AN INSTITUTIONALIST POLITICAL ECONOMY OF PRIVATIZATION IN NIGERIA: A CASE STUDY OF DELTA STEEL COMPANY, ALADJA, DELTA STATE, NIGERIA

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ABSTRACT: Nigeria’s neo-liberal reform and privatization programme of State Owned Enterprises promoted toward industrialization failed because they were prematurely privatized under a dysfunctional state and controlled by extractive political institution whose agenda is to secure rent. Public firm is a product that must evolve through the Product life cycle stages and can only be privatized at maturity stage where the firm has outgrown threats from market externalities. The objective of this study is to establish the high failure pattern associated within the product life cycle timeframe template that cut across privatized firms in Nigeria, using DSC as a case study. The study adopted Focus Group Study as methodology and Institutionalist Political Economy (IPE) serves as theoretical framework to justify state-market relationship captured in developmental crisis. Successful privatization requires building strong political and bureaucratic (regulatory) institutions that are democratic, inclusive, observe corporate governance (rule of law), accountable and responsible.

KEYWORDS: Industrialization, Institution, Neo-liberal reform, Privatization and Rent Seeking

INTRODUCTION

Nigeria is vastly blessed with natural and human resources spread across the 36 States of the Federation but ironically the nation has not harnessed these resources optimally for its development. It has principally entrenched its orbit to crude oil extraction compromised by oil rent/lease that guarantees excessive leakages in the economy.

An average of 40% of crude oil extracted from Nigeria is retrieved from the economy by Oil Multinational Companies as Joint Ventures earnings through the Joint Venture Agreement, Production Sharing Agreement, Marginal Field Operation or Sole Risk or Service Contract Arrangement (NEITI Core Audit Report Oil-Gas 2009-2011). This only leaves the Nigerian economy with a balance of 60% of oil rent that is extravagantly abused by the nation’s elites. ‘Rent seeking state habitually serves the interest of corrupt elites with nondemocratic or autocratic power base’ (Soros 2007), (Macartan, Sachs and Stiglitz 2007). The size of this leakage is (attributable to lack of indigenous technology and capacity to extract, refine petroleum and create added value) enormous to collapse the Nigeria’s oil mono-culture economy that is disarticulated (Ake 1981).

Multiplier effect is low and the chain reactions are high unemployment (despite accounting for about 70% of Nigeria’s revenue, the oil and gas sector was the least employer of labour in Nigeria -according to the National Bureau of Statistic Job Creation Survey Report for 2013, out of the 10.97 million employed in 2013, the oil and gas sector accounted for 582 jobs-
representing 0.01%; Eboh 2014), frequent price distortions, low level productivity or output, unfavourable export balance and deficit budgetary funding. The management of macroeconomics fundamental objectives is frequently distorted in crises where the state revenue/income is less than its obligations.

States act to promote and protect their interest utilizing various strategies at different times. With the pressure to meet mounting and increasing needs, the Nigerian state diverted crude Oil surplus earnings into investments in State Owned Enterprises (SOEs) to diversify the economy. The Nigerian rent seeking state tend to be ambitious adventurer in boom years (of 1970s) towards creating large number of SOEs with monopolistic bend to serve as patronage to prebendal and patrimonial interest but retrace it’s boundary under economic crises as witnessed in the 1980s and 2000s.

Elites who capture the state seek to use it as ‘surrogate entrepreneur to drive industrialization rather than playing a limited facilitatory role’ (Gill 2003:125) in creating and promoting development. Since the private sector is weak, late developers countries tend to merge capitalism with industrialization and invest in heavy industries even if they were not designed to have economic impact. (Gill 2003)

Every society creates its own institutions to manage its affairs from the nature of class relations existing in it. These institutions are deliberate design and product of the elites’ (dominant class) ideology which secures their prevailing interests. These interests are reflected in political institutions (state) and economic institutions (market) and together these institutions both shape and direct social relations of production, distribution, exchange, consumption and communication.

The state thus serves as instrument of elite domination to allocation of resources and privileges in the economy or market. Under this condition, ‘the state has been established as a tool of the exploiting class and is essential for the reproduction of the concrete conditions of accumulations’ (Amin 1980).

The nature and character of state’s institutions will determine its success or failure. A state orientation is essentially driven by the psychology and persuasion of its elites; elites convictions are motivated by the incentives they will secure from political and economic institutions.

Acemoglu and Robinson (2013) submitted that there is strong synergy between economic and political institutions. These institutions are inclusive or extractive; inclusive if they permit pluralism (accommodate wide range of interests) and extractive if they constrain access to these institutions by establishing absolutism (alienate various range of interest).

States that fail to develop promotes and establishes extractive political and economic institutions. The synergy between both institutions creates a strong feed loop. ‘Political institutions enable the elites controlling power to choose economic institutions which enable the elite to structure political institutions and their evolutions. Extractive economic institutions, in turn, enrich elite and their economic wealth and power to consolidate their political dominance’.(Acemoglu & Robinson 2013).

To achieve economic development through industrialization like its western counterpart, Nigeria ventured into iron and steel industry which is considered as a strategic and leading
industry that will guide other sectors of the economy into comprehensive and complementary growth and development.

No developed country today is without a home steel industry. This supports Rodrigo Duterte’s argument that Philippines main road to industrialization is the revival of the steel industry (Danao 2016). Nigeria’s chance to industrialize propel by the iron and steel industry like other developmental States - China, Japan, Germany, Russia and South Korea is advantageous because Nigeria has all the raw materials deposited in its own soil and with supportive human capacity.

Statement of the problem

Global market is a cycle of periodic booms and busts (Ravier 2010, Wagner 1980); and it is essentially more volatile for a single resource economy. Though diversification is essential to creating economic surplus in booms and recovery/stability in bust, but how can a rentier centralized state with a single resource economy survive under a global economic crisis? With low investment in other sector and Oil glut between 1981 to 1999, Nigeria sank low from surplus into deficit budgeting; Okonjo-Iwela, Soludo and Muhtar (2003) accumulating a debt trap from the range of $28-$32 billion.

Without adequate funding (initial investment with a short run cost) from an extractive political institution amidst dwindling economy from the birth of the steel industry, it was critically impossible to watch the Nigerian steel industry like every other product transiting the product life cycle to survive via the birth, growth, maturity and the decline or death stages. Iyoha (2002) expressed this displeasure by expressing that in Nigeria, aggregate investment in the economy between 1960 and 1986 was 17.5% of Gross Domestic Product (GDP) and reached 6% during 1995-1999 period.

In his bid to revive the ailing steel plants the Obasanjo administration decided to privatize DSC in 2005 in line with the neoliberal reform that seek to delink public expenditure from funding/investment in SOEs to meet the conditions for debt relief roused by world bank and International Monetary Fund. (Okonjo-Iweala 2012)

The prescription of premature Privatization as stimulating drive towards industrialization and development for Nigeria is pathologically (disease infecting) stimulating and organized western effort to prevent African States from pursuing indigenous ‘developmental non-liberal capitalism’ as was in the case for Post War II Germany and Japan (Yamamura and Streeck (2003); Brazil, Russia, India and China –BRIC (Musacchio and Lazzarini 2014) and South Korea (Omoweh 2005).

Privatization is part of the neoliberal economic reform that seeks to transfer ownership base of SOE from public sector to private sector with the basic assumption that the private sector will be more efficient in production, exchange and distribution of incentives in the economy; but can effective privatization take place at the birth stage of the SOE when the marginal cost of output is high and comparative advantage of the firm is written off by market externalities under a globalized atmosphere clothed with emerging bust?
Objective of the study

The objective of this study is to establish the high failure pattern associated within the product life cycle timeframe template (as fundamental -sufficient and necessary condition) that cut across privatized firms in Nigeria, using DSC as a case study.

Research questions

1. Why did the privatization of DSC fail?
2. Why the steel sector was privately monopolized under the Obasanjo privatization programme?
3. Why were state institutions unable to regulate the activities of DSC under its privatization programme?

Research hypotheses

1. Vested class (vendor) interest that is rent-extractive will hurt privatization (of DSC).
2. Political interference creates weak state’s institutional structure that undermines privatization processes for elite interest.
3. Privatization of DSC under political extractive institutions is an elite appropriation mechanism (asset stripping) of state resources.

Significance of the study

The significance of the study is to determine the fundamental (necessary and sufficient) conditions upon which privatization can effective take place as platform for industrial take off and act as big push for late developers.

Scope of study

The scope of the study is on the Nigeria’s privatization programme as pathway to industrialization, with DSC as its case study. The study captures the institutional challenges of Nigeria’s privatization programme.

Conceptual clarification

Industrialization- The process through which a state transits primarily from an agrarian society into the manufacturing of goods and services essentially aided by technology with mass production capabilities, speed and cost efficiency.

Institution- Social mechanism, devised or formal rules that prescribes or constraints interaction, behaviour and define a set of expectations to cause order, stability and certainty.

Neo-liberal reform- The shrinking of the state (public sector) and freedom of market (private sector) to allocate goods and services based on greater cost efficiency.

Privatization- A tenet of neo-liberal reforms that transfer the ownership and control of State Own Enterprise(s) from a government to a privately owned entity.
Rent Seeking- Parasitic behaviour by a company, organization or individual towards the State or its institutions.

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

LITERATURE REVIEW

The structure of the Nigerian Economy and Investment Policy

Nigeria is a state experiencing developmental challenges. From an agrarian economy in 1960s with multiple regional products that was diversified, agriculture account for 64% of output and employing over 73% of labour. In contrast to 1970s as Nigeria experience Oil boom, agriculture total output average decline to 33.6% (Iyoha (2002) with Oil displacing agriculture. This has been termed the ‘displacement effect’.

Beginning from 1971 to 1997, Oil account for total export of 73.7% and 97.6 respectively (Orubu 2002) turning Nigeria from an agrarian producing diversified state to an Oil monolithic centralized state, reversing the employment opportunities in the agrarian economy to automated hybrid capital intensive (rent based) economy. Rent acquired from Oil boom (1970s to 1981) proceeds was used to fund the Second development plan (1970-1974) and third developmental plan (1975-1980) from which investment in steel industry began (Orubu 2002) but did not continue.

Planning for the Nigerian Steel Industry started in 1958’ (Sanusi 2002) as strategic sector to provide for intermediate materials for other sectors (essentially the manufacturing sector which will serve) as base for Nigeria’s Industrialization. It took the Nigerian State four (4) development planning programmes spanning between 1962 and 1985, a period of 23 years and 7 different regimes to provide a framework to own two iron and steel companies, with reluctant commitments to funding and growing these enterprises. To worsen the situation, only DSC first phase of the turn key project was completed in 1981 and commissioned to take off in 1982 but without funding to procure raw materials for the DSC plant while the Ajaokuta Steel plant first phase (out of 3) was never completed (essentially due to lack of fund for the project and lack of commitment/political will) until it was concession to GINL in 2005.

Nigerian made a tripartite arrangement in 2002 under President Olusegun Obasanjo (to invest $45m) with Voest Alphine (expecting to commit $55m) and Osaka of Japan (expected to invest $40m) to refurbish and operate DSC but the arrangement failed owing to the failure of Voest Alphine to secure a loan for its own commitment in the partnership. (Agbu 2002:13) Following this disappointment, the Nigerian government released N900 million for salary arrears of DSC staff and went to privatize DSC in 2005.

Delta Steel Company’s Privatization

Privatization is a liberal concept that involves the transfer of public resources or enterprise(s) to private individual(s) or private sector for ownership and management; this organically is to reduce ‘large drains on public finances or were blocking private-sector activity and which economic activity tended to be marred by corruption and the role of the state was a hindrance rather than a help to economic growth’ (Okonjo-Iweala 2012:35)
Drakic (2007) sees ‘privatization as transition from collectivistic, socialist system into capitalism and free market economy with dominant private property’ ownership and management; privatization will not happen through isolated changes of only few economic institutions, no matter how deep that changes would be.

Privatization cannot give results if it's not accompanied by comprehensive change of economic system, because privatized companies would be incapable of operating in an old environment. The resultant consequence is that ‘government institutions need to be strengthened before engaging in privatization Stiglitz (2007).

The concept of privatization is a very sensitive one due to its economic, financial, technical, social and especially its political ramifications; politics plays the most important role in deciding whether or not to privatize. Following an assessment of the various forms of privatization, one thing is certain, government is engaged in privatization and absconds from inefficient and weak bureaucratic institutions that are incapacitated and unable to deal with the problems they were created to solve.

Stiglitz (2007) observed that the process of privatization in major cases tend to create agency problems through diversion entrenched in limiting competition, channeling funds to cronies, asymmetric information and asymmetric enforcement. Given this contention it becomes immediately clear that, privatization in Nigeria is a political tool that confer economic benefit on elites or the dominant ruling class. Hiboe (1999:72) captured this frame by providing a more valid and far encompassing definition of privatization which ultimately fit in a working definition for this study. According to Hiboe,

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\text{Privatization of the economy can be defined more widely than simply the cession of public enterprises to private actors. It can include the acquisition, the creation or the conquest of markets by various means by persons linked to those in power but operating in a private capacity. In the sense, the privatization of the economy today is truly massive and in effect is the main form taken by the economy of plunder. ...it is a means of accumulating wealth.}
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Private sector tends in most cases to behave amoral in their business operations to maximize profit. These profits are majorly extracted from weak state institutions that have been compromised by rent seeking elites and a parasitical private sector. ‘Business gravitates toward government contracts, licenses, quotas, and employment and auxiliary relationships with a rentier state enterprise fostering a rentier economy’ (Lewis 2006).

Odeh (2011, cited in Aluko,) stated that ‘the assumption of inherent efficiency of the private sector should be questioned. Much of private sector profits are not always from the result of efficient operation and increased productivity but rather represent money that private contractors make through inflated contract, patronage and corruption made possible from public sector connection and influence.’

Privatization can be frail or disastrous to an economy if state institutions are weak since privatization actually increases the scope (opportunities and incentives) for corruption or diversion of state resources into private pockets. Private sector essentially exploits a weak state institution that is unable to properly negotiate to its advantages for lack of capacity and knowhow of the complex dynamics of agency problems (Stiglitz 2007). In deprecatory and desperate despair, Nigeria opted for a rapid/fast privatization to secure the offering of the
western creditors and their neo-liberal ideology frankly oiled by IMF and World Bank. The privatization programme of 110 SOEs-DSC inclusive (NPC 2007) was pursued in an ‘earlier the better rate privatization programme’ to strive off the burner on the economy.

This act was to signified and epitomized the Nigerian State fishing in troubled waters as it became instantly forbidden and rebellious for a rental welfare state to own properties and paradoxically fashionable to transfer such properties to the private sector/individual(s) in a strangled economy where capital is non-elasticized, fragmented from social circle but residing narrowly with the elite power base and expectant to be imported through FDI.

The logic is for western investor to capture the privatized firms and leverage their investment and benefits to the economy. The circle is expected to turn full with vigour in favour of western economy through the adaptation of linking these firms’ productivity to globalization and its outcome. As Achime (2010) observed that the return hypotheses of capital investment and deployment will be directed in a globalized structure at a market/economy where incentives are highest to retain them.

Even if investments make inroad into the Nigerian economy under a rentier corrupt privatization regime, capital flights will certainly be grave compare to recapitalize income. Thus capital and their returns are more fluid than dynamic in weak economic institutions that is essentially unstable to permit certainty for business to operate; ‘the weakness of state is hence transformed and transfer to ‘private power with global authority’ (Claire Cutler 2003:1) to swing cash flow to trusted environments with inclusive economic institutions that have secure property rights, law and order, markets and state support open competition and opportunities for the great majority of citizens.

Privatization is strictly premise on appropriate timing for the informed and with consequences if violated. Stiglitz (2007) captured this significance in the United State of State (under Regan in the early 1980s) and Russia (under Yeltsin in 1996) that fast privatization occurred before the institutional structure- a developed legal system, a (effective) tax administration, a corporate governance structure and capable financial institution.

THEORETICAL FRAMEWORK

The theoretical framework upon which this study is based on is Institutionalist Political Economy (IPE). Simply put, political economy framework is the interrelation of political and economic variables in understanding social phenomenon. Under this investigation, all matters that concerns State formation (power concentration and the allocating power of state) is given or represented as politics or political; while all matters that concerns market- issues relating to production, distribution and exchange in social context is given or represented as economy.

Consequently, this has been popularly conceptualized as state market relations or Political Economy. Both state and market represents two institutions of society that frequently interacts and whose boundaries are blurred but significantly affects every strata of society. Politics and economy are both institutions of society that is manifest in every facet of human existence or consciousness. Thus, it is very difficult to separate politics from economics, for when politics is manifested; it is always to secure economic outcomes.
Chang (2001) sees Institutionalist Political Economy as a political economy approach that broadly emphasizes the cooperative interaction of the State and Market as enduring institutions of society. Both institutions re-enforces each other; the state creates the conditions through policy for the existence, functioning and survival of the market. The market (an exchange institution) therefore is a political construct.

The State (Political institution) creates rules, law and regulations that govern the behaviours of firms (institutions of production) and consumers (citizens) and how they interact in the market (exchange institution). The state creates incentives for the market by providing infrastructures that reduces the transaction cost for the market and therefore promote market efficiency. Without state interventions of this nature, market failure would be regular and catastrophic.

The political economy of privatization as used in this study is in two contexts:

First, the research work adopts Institutionalist Political Economy as a framework to justify the mutual or interrelatedness of both state and market institutions in engaging the privatization process in Nigeria.

Secondly, the IPE framework attempts to express the inherent contradiction underlying both institutions in forging a transition from public ownership to private ownership of enterprises. These contractions spark up vested interests represented by various stack holders in the privatization process. The framework captures the conflicting nature of how privatization of DSC affects the welfare of six relevant conflicting interests and consequently acts as impediment to development.

The interests captured in this framework are: 1) The State as represented by elite interest. 2) Labour (DSC workers/ Staff Union) – job security. 3) Community as represented in cultural survival. 4) Regulatory agency- bureaucracy. 5) Multinational Corporation – bidders/ buyers and 6.) Financial Institutions- Banks/ AMCON.

The privatization process is captured in antagonistism among the various class interests.

**METHODOLOGY**

The Research work is based on Focus Group Study. Ho (2006) expressed that the hallmark of Focus Group Study/interview is the explicit use of group interaction as data to explore insights that would otherwise remain hidden. Typically, group of between 5 and 10 people gather together to voice their opinions and perception about topic in a non-threatening and comfortable environment.

In designing and conducting Focus Group interviews, Krueger (2002) specified the characteristics to include: Participants should be carefully recruited (giving priority to similar type of people that fit into the research needs), 5 to 10 persons per group (6-8 preferred); the Environment should be comfortable, circle seating and taped recorded; Analysis and Reporting should be systematic, accompanied with verifiable procedures and appropriate reporting (use narrative or bulleted format); the discussion/interview should be moderated by the researcher (can be aided by an assistant- both of which should not be engaged in the discussion) and ask questions that yield powerful information (essentially use pre-determined questions and ask open-ended questions).
This study is basically a primary research tool that is used to investigate participants in the institution (DSC) been privatized. A group of 6 persons (appointees of AMCON Receivership who were initial top management staff of DSC) participated in a Focus Group Study on the privatization of DSC at the steel complex administrative building at Aladja, Udu Local Government of Delta State (on August 6th, 2014 from 11am to 12:15pm) where the discussion took place.

To capture a broad based investigation, personal interview was also conducted to complement the views/opinion of other stack holders (labour and community) affected by the DSC privatization.

Second Data were acquired from others sources to capture the role and activities of other stake holders- Financial Stakeholder- Banks and AMCON; State Bureaucracies/Regulatory agencies- BPE, NCP, FIRS etc and Multinational Corporation – bidders/buyers.

RESULTS/FINDINGS

A. Focus group study - research question

The focus Group Study adopted for this study examines the expression of the research questions and the relevant responses to them in order to draw inference. A correlation of the questions and their responses are compared with the hypotheses of the research with a view to further analyze and establish the validity and reliability of the hypotheses.

QUESTION 1. Why did the privatization of DSC failed?

Privatization begins with the tender process that has three chronological stages, the first stage is the prequalification stage in which the client- the procurement agency (BPE in this case) advertises, calling for competent and interested persons/firms with given resources (both technical and financial) to partake in a bidding process. For an individual or firm to qualify for the bidding of SOE, the interested firm must be a registered company with CAC, provide company profile and relevant tax certificate for at least three years including the current year. These documents are necessary at the prequalification tender.

In the case of DSC privatization, the interested firms must have operated a steel company for at least 10 years, with relevant skills and updated technology. The firm must possess the financial base of a minimum of $200million injected into the company within three months of takeover of the facility. Once these expressions of interest are made known to BPE through application and submission of requirements, BPE is empowered to process the application of firms and score them according to the criteria/parameter listed in its prequalification advertorial. The qualified firms that meet the predetermined qualifications are then shortlisted for invitation to submit their technical tender based on technical capability, innovation, experience and list of key personnel and their resume. The qualified firms that meet the standard and expectation of the client are then shortlisted to provide their commercial tender.

Commercial tender is the third stage of the tender process where the shortlisted qualified companies are invited to propose the amount each of the intending firms buying the SOE and their financial commitment to the development and expansion of the SOE they intend buying. Financial, managerial and marketing plan is expected to accompany this commercial tenders
and evidence of the company’s bank accounts to proof it is financially suitable to possess and run the establishment without stress. A due diligent test is conducted to confirm the claims by the firms been considered and three major area are considered as parameter among others in justifying the winner of the bid. First is the bidding price (preferably the highest price); secondly, the technical status of the bidder and thirdly the financial status, time expected to pay for the establishment and time to proceed into operation of the facility. These three processes created competition among the bidders and allowed BPE to assess the best bidder and forwarded the most qualified to NCP which is empowered to give approval to BPE to provide the winner of the bid with a SPA which establishes the conditions for the winner of the bid and the responsibility of the seller (BPE acting as agent of FGN).

In the case of DSC privatization, BUA Group of Company, a local company in Nigeria won the bid for $25 million but was rejected by President Obasanjo on the condition that the price of the bid for DSC was too low considering that the FGN had resuscitated the company with $45 million and the property was worth $4 billion. President Obasanjo made a provisional offer to BUA to pay $30 million and proceed with the SPA. BUA accepted the offer and signed the SPA while waiting for the authorization to pay into BPE account for DSC and emphasized that the FG should as a condition dredge Warri Port to Aladja and remove the oil pipe lines crossing the route to allow bigger vessel access to DSC unhindered; and secondly that FGN should fast track the completion of the railway line from NIOMCO Itakpe to DSC Aladja. President Obasanjo approved BUA as the preferred winner of the bid and gave clearance for BUA to pay the $30 million. This naturally would have ended the privatization bargaining process but Obasanjo got intelligent report that NCP chaired by the Vice President, Alhaji Atiku Abubakar used his position to influence the winning of the bid by BUA and was not comfortable with such compromised. The subsequent premature release of BUA approval and photocopy of both documents sparked off resentment from the President and the BPE-DG was relieved of his job. A drama of politics ensued to unfold in which GINL which never participated in the bidding process was offered DSC for $30 million with SPA and letter of authorization to pay for DSC.

The granting of DSC to GINL was to generate controversy and crises in the steel industry as witnessed in the following years. Immediately GINL took possession of the SPA and the authorization to pay for DSC, it came to DSC and Informed the management of DSC that GINL is now the official owner of DSC and request for the Certificate of Occupancy (C of O) of DSC (when it had not pay the $30 million for the facility). The Secretary of the company who is a lawyer told GINL that the C of O was with the owner of the company which is the federal ministry of power and steel at Abuja. GINL left and returned the following week to inform the secretary of company that the ministry acknowledged the C of O is with the secretary; the secretary then Informed GINL that is only BPE that can authorize the release of the C of O to any person. GINL put a call immediately to the new DG of BPE in the presence of the secretary and the secretary was advised to give GINL a photocopy of the C of O of DSC.

It was with this photocopy of the C of O, SPA and authorization to pay that GINL approached Zenith Bank PLC of Nigeria in 2005 for a loan of $30 million (approximately N5 billion). The loan was granted within a week and an initial payment of $3 billion (10% of the total SPA price) was paid to BPE for DSC with a promise to complete the payment within the three months’ timeframe allowed by the SPA but the accepted initial deposit permitted by the SPA was 70% of the total bid value.
GISL took possession of DSC while ASCL and NIOMCO (with value of $4 billion and $100 billion) were concession to it under a 10 year deal. GINL did not bring any FDI (money) and super technology transfer which the privatization promised.

DSC had in its possession before the privatization some iron ore that GINL utilized DSC initial staff to produce billets and started exporting the billets to other countries. This was in violation of the SPA agreement which stressed that local demand will be met by serving the local rolling mills across the country before exporting since there was the existence of an underserved market in Nigeria.

In February 2006, GINL acquired the service of an estate management consultant to value the asset of DSC and the report valued DSC at N186 billion to which it utilized in making audited account for DSC in 2005. The DSC audited account was filed with CAC and GINL went on a borrowing spree from five Nigerian banks amounting to over N31 billion. GINL did not making any investment of these monies into DSC or any of the concession granted it as it was speedily engaging on a capital flight regime. GINL was reckless and abusive in the management of DSC as it accumulated debts from staff salaries and entitlements, contractors and the banks from which it excessively borrowed money.

It was Nigerians in DSC that took effective deployment and operations of the facilities between 2005 and 2012 when AMCON shutdown DSC over non-performing loans it has acquired from banks. GINL never showed any evidence of technical capability, financial competence and managerial skills needed to operate DSC and the steel sector expected to drive the economy with its resultant multipliers effects. GINL was on an assets stripping spree as it was realizing a minimum of N1 billion every month from only DSC and was not ready to behave responsibly.

GINL consistently violated all the provisions of the SPA it entered into with the FGN through BPE. GINL never brought any money into the country; the FDI Nigerians were expecting from the privatization to boost the economy turned out to be capital flight as GINL was borrowing from banks with DSC assets and was not paying back. The foreign staff it brought from India to work in DSC was inexperienced but had to learn the act of steel making in DSC. Under the prevailing situation, GINL did not add any value to DSC and the Nigerian economy; instead it was on a mission to kill DSC. This attitude made the privatization of DSC to fail since the FGN was not meeting its objective envisaged from the privatization.

The primacy of the failure originates from the subversion of the privatization process; since GINL did not partake in the bidding process, they were not really tested to investigate their compliance and ability to manage DSC and add value to it. No due diligent test was conducted to know if GINL possess the criteria and the predictive index of meeting the conditions subjected under competitive bidding would objectify the exalted merit of winning the bid. Competence derived from competition is a mandatory condition for market efficiency and a negation of this is superimposition of inefficiency on the management of scare resources which always lead to abuse. The behavior of GINL shows that the FGN and DSC were taken for granted as the bodies made to regulate DSC were not acting properly as was required by law. DSC’s privatization was a fraud. The whole process was hurriedly done and when GINL took over DSC, it started exhibiting deficiency in those things that the competitive bidding process would have noticed.
QUESTION 2. Why the steel sector was privately monopolized under the Obasanjo privatization programme?

The President Obasanjo administration was not responsive to national interest in its privatization programme as was witnessed in all the SOEs that were privatized. The steel sector exposed the dynamics behind the regime’s ideology. The Obasanjo’s presidency superimposed its authority over all institution of privatization like NCP and BPE and wholly disregarded their input in the observation of corporate governance- the establishment of legal process- on the privatization of the steel sector including and not limited to DSC.

The administration acted like a military regime exercising fiat and abusive discretionary power over institutional and constitutional functions. The regime in 2004-5 was more desirous of relinquishing institutional responsibilities of running SOEs to the private sector and therefore opted for privatization as a means of throwing off these burdens overboard.

Before privatization DSC was only functioning within 20-25% of its capacity. Nothing was wrong with these companies in the first instance, previous governments (and including President Obasanjo’s administration) were unwilling to inject the required investment needed for the steel companies to optimally function and expand.

The challenge for Nigeria under President Obasanjo’s privatization experience was that the exercise created contradictions that compromised the regime philosophy. The FG promised to break government monopoly but ended up creating private monopoly that was unhindered and unregulated. The regime interfered in state institutional functions and abusively destroyed the foundation upon which the privatization programme will stand.

The president’s consistence intrusion in NCP and BPE affairs demonstrated he had a hidden agenda since the outcome of the bidding process was thrown overboard and replaced with a private monopoly that was financially bankrupt, technology deficient and dependent on local resources and lacks managerial skills. DSC, ASCL and NIOMCO were ceded to GINL by President Obasanjo’s fiat. The whole privatization exercise in the steel sector was designed to fail; it was essentially replacing government monopoly with a private monopoly, the latter proved to be worst off as the monopolized companies were the engine room of the steel sector which was expected to link rolling mills primarily to meet local demand before responding to export.

President Obasanjo’s fiat transfer of the steel industry to GINL was questionable under a corporate governance structure; laws were in place on how privatization of these entities will be dispersed through transparent procedural competition that will provide competent managers but ironically these rules of engagement were not allowed to operate to the end. It was visibly expressed that political interest was hovering and halting the overriding interest of the programme and it was visibly glaring for everyone to see including the institutions conducting the privatization programme that Obasanjo’s concern was intensively bogus. Politics was essentially underserving economic interest of the country and the privatized institutions unwillingly responded to it.
QUESTION 3. Why did state institutions unable to regulate the activities of DSC under its privatization programme?

Privatization in Nigeria as noted by BPE is both an economic and political exercise but more the latter. It is challenging to confront a power based entity with a pseudo instrument of law that is subjected to presidential fiat.

Most significantly economic activities of one firm usually intersect with many other firms and in other to be certain these firms operated optimally with reduced, eliminated or controlled risk of conflict or crisis, government have different regulatory agencies that monitors the operations and statutory compliances of these firms and their relations with each other while also protecting citizens and national interest.

In 2006 when GINL got indebted to five Nigerian banks to the tune of N31 billion, it was still indebted to BPE over the payment of DSC (it was still owing 90% of DSC purchase cost as debt) and it began to exhibit defiant behavioural tends that depict it as demonic, one major event that typified such arrogance and disregard for its moral obligation to repay its debt was to create fraudulent accounting system which replicate bankruptcy in its operation amounting to threatening the steel sector, banking sector and the economy as a whole.

In 2007 GINL falsified its records by adjusting its audited account for the year to a value to N5 billion and filed same with CAC; when its debts to Nigerian banks were N31 billion, NEPA N5 billion, indigenous contractors over N500 million and Nigerian Gas, FIRS, State Inland Revenue Board and other entities indebted are unknown. It was officially declaring bankruptcy when it has never remitted a kobo to BPE over the concession it entered as managing partner of ASCL and NIOMCO.

Two of the banks (Ecobank and UBA) got charged and deployed a receivership of their loan to GINL in recovery of same. By this time a global crisis was getting ready to bust and GINL was about to set the alarm in Nigeria. At the same time equipment stripping and capital flight were taking place at ASCL and DSC. FGN reacted lately to check GINL after a regime change in 2008 and revoked the concession of ASCL and NIOMCO to GINL but this is was not enough to discontinuing more of its venom on the economy.

When the FGN under Yar'adua took over ASCL and NIOMCO, GINL declared a war on Nigerian intuitions. Its activity began to tilt towards economic terrorism. By now, the trucks of ASCL in its possession were confiscated, it quickly evacuated 2 600KVA giants customized generators and their accessories (capable of providing electricity to any of the geopolitical zones of the country) to India for servicing but unfortunately for DSC and GINL, the company that owned the vessel utilized in transporting the generators diverted it to Germany and made contact with DSC to recover its transformers from them as GINL was indebted to the vessel company and noncompliance within a short notice will lead to deposing of the generators to offset GINL indebtedness.

GINL operated in Nigeria without cautionary exposure to sanctions if it violated any of Nigerian institution or laws by been financially irresponsible. It approached Nigerian institutions with callous recklessness and a mindset that there is entrenched corruption in Nigeria, so everything can be fixed. GINL was more interested in fixing things up rather than observing corporate governance (rule, regulations and procedures of government agencies).
GINL was seriously deficient in its operation and morally bankrupt to the point that when BPE was demanding for its balance payment of DSC, it was ignoring to respond to sermons repeatedly. For the duration it operated, it never paid tax of any kind (including staff income tax and their pension contributions). The corrupt nature of the Nigerian bureaucracy was put to test by GINL and these institutions exchanged brown envelopes at free will.

Had it been the different regulatory agencies especially BPE did its regulatory functions properly in a patriotic and responsible manner, DSC would not have been in the mess it found itself. Had it been that AMCON was not functional or nonexistence, most of the banks would have lost their money and collapse in the process. AMCON bought over GINL indebtedness from the banks as nonperforming loans and instituted a receivership to negotiations with GINL on repayment plan for the loans but GINL did not respond as expected over a long period of default.

The legal department of DSC engages in weekly statutory compliance report and advices GINL of its obligations (and consequent sanctions) but they were never given any serious attention.

**DISCUSSION**

**Examination/treatment of hypotheses**

**Hypothesis**

1. Vested class (vendor) interest that is rent-extractive will hurt privatization.

**Treatment**

Privatization tends to be skeptical exercise in Nigeria as there is vagueness of the processes surrounding it. It is becoming more popular with every regime that acquires power seek for the most lucrative public enterprises with huge government funding to divert into private ownership. Government policies with rhetoric conviction are now centered toward reducing government burden by relieving these enterprises or agencies.

Privatization is certainly the fastest means to divert state resources into private pockets of elite. Privatization is thus an elite phenomenon and serves only the interest of political elites. Privatization programme is often a rouse by the elite to appropriate public goods, once the transfer is made, the entities become efficient and profitable. The problem of inefficiency in public enterprises is cause by complete disregard to corporate governance and its remedy lies in strengthening institutions before privatization.

Institutional failure is cause by elite stronghold (political interference) on SOEs. Leadership crisis hover over these weak institutions. Nigeria’s elite class is parasitical and is feeding on these entities. Most of these privatizations are done in secrecy and the parameter for deciding the winners are unknown. Politics is deployed by elite to extract rent or economic surplus from the state through privatization in a rapid or fast track manner that state weak bureaucracies cannot regulate.

Time frame for privatization is usually programmed to suit elite interest against the rest members of society or other stakeholders as there is asymmetric of information leading to disclosure of vital opportunities. Extractive political institution act in swift timing to divert or
privatize state resources. It took just two days on a weekend for GINL to outwit the original winner of the DSC privatization.

Nigeria’s Privatization was premature since Privatization is conditioned on product life cycle of industrialization. Product life cycle has four stages— the birth stage, growth stage, maturity stage and decline or death; privatization can only effectively take place at maturity when effects of externalities is expected to be irrelevant to the performance of the firm or industry and it is also mainly able to compete on a global scale. This happened in the developed countries and even in the new emerging developed countries of Asia. Premature privatization before maturity of firm is elite conspiracy to exploit a country’s wealth for its own good.

The rush to privatize without investing and nurturing the firm to growth and enable it to contribute to the development of the economy is met to satisfy vested elite interest against the gain of society, then such hurried and disorganized activity were deliberately design to secure rent and inversely hurt the privatization process.

**Hypothesis**

2. Political interference creates weak state institutional structure that undermines privatization processes for elite interest.

**Treatment**

It is very obvious from the response of the focus group study to question one that privatization was a tool deployed to transit SOEs into private ownership through deployment of elite interest to obfuscate the entire tender processes. Why will privatization create private monopoly if the intention was to break government monopoly?

Whose interest was the private monopoly serving? Why discretion was deployed by the president to cancelled DSC winner’s bid and replaced it with a non-bidder and why was GINL not conditioned to pass through the tender process? Why was BPE-DG relieved of his appointment for BUA having evidence that it won the bid? One single answer suffices for the entire questions. Over-politicization of the DSC tender process weakened state institutions structure and dangerously undermined the privatization programme.

NCP and BPE were subjugated. How come GINL was able to occupy DSC without technically paying for it and was economic sabotage to the two major steel companies in the country and BPE was reluctant to swipe its sanction on an alien. It was simply the case of Jacob's voice but the hands of Esau. Political extractive institution was used to extract economic incentives for the benefit of the elite. Political interference was used to suspend state bureaucracy and weaken its functional capabilities to undermine the exercise of corporate governance in the privatization processes. Political decay was at its climax under Obasanjo administration since it was a successful absolute state exhibiting despotic use of power over institutions and corporate governance. It therefore remains valid that Political interference creates weak state institutional structure that undermines privatization processes for elite interest.
HYPOTHESIS:

3. Privatization of DSC under political extractive institutions is an elite appropriation mechanism (asset stripping) of state resources.

TREATMENT

The privatization of SOE essentially between 1999 and 2007 ended up in the hands of corrupt elites whose intention was to transform (transfer) public goods into private pockets. This was basically the core motive behind the Obasanjo administration’s agenda as it was more inclined towards regime security and rent rather than development and industrialization for the country.

The justification of the revocation of BUA tender as the winner of the privatization process exposed the contradiction inherent in the neoliberal philosophy of the Obasanjo’s administration and the consequent intra and inter-class struggle that undermined the privatization process.

The privatization process started failing with the compromised interest of President Obasanjo and Vice-President Alhaji Atiku Abubakar in seeking to acquire DSC through the privatization programme. The intra-class struggle within the presidency obstructed the administration from sincerely strengthening state institution to become efficient but was rather predatory to other class interest (stake holders) to secure primitive accumulation (DSC). GINL, a multinational steel company a non-bidder in the privatization process was offered DSC as a Greek gift to Nigeria. GINL is a proxy of the Obasanjo administration and acted as an economic arm of his presidency. All the different institutions/stake holders in the DSC privatization were unable to reconcile their conflicting interest and consequently exposed DSC to decay.

RECOMMENDATION AND CONCLUSION

Four critical recommendations are apt for successful privatization in Africa under a neo-liberal reformism. Firstly, that the State (political institution) must be democratic, inclusive, provide accountable and responsible leadership; Secondly, Bureaucratic institution must be strong, stable, consultative, discipline, loyal to constitutional responsibility, the rule of law and patriotic to national interest and Thirdly, Privatized firm is a product that can only be transfer (ownership) at maturity stage where the firm has outgrown the threat from market externalities. Simply put, avoid premature privatization.

China’s performance in the last 10 years has been revolutionary (bypassing and ignoring economic neo-liberalism prescriptions) with its developmentalism and non-liberal capitalism. Evidence from Petcu and Sucin (2013) reported that in 2009, two major Chinese SOEs (China Mobile and China National Petroleum Corporation) made profits of $33 billion, more than China’s 500 most profitable private companies combined.

Evidence from Petcu and Sucin (2013) further show that three most outstanding SOEs companies with global impact and reputation; China Mobile is a huge state-owned company with 600 million customers, Russia’s Gazprom is the biggest natural gas company in the world and Saudi Basic Industries Corporation is one of the world’s most profitable chemical companies.

Fourthly, to avoid premature privatization, adequate investment (funding) with proper long term planning and commitment for continuity of the firm is essential to promote the design and
implement of an Industrial Structure Optimization using the steel sector as a complementary sector to link and increase value chain among other sector of the economy (essential oil, construction and manufacturing).

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Abbreviations

ASCL  Ajaokuta Steel Company Limited
DSC  Delta Steel Company Limited
BPE  Bureau of Public Enterprises
CAC  Corporate Affairs Commission
FGN  Federal Government of Nigeria
GINL  Global Infrastructure Nigeria Limited
NCP  National Council on Privatization
NIOMCO  National Iron Ore Mining Company
SOEs  State Owned Enterprises
SPA  Shared Purchased Agreement