The Political Economy Of Privatization In Nigeria: A Case Study Of The Nigerian Telecommunications Limited (Nitel)
ABSTRACT

Privatization in Nigeria was thought to have represented a reversal of the entire post-military and post-authoritarian interventionist policy paradigm. The privatization decision resulted from demands associated with the international institutions such as the World Bank and globalization in general. The sad reality, however, is that privatization in Nigeria has been abominably politicized, climaxing at political patronage and cronyism as clearly shown by biased selection of candidates, inadequate regulatory framework and the poor mode of privatization. Using the Nigerian Telecommunications Limited (NITEL) as a Case Study, this dissertation rehearses the problematical scenery of privatization in Nigeria, and how privatization, rather than serving as an economic reformatory tool, has been used as a tool for political settlements. The result of the study corroborates previous researchers’ position that privatization in Nigeria failed to deliver the economic goal of efficiency and improved productivity. In the case of NITEL particularly, the results of the study (using information and data collected on NITEL, a thorough insight of the performance after privatization exercise were taken with references to some performance indicators such as profitability, operating efficiency, capital investment, leverage and employment), showed that the company almost experienced bankruptcy before the Nigerian government revoked the sale from Transnational Corporations (TRANSCORP). The pinnacle of the findings of the study reveals that political corruption and institutional failures are the most responsible factors for the failure of privatization in Nigeria, generally, and in the case of NITEL, particularly.

Keywords: Political economy, Privatization, Corruption, NITEL

1. INTRODUCTION

Nigerian public enterprises have long been criticized for their inefficiency, politicization, corruption and absence of productivity. This is because, past and current political leaders have used these enterprises to favour their supporters through excessive employment, regionally targeted investments and deliberate underpricing of products or overpricing of inputs from politically connected suppliers. In the quest to proffer a solution to this economic problem, the Nigerian government, with the influence of international agencies such as the World Bank and International Monetary Fund (IMF) decided to engage in the privatization of its public enterprises with the hope of eliminating government interference in business enterprises and ensure increased efficiency of the utilities. However, in spite of the privatization of most public utilities in the country, the cases of inefficiency and political interference still persist.

1.1 WHY WAS IT IMPORTANT TO UNDERTAKE THIS STUDY?

The aim of this research was to investigate how political corruption undermines the economic ideology of privatization, and the consequence of such on the political and economic development of Nigeria using Nigerian Telecommunications Company (NITEL) as a case study.
That the public outcry against privatization in Nigeria is in context and a result of the fraudulent process involved, where politicians acting directly or indirectly through their proxies convert public enterprises to their private businesses in the name of privatization.

2. LITERATURE REVIEW

Privatization and regulatory reform have been adopted by governments as the solution to the predicament of poor performance of formerly state-owned enterprises, and as the means to achieve improved economy (Pagoulatos, 2005). Also, in order to stimulate allocative and productive efficiency, competition has been introduced to activities where the notion of ‘natural monopoly’ has been rejected (ibid). Hence, private sector involvement in the economic and business activities of developing nations/economies plays an increasingly strong role that may be considered stronger than that of the development agencies (Hodge, 2004). Also, advocates of privatization have justified privatization as they argue that privatization is advantageous for its likely political effect in deflecting and reducing demands on the state (Starr, 1988). The privatization of government enterprises and public services, according to this analysis, will redirect aspirations into the market and encourage a more entrepreneurial awareness (ibid).

The danger however remains the lack of accountability and weak regulatory strength that continues to create room for private enrichment at the expense of the poor (ibid). The debate about the impact of privatization on economic growth and poverty reduction is contentious (Mitlin, 2003). This is so because there are winners and losers associated with private sector participation. Moreover, the adoption of privatization policy in developing countries have taken political direction as business men that are financiers and supporters of incumbent governments are rewarded through the privatization of state-owned enterprises to their companies. Consequently, the privatization of public assets and enterprises is also a privatization of wealth (Star, 1988). This is why it has been suggested that advocates of privatization policy want privatization to increase the proportion of the population who own shares of stock and therefore take a more positive view of profit making (ibid).

Politically inspired privatization is all the more likely because privatization attracts support not only from economists with a disinterested belief in liberalized markets but also from a privatization lobby consisting of investment banking firms, government contractors, and other corporations whose businesses stand to benefit if the public sector cedes ground (Starr, 1988). Hitherto, Williams (1998) reminds us that partisan organization is at the very heart of modern politics in which governments of countries construct alliances and reward supporters using all means at their disposal, including privatization.
If properly carried out, Privatisation, by and large, undercut potentially wasteful politicians and public managers, and their established instruments of political patronage, while transferring greater control to democratically unaccountable globalised market actors (Roland, 2008). Developed countries that have enjoyed the economic benefits of privatization have had to ensure that the process of privatization, all things being equal, have been carried out with the needed democratic accountability and adeptness in addition to strict and appropriate regulations of the beneficiary companies of privatization.

It has been generally agreed that the economic policy of privatization gained significant public notice in the early 1980s when Margaret Thatcher was in office as the Prime Minister of Britain. The pioneer and most extensive wave of privatization of public utilities has been the telecommunications sector (Jin, 2003). This has been the case for both developed and developing countries as Telecommunications turns out to be the infrastructure of the emerging global information society.

Privatization involves the transfer of ownership of enterprise-in whole or in part-from the state to private responsibility (Savas, 2000). It is the shift of ownership of productive assets from public to private control, the right to take allocative decisions and the claim to the residual profit flows (Fink et al, 2003). Privatization is considered to lead to increased efficiency in privatized enterprises as a result of new investment, new technology and improved corporate governance.

Privatisation decisively contributes to a redrawing of the public–private boundary through institutional reform and the reallocation of structural power (Pagoulatos, 2005). On the winning side of this ‘game’ are the frequent beneficiaries of globalisation: transnational players, mobile factors of production and holders of liquid assets, as well as a globalised and expanding domestic financial sector, together with high-skilled, white collar professionals; while on the losing side are the immobile factors of production, particularly workers and employees in the wider public sector and their representative unions (ibid). It is important to add that in the Nigerian situation, the party members and sponsors of public office holders are on the winning side of the game of privatization while opponents of the ruling party are losers.

Existing literatures and researches show mixed results and ideas on privatization programme, even though the vast majority of authors favour privatization policies. A growing body of literature and research also shows that politics and politicization are very present in the privatization process. It is not only that privatization wears the inevitable and unholy garment of politics, but it weighs down and inhibits the realization of the economic goal of the idea of privatization. Importantly, however, is the fact that the politicization of privatization varies in proportion from continent to continent, and country to country, with the most dubiously politicised privatization taking place in Africa, (and Nigeria serves as a prime example).

Privatization is a global policy movement ‘carried along by a combination of objective forces, imitative processes, and international financial sponsorship’ Starr (1990). Although the meaning of privatization
depends in practice on a nation's position in the world economy, privatization has explicit political origins and objectives (ibid). This view of Starr on the political nature of privatization policy suggests that wherever the policy of privatization is adopted, whether developed or developing states, there exist some point of political patronage.

In analysing the political roots of privatization in the Western countries of United Kingdom, France and the United States, it has been argued that political motives are usually associated with conservative/neo-liberal governments, in which case they may use privatisation as a (systemic) means to execute broader societal transformation or as a strategic instrument to demean the influence of opposition coalitions (Feigenbaum et al. 1999). Taking this argument further, Ugo and Costanzo (2002) warn that privatization involves new forms of social and political exclusion that could undermine the supposed economic advantage of efficiency.

Parker and Kirkpatrick (2003) have reviewed the evidence and policy lessons from privatization in developing countries. They identified technical constraints including managerial deficiencies, poor administrative and regulatory capacity and political constraints including ethnic and political power, and self-seeking within governments as the major reasons for unsuccessful privatizations in developing countries. They found that privatization policy in developing countries remains controversial and that the relative roles of ownership and other structural changes, such as competition and regulation, in promoting economic efficiency remain uncertain. They advised based on evidence that if privatization is to improve performance in developing economies over the long term, it must be complemented by policies that promote competition and effective state regulation, as well as integrating it into a broader process of structural reform.

For the third world countries, privatization emerged as a retreat in the face of international pressure (Starr, 1989; Nwoke, 2005). This fact was further stressed by Henig and Feigenbaum (1997) when they argued that developing countries engaged in the experimentation of the privatization policy under the “prodding” of the World Bank. Also, in explaining the rationale for privatizing the Korean Telecommunications, Jin (2003) contends that the Korean government initiated the privatization as well as the liberalization of the telecommunications industry because of pressures from both national and international players in the late 1980s. In particular, it has been argued that the disappointment of privatization programme in Nigeria is due to the absence of independence in the conception and implementation of the idea without recourse to the political, social and economic realities of the country. The argument has been that Western countries, IMF and the World Bank, forced the privatization of public services and natural resources in Africa as a condition for development assistance (Nwoye, 2005). In the case of Nigeria, Amakom (2003) rightly argues that the failure of public enterprises in Nigeria became obvious when public expenditure meant for the running of state owned enterprises were observed to be less productive and failed to deliver positive return both directly and indirectly to all stakeholders. As a result of the wastage, the federal government had to heed the call of
concerned bodies and groups such as World Bank and the International Monetary Fund to hand over state owned enterprises to the private sector (ibid). Before the privatization wave in Nigeria, there were about 1,500 public enterprises in the country. These included 600 public enterprises (PEs) at the federal level and about 900 smaller PEs at the state and local levels, and shares of employment, value added and gross fixed capital formation of public enterprises did exceed those of other African countries (Afeikhena, 2008).

Bortolotti and Pinotti (2003) provided an empirical analysis of the role of political institutions in privatization using panel data for 21 industrialized countries over the period of 1977 to 1999 period. They concluded that privatization is strongly affected by partisan politics, and that the timing and extent of privatization is affected by political fragmentation and proportional elections. They particularly pointed out that right-wing executive with re-election concerns design privatization to spread share ownership among domestic voters.

3. RESEARCH METHODOLOGY

3.1 DATA COLLECTION

Secondary data and interviews

Secondary data:
- Reports of the privatized enterprise (i.e., NITEL)
- Transnational Corporations Reports and performance publications on NITEL
- Ministry of Industry Publications on enterprises performance
- Bureau for Public Enterprises publications

Unstructured interviews with senior officials of the company

3.2 DATA ANALYSIS

The data utilized for the analysis are primarily accounting data that were sourced from annual reports, the National Council of Privatization, Transnational Corporations Ltd and direct information from the Nigerian Telecommunications Limited. In the section where the performance of NITEL was compared with the performance of other telecommunications operators in Nigeria, meta-analysis technique was applied in the analysis of the data. This method of analysis provided the grounds for the sourced data from the various telecommunications companies in Nigeria to be summarized and compared.

4. RESULTS PRESENTATION AND ANALYSIS

Table 1: NITEL before Privatization

<table>
<thead>
<tr>
<th>Number of Functional Lines before privatization in 2002</th>
<th>Generated Income before privatization in 2002</th>
<th>Number of Employee</th>
<th>Debt Overhang before privatization in 2002</th>
</tr>
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<tbody>
<tr>
<td>553,471</td>
<td>53.41 billion</td>
<td>Over 100,000</td>
<td>20 billion</td>
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</tbody>
</table>
Table 2: NITEL after Privatization

<table>
<thead>
<tr>
<th>Number of Functional Lines Seven years after privatization (2009)</th>
<th>Generated Income Seven years after privatization (2009)</th>
<th>Number of Employee</th>
<th>Debt Overhang Seven years after privatization (2009)</th>
</tr>
</thead>
<tbody>
<tr>
<td>40,000</td>
<td>Figure not available</td>
<td>4,000</td>
<td></td>
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Table 3: Comparing NITEL performance before and after takeover by TRANSCORP

<table>
<thead>
<tr>
<th>Connected lines before takeover in 2006</th>
<th>Connected lines after three years of takeover (2009)</th>
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<tbody>
<tr>
<td>400,000</td>
<td>Less than 100,000</td>
</tr>
<tr>
<td>Working lines before takeover in 2006</td>
<td>Working lines after three years of takeover</td>
</tr>
<tr>
<td>296,000</td>
<td>5000</td>
</tr>
<tr>
<td>Active exchanges in networks before takeover in 2006</td>
<td>Active exchanges in networks three years after takeover(2009)</td>
</tr>
<tr>
<td>249</td>
<td>Less than 60</td>
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<table>
<thead>
<tr>
<th>MTN</th>
<th>GLOBACOM</th>
<th>ZAIN</th>
<th>NITEL</th>
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<tr>
<td>19 million</td>
<td>17 million</td>
<td>15 million</td>
<td>200 thousand</td>
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Source: Nigerian Vanguard (08/10/09)

5. CONCLUSION AND RECOMMENDATION

In its fourth attempt to privatize NITEL by the National Council on Privatization, NITEL and its GSM mobile subsidiary, M-Tel, were sold in 2006 to TRANSCORP at a give-away price of $750 million for 75% equity. A group, International London Limited (ILL), which was the preferred bidder, had in 2001 offered $1.3bn for 51% for equity in just NITEL without M-Tel, but the deal was cancelled on the account of delayed payment. But TRANSCORP did not only fail to make the deadline for its own payment, but also could only pay $500 million when it finally did. This suggests that the Obasanjo regime and his autonomously composed National Council on Privatization, as at then, had a pre-determined candidate to succeed in the bid for NITEL.

The privatization programme in Nigeria generally achieved two objectives, viz:

- It transferred the wealth of Nigerians to the few political elites and business allies of politicians
- It was a tool to seek legitimacy of government from the western countries and international agencies (IMF and World bank particularly)

Factors responsible for failed privatization:

- political corruption of the bidding process (privatization as a tool for political reward/settlements)
- Absence of accountability (undervaluation of assets)
- weak and compromised regulatory system
This study shows that public enterprises in Nigeria that have been privatized remain inefficient mainly as a result of government’s deliberate strategy of privatizing state owned enterprises (SOEs) to cronies and supporters and with little or no effort at ensuring that the private companies that take over these state owned enterprises are monitored to perform, or sanctioned when they failed to meet up with the contract terms in the Share Sale and Purchase Agreement (SSPA). Hence, the failure of privatization has been a problem of political economy rather than lack of technical or manpower capabilities, or the myth that the economic ideology of privatization does not fit the Nigerian socio-economic society. Worse still, the regulatory agencies which are responsible for ensuring that private companies live up to expectations of productivity and efficiency have been politically compromised.

5.1 RECOMMENDATIONS

In order to avoid failures in future privatizations of public enterprises, particularly the Nigerian Telecommunications, the following recommendations are provided.

- That the Nigerian government should consider the total privatization of state owned enterprises rather than being a joint owner with the private companies. This will eliminate, in totality, the political interference with the running of NITEL and all the privatized firms in the country.

- An independent and effective regulatory framework that will not only monitor service delivery, but enforce credible sanctions on defaulting beneficiary companies of privatization. To this end, the current composition of the Nigerian Communications Commission (NCC), National Council of Privatization and Bureau for Public Enterprises should be disbanded having supervised the four attempts at privatizing NITEL without being successful. Parker (2001) asserts that new models of regulation and competition are required in places where the incumbent(s) have shown repeated failure.

- The regulatory agencies charged with pre and post privatization regulations in Nigeria, namely: the National Council on Privatization and Bureau for Public Enterprises should be merged into one single body to allow for smooth operations rather than having overlapping responsibilities as the case seems now. Nigeria could as well pattern her regulatory agency after the British practice which designates the regulator as a single individual rather than a commission or a committee.

- Adoption of strategies that will be aimed at curbing the existing opportunities for corruption and self-serving behaviour by, for instance, limiting the discretionary and monopolistic power of the chairman of the National Council on Privatization, which in Nigeria, is the Vice-president of the country. Also, appointments into this regulatory agency should be based on track record and established public reputation so that the of appointees’ service in public establishments.

- This research supports the call by the Nigeria Communications Commission (NCC) for the provision of law enforcement processes against criminal activities in the telecommunications sector in order to ensure that speedy trials be achieved and convictions obtained in proven cases (this recommendation by
NCC is contained in the “Telecommunications Offences and Enforcement Processes” attached as appendix 7 in this thesis).

− Providing clear information on the state of a company to be privatized to bidders on time would impact positively on the bid process. These information, according to Stottmann (2000), should include information on the present and projected service area, the current characteristics of the service, human resources, financial performance and tariffs and consumer factors (such as consumer preferences, affordability and willingness to pay). It is only when such information is made available to bidders that such bids become realistic and viable.

− Finally, the current World Bank’s superficial analysis of political context of corruption (Minogue, 2004) which strives to create a spurious firmness of correlations between types of political institution, levels of corruption, and categories of economic performance are indefensible axioms that calls for urgent empirical studies. This is necessary as this study has, by implications of its findings, shown that the high rate of corruption that was said to have affected the economic development of Nigeria under military regimes of the country’s political history are still very much present (and even on the increase) in this present democratic situation.

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