The Ethics of Government Privatisation in Nigeria

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Abstract

This paper seeks to determine whether or not the divesture of Nigeria’s state-owned enterprises (SOEs) by the Federal Government of Nigeria (FGN) is ethical. Towards this end, it employs an analytic methodology to undertake a conceptual examination of the divesture of Nigeria’s SOEs by the FGN. The paper’s findings are:

(1) A large proportion of the Nigerian citizenry is opposed to its government’s privatization policy.

(2) A conducive socio-economic environment for privatization is lacking in Nigeria.

The paper concludes that although privatization in general may be a “good” policy, it is ethically wrong for the FGN to privatize some (and perhaps most) of its SOEs, given the absence of a conducive socio-economic milieu.

Key Words. Privatization, Nigeria, ethics, public enterprises, economic efficiency, socio-economic environment
Glossary of Acronyms

BPE – Bureau of Public Enterprises

DTN – Daily Times of Nigeria

FAAN – Federal Airport Authority of Nigeria

FGN – Federal Government of Nigeria

GEE – Global Economic Empire

IMF – International Monetary Fund

LNG – Liquefied Natural Gas

MTEL – Mobile Telecommunications

NAFCON – National Fertilizer Company of Nigeria

NAHCO – Nigerian Aviation Handling Company

NCP – National Council on Privatization

NEMA – National Emergency Management Agency

NEPA – National Electric Power Authority

NIPOST – Nigerian Postal Service

NITEL – Nigerian Telecommunications Limited

NNPC – Nigerian National Petroleum Cooperation

OECD – Organization for Economic Cooperation and Development

PHCN – Power Holding Company of Nigeria

SAP – Structural Adjustment Programme

SOEs – State Owned Enterprises

TCPC – Technical Committee on Privatization of Public Companies

WB – World Bank
1. Introduction

Privatization is a fundamental demand and policy implication of neoliberalism. It has been a subject of intense global debate in recent years. It encompasses both a wide range of ideas and policies, and diverse options for involvement of private capital and management in the running, control and operations of public or state-owned enterprises (SOEs). The policy gained currency in politics and international economy in the late 1970s and early 1980s largely due to the rise of conservative governments in the United Kingdom, the United States and France, among others. Thus privatization emerged as a reaction against the growth of government in the West (Starr 1989, 15).

Privatization can be defined as a “shifting into nongovernmental hands some or all roles in producing a good or service that was publicly produced or might be publicly produced” (Bendick 1989, 98) or as “any shift of activities or functions from the state to the private sector” (Starr 1989, 21). Privatization in this sense is the process by which control and ownership of an enterprise, business or agency is transferred from the public sector (government) to the private sector. In this paper I reflect on privatization in Nigeria in general, and on the ethical dimension of the divesture of the country’s SOEs by the Federal Government of Nigeria (FGN) in particular. My aim is to make the case that although privatization in general may be a “good” or viable economic policy, it is immoral for the FGN to privatize some (and perhaps most) of its SOEs given Nigeria’s socio-economic milieu.

I begin by examining some issues that arise from the idea of privatization. Next, I present a brief background to public enterprises in Nigeria. I then examine the privatization exercise in Nigeria, as well as some opposition to it. I go on to make a case as to why I consider unethical the transfer by the FGN of some of Nigeria’s SOEs to the private sector.

2. Privatization, Economic Efficiency, and Economic Growth

Discussions on privatization mostly bring up two closely related issues. The first concerns the relationship between privatization and economic efficiency. On this issue, the fundamental question is whether the private sector can more efficiently deliver goods or services than the

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1 For the purpose of this paper I shall use the term ethics interchangeably with morality.
public sector. This issue arises primarily because the private sector is conceived around a system of benefits of rights and rewards, and unlike the public sector it places greater importance on profit maximization. The second issue concerns the increase in the level of economic growth vis-à-vis the private and public sectors. That is, is the rise in the rate of economic growth a function of the growth in the private sector or the public sector?

On both of these issues the jury is still out. One who takes the view that the public sector facilitates economic growth — in much the same way as the private sector — or that the public sector is no less or more efficient in the delivery of goods and services than the private sector may not conceive privatization as a solution to the ailing aspects of the economy (say, in the production of public goods). Of course one who holds this view may opt for a robust private and public mixed economy, especially if that person shares the view that both the private and public sectors do contribute to the “welfare mix” - goods and services produced by public agencies or funded by tax revenue. 2

Nevertheless, underneath this debate of private and public mix is one fundamental question: is privatization a “good” or viable economic policy? Let us say that privatization is a viable policy if it is the case that (a) the rate of economic growth rises as the private sector grows and (b) the private sector generates a larger welfare total and welfare mix from available resources than the public sector. My take here is that even if a strong case can be made for privatization, namely, that it is a viable policy, that would not in and of itself legitimate privatization of public enterprises across the board. In particular, it would not make it morally right for a country to privatize some (or perhaps most) of its SOEs.

On the issue of the status of privatization as a policy three positions are easily discernible. The first takes the view that privatization is a viable policy, the second takes the opposite view, that is, that privatization is not a viable policy, and the third is more or less “agnostic”, that is, it takes the view that privatization is neither viable nor unviable (Nwoye 1997). Let us call those who defend the first view proponents of privatization and those who defend the second critics of privatization. I will not concern myself with the third view in this paper. I now want to talk briefly about the other views.

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2 See Rose (1989: 73-95) for a discussion of how both the private and public sectors contribute to the production of the welfare mix.
Proponents of privatization claim that it is an instrument of efficient resource allocation and management. Privatization, they claim, would reduce poverty by improving the economic indices of a country. In general, they argue that over time privatization will 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). Those who defend privatization may point to a survey by Shirley and Walsh (2000) that indicates that overall privately-owned firms are more efficient than SOEs.

In contrast, critics of privatization generally advance the following claims in support of the position that privatization is not a viable policy. The first of the claims is that privatization would lead to a negative effect on the distribution of wealth. Simply put, privatization would exacerbate social and economic inequalities. Another claim is that the policy would cause a reduction both in income levels and access to basic social goods and services. A third claim is that privatization would lead to an increase in prices in goods and services. Finally, there is the claim that as a policy, privatization would contribute to loss of employment. In addition to these claims, which we shall call “endogenous claims,” there are some critics who offer what we shall call “exogenous claims” as to why privatization should be rejected as an economic reform policy. The first of these arguments is that privatization is a neocolonialist policy meant to exploit developing countries. Another is the claim that privatization is a neoliberal view of development imposed by large corporations or multinationals, foreign capitalist’s countries and agencies such as the International Monetary Fund (IMF) and the World Bank (WB). I will say a little bit more about these claims later in this paper.

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3 The survey covers 52 major studies spanning the period from 1971 to 2000 and different market structures ranging from statutory monopoly to competitive firms. The conclusion that they reached is that the ambiguity about the relationship between ownership and performance is more theoretical than empirical. The result of their survey shows the following: of the 52 studies, 32 confirm the superiority of private and privatized corporations over those that are publicly owned; 15 are ambiguous or find no significant relationship between ownership and performance; 5 show that SOEs perform better than private firms.
Henceforth, I will use the term “global economic empire” (GEE) to refer collectively to the multinationals, the big capitalist’s countries, IMF, and the WB.

Paul Starr has pointed out that the “normative theories justifying privatization as a direction for public policy draw their inspiration from several different visions of a good society,” foremost of which is “the vision grounded in laissez-faire individualism and free-market economics that promises greater efficiency, a smaller government, and more individual choice if only we expand the domain of property rights and market forces” (Starr 1989, 26). Adeyemo (2008, 404) refers to the laissez-faire individualistic view as one of the most important of the four distinctive schools of thought on privatization, “which favors the unleashing of the competitive profit motive by emancipating free-market pricing from the interfering hands of state regulation”. That is, on the view of the laissez-faire individualistic economic theory, privatization allows individuals to reap the advantages of the market system and competition through efficient service delivery (Ugorji 1995, 537-560). The core idea embedded in the laissez-faire and purely individualistic model is simple, and it is this: property is better tended when it is privately owned. That is to say, the more rights or ownership an individual has over a particular property and the more he or she stands to gain or loss from tending to that property, the better it will be tended; and conversely, the less right he or she has over a particular property, the less motivated that individual will be to care for it. This is an instance of what Garrett Hardin (2003, 364-372) calls “the tragedy of the commons”. This is to say that when people behave out of rational self-interest or do what is best for themselves, they tend to abuse and destroy the commons, which ultimately makes everyone worse-off. Stated differently, common property will always be destroyed because the gain that individuals make overexploiting it will outweigh the loss they suffer as a result of its overexploitation.

The argument that public sector ownership is an instance of ‘the tragedy of the commons’, and that when people individually own property they tend to care for it better, goes as follows: when an enterprise is privately operated and owned, market forces provide the gauge for its efficiency and the needed drive for performance of the managers. If profits from an enterprise are relatively low or if it is running at a loss, shareholders will sell their stock. If they sell, the price of stock will be depressed and the value of the enterprise will decrease. If the price of stock and the value of the enterprise go down, potential shareholders and outsiders may either stay away from investing in it or, in an extreme case, acquire it at an incredibly low value. If it is acquired by outsiders, the managers may lose their jobs. Given
that the managers would not want to lose their jobs (since they are operating from the motive of rational self-interest), they will perform as best as they can to ensure that the enterprise is viable and maximizes profits.

However, these crucial deterrents and disincentives to inefficient management and performance seem to be missing from the public sector. Governments have few incentives, or do not have the same amount of motivation, to ensure that SOEs are efficiently run, partly because the check on inefficient management and performance is minimal, if not absent. For one, it is hard to know if an enterprise is efficient or not without competitors to compare it to. As well, it is difficult for the government and citizens to evaluate the efficiency of numerous and very different enterprises. Moreover, citizens (“shareholders”) have no transferable property rights in SOEs, i.e. they cannot sell stock as a signal of dissatisfaction with inefficiency, since there is no “market for corporate control”. This is to say that even if public enterprises are performing poorly, they cannot be taken over by bidders who believe that they can make more efficient use of the assets (Starr 1989, 28). In simple terms, citizens sink or swim with public enterprises.

The claim that the private sector can more efficiently deliver many goods or services than the public sector, and that as the public sector grows rates of economic growth tend to fall is not without debate. This is more so when we consider the fact that the private sector does not always guarantee economic efficiency and growth. The collapse of the economy of Argentina following the massive and aggressive privatization programme of the then president Carlos Menem (July 1989-December 1999) and the subsequent success stories of workers-take-and-run factories illustrate this.4 Also, the performance of some SOEs (e.g. in Malaysia and France) has been excellent (Saunders 1985, 1-21; Kuttner 1984).5 Besides, while it may be true, as Starr (1989, 40) notes, that ‘the record of central government planning is dismal, it does not follow that this experience can simply be extrapolated to all publicly owned

4 See the documentary, The take and the novel The silent change by Esteban Magnani for a chronicling of the workers recovered factories in Argentina. See also http://www.thetake.org/, (Accessed 28 November 2010).

5 In The economic illusion: false choices between prosperity and social justice, Kuttner argues that the view that social justice is bad for economic growth is an illusion and that prosperity and social justice can be reconciled, and can be mutually reinforcing.
organizations, particularly in states with more autonomous forms of public sector management’.6

3. A Brief Background to Public Enterprises in Nigeria

Even though the Federal Government of Nigeria (FGN) was a major player in the country’s economy in the 1960s when it established statutory corporations and invested significantly in other private companies, it was not until 1972 when the Indigenization Decree was introduced that its presence and control of the economy became increasingly dominant (Adeyemo 2008, 403). The decree effectively transferred privately controlled international corporations in Nigeria into SOEs, which were funded by the country’s new found oil wealth. At the end of the nationalization exercise there were over 1000 SOEs in virtually all sectors of the economy, covering oil and gas, education, steel plants, defense, manufacturing, mass transit, housing, banks, power, security, agriculture, housing and Medicare. By 1986, the estimated number of SOEs in Nigeria was 1,500, out of which 600 were under the FGN and the rest under States and Local Governments. The estimated 1,500 enterprises accounted for about 66% of formal sector employment, for over 50% of the gross domestic product, and for about 57% of aggregate fixed capital investment by 1997 (Jerome 2008 4).

It is estimated that successive Nigerian governments invested about 800 billion naira (approximately US$100 billion) in the public enterprise sector over two decades (1975-1995). This investment is one of the largest by an African government (Obasanjo 20097). As at the end of 2000, only 160 of these enterprises were engaged in economic activities. It is estimated that about 5,500 board appointments exist in the non-performing enterprises, and that over 50 percent of all non-performing public sector debts in Nigeria were generated by these enterprises. For example, NICON Hilton and Sheraton Hotels are said to have respectively generated US$300 million and US$250 million worth of debt.

4. The Privatization Exercise in Nigeria: Problems and Opposition

There are two chapters in Nigeria’s privatization programme. Even though the chapters happened under different administrations, they had similar core objectives. The chief aims in both chapters include opening up the country’s economy to global market forces; attracting

6 In “Public expenditure and economic performance in OECD Countries”, Peter Saunders has argued forcefully that it is necessarily not true that as public sectors grow rates of economic growth fall.

7 See also Nwoye, “Privatization of public enterprises in Nigeria” and Jerome (2008: 4).
more investment, foreign and local; fostering economic growth; attaining macroeconomic stability; building a broader tax base system; delimiting the role of government in the economy; reducing the country’s fiscal deficits, public sector borrowing, subsidies and subventions to unprofitable public enterprises (Adeyemo 2005, 226-228; Etieyibo 2011, 38-39).

Like many other developing countries, following various recommendations by the International Monetary Fund (IMF) and the World Bank (WB) in the early 1980s, Nigeria embarked on the privatization of some of its SOEs in the late 1980s. There were unprecedented economic problems in Nigeria in the early 1980s, leading to the accumulation of debt. The need to address this meant that Nigeria had to consider borrowing from the WB and IMF. Anyanwu observes:

By 1983, Nigeria’s short term trade arrears, amounting to over N4billion, had accumulated while unemployment was aggravated and serious balance of payments deficits incurred. Nigeria, under the Shagari regime, had to apply to the International Monetary Fund (IMF) for a three year extended facility loan of US$2.3billion (Anyanwu 1992, 5, 6).

Of course, seventeen conditions were attached as part of the financial assistance from the WB and IMF. Negotiations dragged on through the Buhari regime to the Babangida regime until 1985. Although the loan was eventually rejected by Nigeria (after some public debate), an agreement on the conditions had already been reached. This agreement included implementation of the Structural Adjustment Programme (SAP) which was aimed at restructuring the economy and making it more competitive and efficient (Adeyemo 2008, 410). SAP exacerbated the economic crisis in Nigeria, including triggering chronic inflation, worsening of the inequalities in income and real wealth, a dampening effect on savings etc. - a crisis that eventually led in 1988 to the first phase of the privatization exercise (Anyanwu 1992, 8-16).

Chapter I of the privatization programme started in 1988, when Ibrahim Badamosi Babangida (1985-1993) issued the Privatization and Commercialization Decree No. 25 of 1988 as part of SAP. The decree which established the Technical Committee on Privatization of Public Companies (TCPC) defines privatization as “the relinquishment of part or all of the equity and other interests held by the Federal Government or its agency in enterprises, whether wholly or partly owned by the Federal Government.” The 11-member committee, which had
as its first chairman Hamzad Zayyad was inaugurated on 27th August 1988, with a broad mandate to coordinate the rehabilitation of SOEs and the disposal of Government equities in the Nigerian capital market, and to oversee the entire privatization and commercialization programme. The committee, which was mandated to privatize 111 public enterprises and to commercialize 34 others, commenced actual divestiture in the early months of 1989 with the shares of Flour Mills of Nigeria, African Petroleum, National Oil and Chemical Company, and United Nigeria Insurance Company being issued in the market. From 1988 to 1993 when the privatization process was suspended, the committee, through mostly public floatation, succeeded in privatizing about 88 out of the 111 enterprises listed in the decree.

Chapter II of the privatization programme began on 20th July 1998, when, by the Public Enterprises Privatization and Commercialization Act of 1999, the National Council on Privatization (NCP) was established with the Bureau of Public Enterprises (BPE) as its secretariat. The statutory and policy mandate of the NCP and BPE includes (a) the formulation of policies on privatization and commercialization; (b) the approval of guidelines and criteria for valuation of public enterprises slated for privatization; and (c) the choice of strategic investors, share prices and assets of SOEs, privatization advisers and consultants, and enterprises for commercialization. Under the three-phase privatization programme announced by President Olusegun Obasanjo shortly after his election in 1999, the goal of the FGN is to divest through privatization or commercialization about 100 SOEs in the following order:

First Phase: complete divestment of shares in oil marketing companies, banks and cement plants that are already quoted on the Nigerian Stock Exchange.

Second Phase: complete divesture of shares in hotels, vehicle assembly plants and other enterprises operating in competitive markets where no regulation of price or market behavior is of primary concern to government.

Third Phase: Partial divestment of shares in major public enterprises currently operating in non-competitive sectors. This includes the utility companies — power and telecommunications, the fertilizer plants, the airways and the Petroleum refineries —
enterprises operating in monopoly or near-monopoly markets where public interest regulation is necessary.8

So far the BPE has made considerable progress in the implementation of the privatization programme. As of last count, it has privatized about 400 SOEs. Given the core objectives of

8 Some of the cardinal public enterprises earmarked for privatization include: the information group which has the Daily Times of Nigeria, Federal Radio Corporation of Nigeria, New Nigerian Newspapers, News Agency of Nigeria and Nigeria Television Authority; the petroleum sector comprising of the Nigerian National Petroleum Corporation, Eleme Petrochemicals, Kaduna, Port Harcourt, Warri refineries, Nigerian Gas Company, Petroleum and Pipelines Marketing Company, African Petroleum, UniPetrol, National Oil, Dresser Nigeria Limited, Baker Nigeria Limited; the financial enterprises made up of NICON Insurance, Nigerian Reinsurance, Nigerian Bank for Commerce and Industry, Assurance Bank, FSB Bank, Afribank BIAO shares; airlines and airports sector consisting of Nigeria Airways, FAAN, NEMA; the natural resources sector made up of all 12 Water River Basin Development Authorities; the agriculture sector which has the National Park Board, Ore Oil Palm, and Ihechiowa Oil Palm; the solid minerals sector comprising of the Nigerian Mining Corporation, Nigerian Coal Corporation, Nigeria Uranium Company Limited; the transport sector consisting of the Nigeria Ports Authority, Nigeria Railways, Nigerdock, NAHCO; state-owned Industries which are made up of NAFCON, Federal Super Phosphate Fertilizer Company, Nigerian Machine Tools, Nigerian Paper Manufacturing Company Limited, Nigerian Sugar Company, Bachita, Ashaka Cement, Sunti Sugar Company, Benue Cement Company, Calaber Cement, Leyland, Peugeot Automobile Nigeria Limited, Volkswagen Nigeria Limited; the housing sector made up of Federal Mortgage Bank, Federal Mortgage Finance Limited, Federal Housing Authority; telecoms and postal services sector which has NITEL, MTEL and NIPOST; power sector comprising of NEPA and its subsidiaries; the power and steel group which consist of Oshogbo Steel Rolling Mills, Jos Steel Rolling Mill, Delta Steel Rolling Mill, Ajaokuta Steel Rolling Mill, Aluminum Smelter Company Limited, National Iron Ore Mining Company Limited; the hotel and recreation sector which has the Nigeria Hotels Limited and Festac 77 Hotels.
Nigeria’s privatization policy and the progress that the bureau has made in its implementation, one may claim that the exercise has been an “enormous success”. But not so quick, for although on the face of it significant progress has been made, there have been numerous problems with the exercise. Indeed, it would be an understatement to say that the discontentment with the privatization programme among Nigerians has reached fever pitch. The programme has been dogged by one controversy after another, most of which have fuelled the negative public perception about the programme. Consider just a few examples:

The sale of NITEL, Pentascope, NEPA or Power Holding Company of Nigeria (PHCN) has been entangled in a panoply of controversies.

The inability of the 18 successor companies to PHCN to properly function due to lack of transparency in the entire process.

The recent termination of the sale of NITEL to Omen International Consortium for its inability to revalidate its bid bond of $105 million at the deadline of June 10, 2011.

The muddled ports, power and oil sectors reforms, particularly NNPC and LNG.

The sale of the Daily Times of Nigeria to Folio Communications, an Indian company for $30 Million, and the January 2010 ruling by the Federal High Court in Nigeria voiding the sale of 140 million shares of DTN to Folio Communications.

The controversial privatization of national steel companies (Ajaokuta and Delta Steel Plants) to Global Infrastructure.

The revocation of 18 private refineries licenses immediately after they were granted.

The confusion that trailed the sale of the national refineries, African Petroleum, Stallion House, the properties of the FGN in Lagos and Abuja, Unity Schools, and Trade Fair Complex.

Apart from the general public discontent with the implementation of the privatization programme, there is also the poor performance of the privatized enterprises.9 Adoga (2008, _ibid_, 2009).

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9 On the issue of post-privatization performance of some privatized public enterprises in Nigeria some studies show mixed and average performance. While they were increases in some of the performance indicators (e.g. profitability, productive and technical efficiency, employment, capital investment, output, prices, leverage, employment, dividend payout, etc)
5) has identified some of the reasons for the discontent and the causes of the poor performance of the privatized enterprises as: (1) the inchoate or lopsided asset acquisition and share purchase agreements; (2) the non enforceable clauses and breach of share purchase agreements; (3) the carrying out of due diligence exercise of large corporations at the data room of the BPE instead of a full financial and physical audit; (4) the under valuation of assets of state-owned enterprises; (5) the practice of aggressive asset stripping by private sector firms acquiring SOEs.

Strikingly, in a recent interview, the former Director-General of the BPE, Chris Anyanwu (2009) admitted that only 10% of the 400 privatized public enterprises in Nigeria are properly functioning. He blamed the failure of most of the privatized enterprises on the absence of effective regulation and on the hurried manner they were sold, particularly without due diligence carried out to ascertain the financial and technical competence of investors. The bureau, he says, has been given a presidential mandate to revoke over 350 of the privatized enterprises which have failed to perform to expectation since 1999.

Indeed, the privatization policy has been unpopular among Nigerians. It has received substantial criticism from labour unions, academia, civil servants, lawmakers and individual citizens. The World Bank said the following about opposition to the privatization exercise:

While the Obasanjo administration is strongly committed to an accelerated privatization programme, significant stakeholder groups are resisting the reforms. These include [public enterprise] managers and employees, senior government officials and civil servants, notably in sectoral ministries, who perceive that their current power and perquisites will be reduced as the privatization programme is implemented. In the National Assembly, a range of politicians view privatization as a threat to national sovereignty, and an unwarranted reduction in the role of the state (World Bank 2001, 22).

The WB was right about one thing. At the start of the exercise (and continuing) there was vigor resistance to the policy implementation in Nigeria. There were numerous strikes against

for some privatized enterprises they were no increase and sometimes decrease in other indicators for some other enterprises. See Jerome (2008) and Uzochukwu (2003), ‘Productivity and efficiency of some privatized public enterprises in Nigeria’. Whereas the study by Jerome examined UBA, Unipetrol, and Ashaka Cement, Uzochukwu’s study examined Aba Textile Mills, FSB International Bank PLC, and Ashaka Cement.
proposed sale of SOEs by labor unions fearing among other things loss of jobs and the exacerbation of economic inequalities and poverty. There were other factors that affected the implementation of the policy. These included deep-seated ethnic and regional differences in the Nigerian society, the lack of transparency in the privatization process, absence of a popularly acceptable regulatory framework, and neglect of issues relating to social and public interest.

We can divide critics of the privatization programme in Nigeria into two groups. On the one hand, we have critics who offer exogenous claims, that is, those who contend that privatization is a threat to national sovereignty. On the other hand, we have critics that provide endogenous claims, that is, those who assert that privatization is inimical to economic growth. Both critics, we might say, take their claims as justifying the view that privatization is not a viable policy, at least within the context of the Nigerian society.

Exogenous critics claim on the one hand, that privatization is an imposition by the Bretton Woods institutions, and on the other hand, that it is a neo-liberal approach to development. These assertions are not groundless, considering the normative foundations of privatization and the fact that it emerged as a reaction against the growth of government in the West. Exogenous critics are concerned primarily with preserving government autonomy, power and interests. To this extent, they are quick to blame Western countries, the IMF and the WB for coercing African countries, whether overtly or covertly, to privatize their public services - an exercise that they claim can only favour corporations, affluent countries and individuals (Brooke 1987; Killen 1987; Washington Financial Report 1986). According to this group of critics, Western countries and agencies bully African states to privatize their natural resources both as part of globalization and as a condition for development assistance (Nwoye 1997). They contend that these countries and agencies tell impoverished and developing countries ‘to turn their public services over to private owners and to sell off their oil, gas, mining, electric, telecommunication, transport and water companies as conditions for debt relief’ and in the negotiations for loans (Nwoye 1997; Starr 1989, 39).

Endogenous critics claim that there is no clear evidence to support the view that privatization leads to efficient delivery of goods and services, and that in fact it may not lead to economic growth. A 1997 study by Nwoye which compared the effectiveness of public and private service delivery in Nigeria provides some support for those who defend this view. According to the study (Nwoye 1997), there is “no clear evidence that private service delivery is inherently more effective or less effective than public service delivery, but rather that each
sector has its own strengths and weaknesses.” Furthermore, Sam Aluko\textsuperscript{10} has argued that much of private sector profits in Nigeria are not the result of efficient operation and increased productivity, but rather often represent money that private contractors make through corrupt or illegal political rents, namely, public sector connections and influence, inflated contracts and patronage. The point that these commentators are making is a subtle one, namely, that it is not clear if privatization does actually lead to efficient delivery of goods and services in Nigeria, even if we think that in general it has the potential to do so.

The World Bank claimed that much of the opposition to privatization at the start of its implementation were due to narrow interests. According to the agency, those most opposed to the exercise were individuals who “perceive that their current power and perquisites will be reduced as the privatization programme is implemented” (World Bank 2001, 22). The WB may be right about this, but this does not explain the motivation behind other objections to privatization in Nigeria. In particular, it does not explain the motivation behind endogenous critics and those that may be opposed to privatization on moral grounds.

Exogenous critics claim that privatization is a threat to national sovereignty, and an imposition by the Global Economic Empire (GEE). However, the fact that something is imposed on a party by an external source, or that some forms of economic assistance are made dependent on a party’s compliance with a particular policy, does not mean that such a policy is in and of itself not viable. For instance, in order to qualify for scarce medical resources and services a patient may be required to follow a particular health regime, or to make certain health choices. Another helpful example is the common practice adopted by some parents to motivate their children to behave “responsibly”. They may deny their children access to family resources, or promise to pay their college tuition as a way of encouraging them to quit certain behavior, like smoking, gambling, and excessive drinking. One may frown at these policies, label them “arm-twisting” and paternalistic, and flatly reject them. Yet one may be inclined to say that it is the unhealthy choices such as smoking and excessive drinking — that are bad, and that they are bad independent of the tactics that are adopted to put them in check.

\textsuperscript{10} Cited in Adeyemo (2005, 225).
It is also important to point out that there is something to be said about the motivation underlying the imposition of privatization on developing countries by the GEE. The arguments and firsthand accounts provided by a number of scholars suggest that the push for privatization by the WB and IMF may be driven by interests other than those of developing countries; that is, they are more often motivated by the need to advance the interests of a few elite and corporate hegemony rather than by the interests of developing countries. Steve Berkman, a former employee of the WB, claims that the development strategies pushed by the institution onto developing countries for decades have generally diverted development money into the pockets of corrupt elites and their partners in industrialized countries, not to mention that these hundreds of billions of dollars schemes have not been successful and have left the poor to shoulder the burden of paying off the debts (Berkman 2007, 157-174). Berkman’s account is substantiated by that of John Perkins in Confessions of an economic hit man. In this book, Perkins (2004) claims that he was an “economic hit man” for 10 years, helping U.S. intelligence agencies and multinationals to coax foreign governments to enter into all sorts of economic agreements and transactions, and into accepting billions of dollars of loans from the WB and other financial institutions to build infrastructure that they could not afford.11

David Korten provides some of the arguments underlying the accounts of Berkman and Perkins. He notes that the allegiance of the world’s large corporations is “purely to further their own bottom lines” rather than “national or local interests” (Korten 2001, 127). Like the imperial European powers that colonized territories in other continents partly in search of bigger markets and outlets to harvest resources, multinationals seek such outlets through the creation of a globalized economy. Such outlets get significantly widened when countries sign free trade agreements and adopt economic reform policies like SAP, liberalization and privatization, which are generally pushed by the WB and IMF. Because these policies collectively render national economic borders increasingly irrelevant, large corporations are easily able to further their interests. Two problems emerge from this. Firstly, the convergence of ideological, political and technological forces propelling a process of economic globalization is shifting power away from governments that are responsible for the public

11 Perkins’ book, Confessions of an Economic Hit Man implicates the highest echelons of government and corporations, including the IMF, World Trade Organizations, World Bank, “G8" countries in various levels of corruption in developing countries including money laundering, tax evasion, and environmental disasters
good toward a handful of corporations and financial institutions that have aggregated global economic and political power, and who are “driven by a single imperative, the quest for short-term financial gain” (Korten 2001, 22). This creates a situation where governments are unable to respond adequately to public frustration with regard to the crisis in their various local economies. The GEE often lay the problem at the doorstep of governance, of government bureaucracies, and of inefficient SOEs. But Korten claims this is mistaken. The problem, he argues, stems primarily from the pressure that governments face from the world’s largest corporations (and if we might say the GEE) in general, and the seemingly powerlessness of governments to deal with elites, and with multinationals in particular. Secondly, because of the enormous political and economic power of multinationals, they have rendered many of the political roles of government obsolete. Due to the global levels of operations of large corporations, they are easily able to “routinely sidestep governmental restrictions based on old assumptions about national economies and foreign policy” (Korten 2001, 129). A helpful example here is the case of the restrictions placed on Honda from importing Japanese cars into Taiwan, South Korea and Israel. Honda simply circumvented the restrictions by shipping Honda vehicles to these countries from its U.S. plant in Ohio.

5. Ethics and Government Privatization in Nigeria

Anyangwu’s unequivocal admission of the failure or non-performance of most of the privatized enterprises raises questions about the genuineness of the implementation of the privatization programme in Nigeria. In particular, it raises the specter of whether or not it is ethically right for the FGN to privatize some (and perhaps most) of Nigeria’s SOEs. Raising this issue brings us back to our earlier question concerning whether or not privatization is a viable policy or not. For the sake of this paper, I will assume that privatization is in general a viable policy. However, I shall argue that it is morally wrong for the FGN to privatize some of Nigeria’s public enterprises.

Although ‘ethics’ and ‘morality’ are often used interchangeably, they are different. While ethics is the systematic and critical study of morality as a concept and a source of behavioral guidance, morality is a formal system of rules about how one ought to behave in society, that is, what is right or wrong. In applying ethics to morality, the objective is to see whether or not morality is rationally justified. Since my discussion focuses on the morality of privatization in Nigeria, it is first and foremost a normative rather than a metaethical account. While the latter
is concerned with the nature of moral language and judgment, the former is concerned with standards of evaluating right or wrong actions.

I shall support my argument for the unethicalness with regards to the divesture of some of Nigeria’s SOEs by appealing to the view that privatization requires a particular socio-economic milieu, and that this environment is absent in Nigeria. To better contextualize my argument, it is crucial to clear up two important points. First, how the argument plays out within the context of international and global trade relations, that is, in the light of “exogenous claims”; second, the sense of morality that I will be employing to develop my argument. Let me begin with the first.

If the imposition of privatization primarily serves the interests of the GEE rather than those of developing countries, and if the governments of developing countries must necessarily cower before the GEE, then it would seem simplistic to either blame developing countries for divesting their SOEs or to construe the privatization exercise in Nigeria as unethical. There is some plausibility to this claim, but it is not entirely acceptable. This is because in many situations, the elite in the developing countries are often quite willing to go along with the GEE because of what they stand to gain by implementing these reform policies. In any case, even if we accept that the governments of developing countries are boxed into a corner to accept all sorts of developmental programmes that have little or no benefits to their countries, this would not exonerate them from moral opprobrium. From the fact that one commits a crime because one is forced to do so by external circumstances, it does not follow that one is not guilty of the crime.

This takes me to the second point. In defending a particular ethical judgment, one may appeal to different principles or standards of morality that have been advanced by ethicists. However, I am not going to take this route. Rather I will defend my position of the unethicalness of the FGN with regards to its divesture of some of Nigeria’s SOEs by appealing to what I will call a shared “moral understanding or intuition”. I believe that this moral understanding is accepted in different forms by a number of major normative ethical

12 A look at the history of philosophy, particularly in the West shows that a number of major normative ethical theories subscribe to different ethical principles. There is virtue ethics which understands the goodness of actions in term of virtues. There is also utilitarianism which takes the principle of utility as the standard by which right actions are separated from wrong actions. And there is Kantianism which evaluates the rightness and wrongness of actions by the categorical imperative.
theories, and it is based on the concept of “paradoxical counterproductivity” - the view that a procedure that subverts the very purpose it is intended to serve is prima facie wrong. This view cements my argument, the nub of which is this: because of the absence of a particular socio-economic milieu in Nigeria, the privatization of some of its SOEs subverts the very purpose it is intended to achieve - economic efficiency and growth - and consequently is prima facie morally wrong. Thus it could be said that the evaluation of the privatization exercise in Nigeria with regard to its ethicalness or unethicalness differs markedly from the evaluation that is associated with the general conduct of individuals and institutions in society.


The argument that it is ethically wrong for the FGN to transfer ownership and control of some of its SOEs to the private sector runs thus: Privatization has the potential to stimulate economic growth only in a particular socio-economic milieu. Such a milieu is lacking in Nigeria, which is characterized by rampant bureaucratic corruption, widespread poverty, and a high rate of unemployment. Given this environment, it was morally wrong for the FGN to embark on privatization.

To say that privatization in general is a viable policy is not the same as saying that it is intrinsically and unconditionally good. Something is intrinsically and unconditionally good when it is good in and of itself, that is good independent of either the outcomes that it produces or certain other circumstances. To say that privatization is not always good means among other things that certain conditions or factors determine its goodness; and to identify these conditions is to identify the sort of environment that has to be present if the policy is to be successfully implemented. In identifying these conditions one simply recognizes, on the one hand, the importance of divesture putting on a “social face” and, on the other, balancing the implementation of the policy with other existing national and local interests. This is particularly poignant given that it is generally agreed that there are enterprises that are better

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13 For a formulation and discussion of the “paradoxical counterproductivity” see Illich (1978: 35, 117).
left to the public sector even if they could be more efficiently managed by the private sector. Examples include services of a sensitive nature such as national defense, and those that have public utility value such as education. A recent case that illustrates this general point is that of DP World, a state-owned maritime company in the United Arab Emirates. DP World bowed to pressure from the United States Congress to sell off its U.S. operations to an American owner following a furious controversy over port security (Weisman and Bradley 2006).

In most countries, including those that aggressively implement privatization, education (up to a certain level) is made a matter of public concern and interest. Public schools are managed for the benefit of all citizens, particularly for those whose economic status disqualifies them for admission into private schools. Whereas private schools are run and maintained for profit, public schools are not. Private schools can reject applicants, but public schools are denied that option. Public schools are public, not only because they are state-owned and financed, but also because they are open to all children of eligible age in the area where they are located. Public utility and the importance of education are reasons for maintaining public schools, even when they are not making profits or not been ran very efficiently. The point is that other values and interests can sometimes override the goal of efficiency and profit motivation. Once we accept this proviso, we admit that it could be justifiable to leave some other enterprises in the public domain insofar as one is able to show that there are important values and interests (other than efficiency and profit-making) that need protecting.

The view that privatization requires a particular socio-economic environment has been articulated in some form by the WB. Privatization, it says, is not “a blanket solution for the problems of poorly performing state-owned enterprises” (World Bank 2003). It adds:

Most privatization success stories come from high income and middle-income countries. Privatization is easier to launch and more likely to produce positive results when the company operates in a competitive market and when the country has a market-friendly policy environment and a good capacity to regulate. The poorer the country, the longer the odds against privatization producing its anticipated benefits, and the more difficult the process of preparing the terrain for sale…. [Privatization] cannot in and of itself make up for a total lack of competition, for weak capital markets, or for the absence of an appropriate regulatory framework. But where the market is basically competitive, or when a modicum of regulatory capacity is present, private ownership yields substantial benefits.14

14 See also IMF Survey (1987).
It is instructive that this is coming from the WB, the principal architect and advocate of privatization. From the above passage, we can say that some conditions must hold if any privatization programme is to be genuine and successful. In a way, to claim that a successful programme of privatization requires a particular socio-economic milieu, i.e. must meet certain conditions, is to claim that it is economically inexpedient, and, as I argue, morally wrong, for a country to divest its SOEs if these conditions are absent. That is to say these conditions stipulate when it is ethically permissible for a country to implement a privatization programme. If a country ignores this stipulation, it invariably subverts the very purpose that privatization is intended to achieve.

Going by the quotation from the WB above, the first condition of a genuine privatization programme is that the country implementing it should be in either the high or middle income-earning bracket. The second condition is that the market environment in the country should be a relatively competitive and stable one. The third is the presence of a market-friendly policy environment. Finally, there must be an appropriate regulatory framework for the economy. All four conditions and the fifth, which I discuss in a moment, require among other things the establishment of strong institutional frameworks both in the financial and legal sectors, and the need for transparent leadership in the privatization transactions. Any keen observer of the Nigerian socio-economic environment will know that these conditions are completely absent.

The first condition ensures at least three things. First, that privatization does not concentrate wealth in a few hands, but rather that it is more generally spread out in the population. Second, that most of the investors are local rather than foreign. Third, that the circumstances of the poor are not exacerbated, and the divide between the poor and the rich is not widened (prices are generally expected to rise with privatization).

15 On the issue of leadership and leadership crisis and failure in Nigeria see Achebe (1983), *The trouble with Nigeria*. In this book Achebe makes the case that the failure of leadership in Nigeria is primary responsible for others issues that Nigeria is/and has had to deal with and that if the issue of leadership can be addressed Nigeria can resolve inherent problems like tribalism, indiscipline, social justice, corruption, and the cult of mediocrity.
In spite of its vast human and natural resources, Nigeria is a poor country, and the distribution of income is heavily skewed. Nigeria is among the bottom 20 countries in the world that has the widest gap between the rich and the poor, and has one of the highest Gini coefficient or index in the world. The Gini coefficient - named after the Italian statistician Corroda Gini (1884-1965) - measures the extent to which the distribution of income or wealth (or in some cases consumption expenditure) among individuals or households in a given economy deviates from a perfectly equal distribution. A Gini coefficient of 0 represents absolute equality, while an index of 100 implies absolute inequality. Besides, the Human Development Index (HDI) ranking placed Nigeria 24th out of 84 countries in the low and medium human development category in 1987; 128th out of 160 countries in 1990; 148th out of 173 countries in 2000; 158th out of 182 countries in 2009; 142nd out of 169 countries in 2010 (Oshewolo 2010, 264-265; CIA 2009; UNDP Human Development Reports). The HDI measures average achievements in basic dimensions of human development comprising statistics for life expectancy, education and gross domestic product collected at the national level. Furthermore, Nigeria has the third largest number of poor people after China and India. Statistics show that the incidence of poverty, i.e. the percentage of the population of those living in poverty (using the rate of US$1 per day) increased from 28.1% in 1980 to 46.3% in 1985, and then to 65.6% in 1996. The incidence increased to 69.2% in 1997, and stood at 64.4% and 83.9% (for US$1.25 and US$2 per day respectively) between the year 2000 and 2007 (Oyelere 2010; Oshewolo 2010, 266-267; Omotola 2008, 496-517; CIA 2009; Oyelere 2007).

Both the second and third conditions are meant to prevent a privatization reform from perpetuating existing monopolies and concentrating them in private hands, and ensuring that prices of goods and services are determined by market forces, namely, the prices of basic goods and services are not so expensive that they are beyond the reach of the average citizen or the poor. The importance of these conditions to an economy cannot be overemphasized. This is because privatization does not necessarily lead to increased competition. Privatization is concerned with the divesture of government ownership of a public enterprise. Nevertheless, to divest in a market does not mean that the market is competitive, since the sale of SOEs could simply mean a transfer of public monopolies to private monopolies. To create a competitive environment, privatization must be accompanied or preceded by other forms of economic reforms such as deregulation and liberalization, both of which are aimed at opening up the market to competitive pressures. Given that it is entirely possible to privatize without
deregulating and liberalizing and to liberalize and deregulate without privatizing, we expect a comprehensive reform programme to target all three.

The fourth condition is important because, among other things, it prevents privatized enterprises not only from gaming the system, but also guarantees that none of them is competitively disadvantaged and that they operate in an environment of fairness, and enjoy a level playing field. In short, a proper regulatory framework ensures that privatized enterprises are not locked in a Prisoner Dilemma scenario, in which although doing the “right” and ‘lawful’ thing is the rational thing, they choose to do the “wrong” and “unlawful” thing, even though this has a suboptimal outcome. The point is that in the absence of a proper regulatory framework, some privatized enterprises will suffer a competitive disadvantage if they choose to do the “right” and “lawful” thing; and because they know that they will suffer a competitive disadvantage by doing the “right” and “lawful” thing, they will — like every other enterprise —choose to do the “wrong” and “unlawful” thing.

We can add a fifth condition, namely, that for a successful privatization programme, there should be a minimally corrupt economic environment. Simply put, to ensure that government officials and their cronies do not employ privatization as a quick and efficient means of extracting corrupt or illegal political rents, the country’s corruption level must be relatively low. As indicated earlier, part of the reasons for the poor performance of many of the privatized enterprise is due to the lack of due diligence. I propose that this is due to widespread bureaucrat corruption in Nigeria. Elsewhere, I have argued for how privatization facilitates corruption by serving as an efficient way of extracting corrupt political rent; and as I earlier pointed out, there were widespread instances of corrupt practices with regards to the privatization exercise in Nigeria.

To say that the level of corruption in Nigeria is significantly high is to state the obvious. For example, Transparency International’s corruption perception index covering the 1990s and mid 2000s consistently placed Nigeria among the 10 most corrupt countries in the world. Its

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16 The view that official corruption characterizes the Nigerian state is very well captured by Achebe as early as in the 1960s in his book, A Man of the People.

2010 corruption perception index places Nigeria 134th out of 178 countries - certainly an improvement, partly due to the recent public fight against corruption. In a society such as Nigeria’s with considerable corruption, privatization serves as a tool to perpetuate graft, namely, to extract illegal political rents. By choosing to privatize its SOEs, the FGN ignored the lack of conditions necessary for an effective privatization. The two chapters of the country’s privatization programme (intentionally or unintentionally) improved the financial portfolio of an elite and augmented the hegemony of multinational corporations to the detriment of public interest. As such, the government acted unethically.

7. Conclusion

As an economic reform policy, privatization may lead to a smaller government and to greater wealth for some. In general it may be a viable policy, but it is not intrinsically and unconditionally good. The policy has created some concerns for Nigerians and political observers, and understandably so, partly because the conditions necessary for its implementation are egregiously lacking in the country. I have argued in this paper that (1) a genuine privatization programme must be preceded by the necessary socio-economic environment generally and (2) the FGN acted unethically by divesting from some of Nigeria’s SOEs. Even if we accept that there are things that are good about privatization or that it is in general a viable policy, the reality on the ground suggests that privatization in Nigeria was ill-advised. Given that the country’s economic environment lacks certain conditions requisite for successful privatization, it is not surprising that over 350 (out of the 400) of the privatized SOEs have failed.

This then raises the question as to why the IMF and WB prodded Nigeria to embrace privatization, especially given the WB’s acknowledgement that a successful privatization programme needs a particular socio-economic environment. Two reasons could be advanced for this. First, they do not adequately appreciate the dynamics of applying privatization in the developing economies of Africa, and particularly in Nigeria. Second, they are more interested in privatization for privatization sake, or in selling privatization as a reform policy given other pecuniary interests, namely, greasing the palms of multinationals and some industrialized countries. The point is that it seems that the IMF and WB will go to any length to advance other economic interests, not least theirs, and to promote their neoliberal policies. If I am right about this, then they have a case to answer for leading Nigeria down the path of privatization. On the other hand, the FGN has to take the responsibility for going down the road with the GEP. Insofar as it is not clear that it is unable to resist the move by the GEP, it
shares in the moral blame for divesting from many of Nigeria’s SOEs. In a nutshell, the government acted unethically.

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