to selected firms and industries, and providing foreign to priority enterprises at below-market exchange rates. In fact, market intervention tended to have helped political and bureaucratic leaders protect their positions, expand their power, and implement their policies (Abdulkadir, 2011, p. 6).

The first to fourth national development plan beginning from 1960s and which terminated with the overthrow of civil rule in 1983 is one indication that make federal government became a major player in the establishment of public enterprises and private investment companies. For example, the second national development plan (1970-1974) emphasized the role of public sector in Nigeria's economic development. The Indigenization Decree of 1973 converted private controlled international corporations in Nigeria into state-owned-corporations. This resulted in the proliferation of state-owned-corporations in almost all sectors of the economy, and operated as monopolies with virtually no competition from outside.

Jerome (2008) asserts that prior to privatization, there were about 600 public enterprises at the federal level and about 90 smaller public enterprises at the state and local government levels. The corporations were funded from the new oil wealth, whilst their scope of operations covered oil and gas, agriculture, steel plants, banks, defence, leisure, mass transit, power, housing, medicare, education, manufacturing, local and international among others.

The early 1980s witnessed the crash in international oil prices. In 1981, the global oil industry witnessed a glut as a result of the increased supplies from new oil fields in non-OPEC countries and the success of oil conservation campaigns in the west. The result was a substantial fall in both Nigeria's production and revenue. Between January and August 1981, production fell by two-thirds, from 2.1 mb/d to 700,000 mb/d. The average price per barrel declined by 26% from \$40 in 1981 to \$29.6 in 1983. Nigeria's foreign reserves depleted by some 80% from N5.1 billion in 1981 to N1.0 million in 1983 (Shagari in Abdulkadir, 2011, p. 7). Equally, by the early 1980s, Nigeria faced substantial international payment deficits in the midst of declining export prices and rising import prices, rising external debt payments, and negative economic growth. For instance, between 1981 and 1983, federal government

finances drifted into acute disequilibrium. The federal government deficit rose to N5.3 billion (9 per cent of GDP), whilst external debts increased rapidly. The state governments collectively budgeted for a deficit of N6.8 billion in 1983 (Umedon, 1992).

In response to the worsening economic situation, the government altered some of the basic structures of the economy. In April 1982, the Economic Stabilization Act meant to 'revamp' the economy was introduced. This was done through the imposition of austerity measures and measures to control smuggling. In 1984, the government introduced more drastic measures to prune expenditures, including a wage freeze and banning certain imports and changing the colours of the various denominations of the Naira. The currency issue was, indeed, an attempt to demonetize notes smuggled out of the country and used in the back market (FGN, 1982, 1984).

As a result of the economic recession of the 1980s due to the collapse of oil prices, the activities of public enterprises, their poor performance and the burden they imposed on government finance began to be questioned. The severity of the economic crisis in the mid-1980s led to the introduction of the Structural Adjustment Programme (SAP) that began in 1986. SAP components included devaluing the Naira, removing domestic fuel subsidies, liberalizing trade, prioritizing investments in the agricultural sector, privatizing and commercializing inefficient public enterprises and liberalizing manufacturing activities (Khan, 1994; Umoden, 1992).

This meant that the substantial amount of money hitherto pumped into these corporations annually could no longer be sustained by the federal government. For example, before privatization, the total investment in the PE sectors was well above US\$35 billion involving US\$12.5 billion in equity, US\$10.2 billion in government loans, and US\$11.5 billion in unspecified and unrecorded subventions in several enterprises. Collectively the investments yielded a meager return of US\$1.5 billion in dividends and loan payments from 1980 to 1987. This is just about 23.3 per cent of the capital outlay in the various PEs. In addition, about 40 per cent of non-salary recurrent expenditure and 30 per cent of capital expenditure was wasted annually on these enterprises (Jerome, 2008). As result of the foregoing, the returns on public investments have generally been very poor and negative. These problems, in addition to pressures from the International Monetary Fund and the World Bank, one supposes, formed the basis for the privatization of public enterprises in Nigeria.

But it was not until 1986 that a more far-reaching International Monetary Fund (IMF) imposed strategy or economic development, notwithstanding the claim that it was 'home-grown', began. With the promulgation of the Privatization and Commercialization Decree of 1988, a Technical Committee on Privatization and Commercialization (TCPC) was established to privatize 111 public enterprises and commercialize 34 others, and by 1993, 88 of the 111 enterprises listed in the decree had been privatized. As part of the recommendations of the TCPC, the Bureau for Public Enterprises Act was promulgated in 1993 which repealed the 1988 Decree. By 1999, the Public Enterprises (Privatization and Commercialization) Act that created the National Council on Privatization as well as the Bureau for Public Enterprises were established, whose functions were more far reaching than the laws before (Orluwene, 2013).

The core and grey group enterprises for privatization were: financial enterprises group (NICON Insurance, Nigerian Reinsurance, Nigerian Bank for Commerce and Industry, Assurance Bank, etc); state owned industries group (Nigerian Machine Tools, Nigerian Paper Manufacturing Company Limited, Nigerian Sugar Company, Bachita, Ashaka Cement, Benue Cement Company, Calabar Cement, Leyland, Peugeot etc); Power and Steel Group (Oshogbo Steel Rolling Mill, Jos Steel Rolling Mill, Ajaokuta Steel Rolling Mill, Aluminium Smelter Company Limited, National Iron Mining Company Limited etc); Solid Minerals (Nigerian Mining Corporation, Nigerian Uranium Company Limited etc); Information Sector

Group (Daily Times of Nigeria, Federal Radio Corporation of Nigeria, New Nigerian Newspapers, News Agency of Nigeria, Nigerian Television Authority, etc); Transport Sector (Nigeria Ports Authority, Nigeria Railways, Nigerdock, NAHOCO, etc); Petroleum Sector (Nigerian Gas Company, Petroleum and Pipelines Marketing Company, African Petroleum, UniPetrol, National Oil, etc) (Abdulkadir, 2011, p. 8).

The Interface between Privatization and Employment Creation

The design and imposition of economic reform programme of privatization by the International Financial Institutions (IFIs) are not entirely new as it is crucial in accomplishing the goals of neo-liberalization and the package of globalization. Privatization is not unique in Nigeria since empirical evidence has shown the global acceptance of the policy. Several developing and transition economies have embarked on extensive privatization programme as means of fostering economic growth, attaining macroeconomic stability and jobs creation among others. For instance, in the 1970s and 1980s, Chile, Mexico and Argentina transferred large scale state controlled telecommunication, railways, power and energy, airline and petroleum industries to private ownership. While in the 1980s, the Republic of Korea, Indonesia, Thailand and Philippines solicited and sold state-owned enterprises to private investor as part of its Structural Adjustment Programmes (SAP) (Adeyemo and Salami, 2008).

As stated earlier, specifically, in 1982 specifically, Nigeria government attempted the implementation of liberal economic reform in response to the economic crises of the early 1980s through the Economic Stabilization (Temporary Provision) Act of 1982. Popularly known as “austerity measure” the Act initiated a serious intervention that sort to reduce state involvement in the public sector by cut in public spending, freeze in wages and employment among others (FGN, 1982). In many economies, therefore, privatization of state owned enterprises (SOEs) has consistently been adopted as a key component of structural reform process and globalization strategy.

In Nigeria, one of the pre-requisite benchmarks that we utilize to assess privatization is job creation (employment generation) as to determine whether unemployment as one of the macroeconomic problems that affect economic growth has been minimized because privatization was put in place to revamp the declining public enterprises, ensure growth of the companies- all leading to the jobs creation and opportunities for Nigerians. Indeed, it was one of the attractions of privatization. However, empirical evidence resulting from privatization demonstrates and mostly shows the opposite- job losses which is majorly a significant decline in the number of employees after privatization.

Yesufu (2000) declare the problem of unemployment and underdevelopment in Nigeria was consistently been the misallocation, inefficient and ineffective utilization of the human resources of the nation’s economy. According to him, the level of unemployment in Nigeria as at 1991 was 20.77 million compare to 26.2 million in 2000- an increase of 26 per cent over a period of nine years. Unemployment situation in Nigeria has become alarming over the years and one of the worst world-wide (p. 135).

Privatization was put in place to revamp the declining public enterprises, inject technical expertise, experience and funds by private enterprises, ensure the growth of the companies- all leading to the creation of jobs and opportunities for Nigerians. Indeed, one of the attractions of privatization has been the creation of more jobs for Nigerians. However, in most cases empirical evidence resulting from privatization demonstrates the opposite- job losses- a significant decline in the number of employees after privatization. In fact, in order to increase efficiency, extensive layoffs accompanied government divestiture. For example, Peugeot Automobile Nigeria shed 226 workers due to lack of patronage and unfavourable

policies which adversely affected its operations. Delta Steel, Alajjia which was privatized in 2004, had by 2007 stopped production and laid off 2,878 workers due to lack of raw materials. At the Ajaokuta Steel Complex, its workforce has been drastically reduced by 400 per cent from 5,000 to 1,000 (Abiola, 2011). What actually happened in Ajaokuta after privatization was the cannibalization of spare parts. Collectively, the number of workers on the privatized has drastically declined by 400 per cent, from 20,000 to 4,000. In the Nigerian Re-Insurance Corporation the staff strength declined by about 4,248 per cent, from a high of 1,000 to a terribly low of 23. At the Nigeria Airways, 2,000 jobs are lost as a result of its fold up. In Zaria, the Electricity Meter Company of Nigeria privatized in 2002 has retrenched 90 per cent of its workers (Adogu, 2011; Adewale, 2011).

Furthermore, in Okomu Oil, staff strength fell from 1000 before privatization to 993 after, while UNIC Insurance, Royal Exchange and Naycom recorded reduction in employment from 701 to 697, 495 to 331 and 411 to 197 respectively (Mahmoud). Employment after privatization in 1993 shows that staff strength in Union Bank Plc, United Bank for Africa Plc, and First Bank Plc declined from 12,006 to 8,911 (25.79 per cent), 8,258 to 4,305 (47.87 per cent), and 10,653 to 8,785 (16.83 per cent) respectively (Abdulkadir, 2010; Annual Reports and Statement of Accounts, Union Bank Plc, UBA Plc, First Bank, Plc, 2003). In addition, the folding up of many of the enterprises meant a loss of thousands of jobs and thus poverty. For example, the Human Development Index shows that between 1978 and 1980, the national poverty level was 28.17 per cent. By 2010 it had increasingly moved up to 70 per cent. Such fold-up companies include: Aluminium Smelter Company of Nigeria, Osogbo Rolling Mill, Delta Steel Company- Aladjia, and Osogbo Machine Tools. In comparative terms, by 1997, Nigeria had privatized 600 public enterprises with 66 per cent employment compared to Ghana with 181 privatized enterprises but with 55 per cent employment ratio.

The decline in the manufacturing sector has partially contributed to the present level of unemployment in Nigeria as people are forced into the labour market that is already saturated. The closure of many of the enterprises privatized and the declining job opportunities in these companies were the results of fraud, racketeering and official corruption. Unemployment levels rose astronomically, living standard declined and poverty became the flip side of adjustment. Devaluation of the nation's currency meant a devaluation of real income, with the real income of the average Nigerian worker hovering below \$20 a month since 1999. Removal of subsidy on petrol has worsened the transportation crisis faced by the average Nigerian worker. Since workers in industry are part and parcel of the society, they cannot be equally affected by the downturn in the economy.

Problems such as deterioration in the living standards, worsening crisis of urban housing and transportation, hunger and starvation, decline in public health service standards, have also badly affected the workers in industry. It is on record that there was a decline in the industrial employment from about 335,000 in 1990s to a miserable 27,000 in the 2005. Indeed, the reduction in their purchasing power has forced many workers to live below the poverty line. In fact, 80% of Nigerians live below the poverty line. Retrenchment of workers has also thrown several people into the unemployment market while the attendant crime wave occasioned by the economic crisis has created an atmosphere of general insecurity.

However, it should be stated that some of the privatized enterprises witnessed more employment opportunities with appreciable performance after privatization. For example, employment generation in Naicom, Flour Mills and Aba Textiles increased from an average of 159 to 163, 989 to 1795 and 1300 to 1468 respectively. At the Ashaka Cement, employment figure increased by 17.68 per cent, from 1730 to 1424 after privatization (Jerome, 2008). The National Trucks Manufacturers, Kano, which was shut down for almost fifteen years before been privatized now operates with some 350 workers.

CONCLUDING REMARKS

In this paper, we tried to examine the critical issue of privatization, employment creation and productivity improvement within the Nigerian context. We pointed out the grave nature of the unemployment situation and its duplications after privatization of state-owned enterprise. Many enterprises folded up and created the problem of unemployment instead of creating or generating jobs or other opportunities for the people. Unemployment level rose astronomically, living standards declined and poverty become the flip side of the privatization. Colossal loss of revenue to the Nigerian government which could be utilized for the development of infrastructures and generate employment among others.

The retrenchment of workers has also thrown several people to live below poverty line, thereby an increase in crime wave occasioned by attendant economic crisis has created an atmosphere of general insecurity. Thus, privatization replaced public monopolies with private monopolies, some of which are inefficient and fraudulent in that privatization policy only focused on share valuation, insurance and distribution, with no focus on institutional changes and management reforms. Hence has enhanced economic inequalities, social polarization that produced more unemployment situation in Nigeria.

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