# 8. Nationalization

*Objectives*

At the end of this chapter, the students should be able to explain the meaning of nationalization as a political policy towards the realization of some of the social responsibilities of business to its society; list and explain advantages and disadvantages of nationalization and compare its different forms; explain the meaning of indigenization, the economic background leading to policies of indigenization in West Africa, the legal stipulations of indigenization, and the advantages, disadvantages and failure of indigenization. Finally, they should be able to discuss the governmentâ€™s idea of privatization, its full meaning and its implications for the Nigerian economy, i.e. the advantages and disadvantages.

## 8.1 Introduction

Nationalization is the buying or taking over the control of a business, industry, etc by the central government.

### 8.1.1 The Instruments of Nationalization

All nationalization are by Acts of Parliament. The former owners gave up their shares and received, instead, government stock bearing a fixed rate of interest. Such stockholders, were entitled to receive the interest on their stock each year, whether the industry made a profit or loss. Therefore, a nationalized industry could make an â€˜operatingâ€™ profit, but after deducting the profits on the stock, its accounts could show a net loss. A nationalized industry, like a public corporation, has no voting shares and does not distribute any profit but ploughs it back. In fact, fixed interest stockholders are not equity owners and are not entitled to the dividends.

### 8.1.2 Advantages and Disadvantages of Nationalization

**(a) Advantages**

The exponents of nationalization base most of their claims on the social responsibilities of business to the nation. They advance the following arguments in favour of nationalized industries:

(i) Nationalized industries tend to be more responsive to the needs of the society, rather than the profit-oriented private entrepreneurs.

(ii) Management decisions are not wholly commercial but interwoven with social benefits, e.g. to modernize industries.

(iii) They create wealth, utilities and conveniences for the public, e.g. roads, houses, energy and durable goods.

(iv) Nationalization brings a whole industry under one control so that it can be planned and developed as a whole in the national interest, e.g. co-ordinating policies in the energy and transport sectors.

(v) Economies can then be made by avoiding unnecessary duplication – one pipeline or one gas work where two or more existed previously.

(vi) Bulk purchase may be made at lower prices, leading to lower unit production cost and lower prices to the consumers.

(vii) A big industry with a monopoly is in a better position to raise capital and to pay high salaries in order to attract experts whose services would be most beneficial to the people.

(viii) Nationalized industries will easily attract large capital from the government and equally receive government guarantee for bank loans.

(ix) These industries engage in activities that provide essential services like water and transport, wherever demand exists, etc, without necessarily making profits.

(x) They serve as â€˜benevolentâ€™ monopolies that are also capable of stimulating the national economy.

**(b) Disadvantages**

The opponents of nationalization advance the following points:

(i) Some â€˜nationalizedâ€™ industries, like public corporations, may develop an inefficient monopoly – poor performance and ever increasing prices and rates, e.g. the National Electoral Power Authority (NEPA). Thus the lack of competition may breed inefficiency.

(ii) The managers, having not risked their own capital, may have little or no commitments in the business.

(iii) The need for accountability to Parliament may kill the initiative of managers who fear ministerial queries on any important but controversial decision.

(iv) Sometimes, appointments to key positions are not devoid of â€˜politicsâ€™ while throwing professionalism and expertise to the wind completely.

(v) Nationalization often leads foreign investors to lose confidence in the home economy and leads to flight of capital.

## 8.2 Indigenization

### 8.2.1 Meaning

Indigenization is the compulsory transfer of ownership and control of business enterprises from foreigners to the indigenes of a country. In Nigeria, this is known as the Nigerian Enterprises Promotion. This was brought about by a Decree promulgated in 1972. Before the indigenization exercise, most of the major enterprises in Nigeria were in the hands of foreigners from Europe, North America and Asia. As a result of this type of ownership, important business decisions were taken in foreign lands and were obviously not in the interest of Nigeria. However, in some enterprises, Nigerians had 100% ownership, 60% in some and 40% in others.

### 8.2.2 Nigerian Enterprises Promotion Decree of 1972 (Indigenization Decree 1972)

This is the first legal document promulgated to back up the indigenization policy. The Decree classified industrial activities in Nigeria into two schedules:

(i) All industries in *Schedule One* were to be sold entirely to Nigerians.

(ii) While all industries in *Schedule Two* were to have at least 40% Nigerian participation by 1 April 1974. To ensure that potential investors were not in want of the necessary funds, the Federal Government proceeded to acquire 40% ownership of the three biggest expatriate banks in the country (Barclays Bank (Nigeria) Ltd., Standard Bank (Nig.) Ltd, and United Bank for Africa Limited) so as to influence them to lend money to Nigerians.

In addition, the government set up the Nigerian Bank for Commerce and Industry Ltd, and the Agricultural Credit Bank (later known as the Nigerian Agricultural and Co-operative Bank Ltd.). These two development banks were to provide long-term funds for the same purpose.

It is pertinent to state that simultaneously, this gale wind of indigenization was also sweeping over other West African countries.

**Amendment to the Nigerian Enterprises Promotion Decree of 1972**

In 1976, the Indigenous Enterprises Promotion Decree was put forward as an amendment to the Nigerian Enterprises Promotion Decree 1972. Under the amendment, industries were re-classified into three schedules:

(i) Industries in Schedule One continued to be the exclusive preserve of Nigerians. Forty (40) enterprises were reserved exclusively for Nigerian citizens or associations.

(ii) In Schedule Two enterprises, Nigerian participation went up to the minimum of 60%. Fifty-seven (57) enterprises were affected.

(iii) In Schedule Three, foreign participation could be as high as 60% maximum. This covered thirty-nine (39) enterprises.

*N.B*

The two Decrees could be otherwise referred to as the Private Enterprises Promotion Decree.

## 8.2.3 Effects of Indigenization

The implications of indigenization are many; however, the following advantages and disadvantages can be highlighted:

### 8.2.3 (a) Advantages of the Indigenization Decree

(i) It provoked a quickened economic awareness for entrepreneurship among Nigerians.

(ii) It has facilitated the readiness to take risks in investment opportunities and the desire to become owners of business rather than employees in enterprises. Nigerians have ceased to be â€˜slavesâ€™ in their own land and have become â€˜mastersâ€™. For instance, the first phase (1973-74) involved an investment of some N103 million by Nigerians – involving 954 businesses, 320 in Schedule I and 634 in Schedule II.

(iii) Top management personnel in most of the industries affected by the decrees became â€˜Nigerianizedâ€™; this gave Nigerians a sense of pride, responsibility and dignity.

Nigerians form the majority of the boards of directors in Schedule II and the entire board in Schedule I companies.

(iv) Transfer of technology, as far as it is possible through learning by performing in top management positions, is one of the positive effects of the indigenization decree.

(v) Foreign domination of local but vital enterprises has reduced considerably.

(vi) The local economy has become more amenable to planning and control by the national government.

(vii) There is a considerable reduction in repatriation abroad of local funds accruing to original investors in the form of dividends and operating profits.

(viii) A reduction in repatriation of funds means enormous savings in foreign exchange into which share of profits and dividends are converted before being sent abroad.

(ix) There is greater ploughing back of profits and reserves for local enterprises. Loan policy of commercial banks becomes more sensitive to local needs for investment purposes.

(x) The economic benefits derivable from local enterprises make more impact on the local people.

(xi) Most foreign investors prefer it to an outright â€˜nationalizationâ€™, which they fear is a dangerous economic dragon.

(xii) The decree is regarded as a landmark in the social and economic well-being of Nigerians.

**8.2.3 (b) Disadvantages**

(i) While some foreign investors regard it as the better of two evils – the other evil being nationalization – for some foreign investors, it sapped their confidence in the Nigerian economy.

(ii) The immediate effect was a flight of capital from Nigeria. The American and British companies alone repatriated a total of N328 million as proceeds from sales of their interests. This represented 85% of total capital outflow in 1973 alone.

(iii) It has added disadvantage of frightening the potential foreign investors from Nigeria. This was brought about by the rapid enlargement of the public sector. The government – federal or state -maintained a frightening presence in all the subsectors of the national economy.

(iv) The transfer of top management to Nigerians lowered the standard of management in some of the enterprises.

(v) Even in some of the industries, the spirit of the decree is defeated i the sense that although the right ratio of ownership is complied with, e.g. 60% Nigerianization, the top management decisions are still taken by the expatriate managers. In some enterprises, Nigerians agree to play a second fiddle; they are merely chairmen of boards while the managing directors are foreigners.

(vi) Because of the lack of confidence in Nigerian ability in certain technical fields, the original expatriate entrepreneurs bluntly refused to submit to the demands of the decree and merely packed up and left the country for good, e.g. IBM of the United States of America.

(vii) Government (state and federal) over-subscribed to shares in some companies. The wisdom of tying up government resources in the stock market securities at the expense of inadequate and deteriorating basic infrastructures and services has been queried. Nigerians, to whom businesses were transferred, were not as knowledgeable in business as the former expatriate owners.

(viii) The implementation was not as smooth as anticipated, and this further handicapped banks from advancing loans for achieving the objectives of the decree.

(ix) The speed with which shares were issued on the financial market institutions – the Nigerian Stock Exchange (which determines which company can trade its shares on the market) and the Capital Issues Commission (which determines the pricing and timing of sales of shares) was ill considered. Between April and June 1977, shares of 12 public companies were sold through the Exchange but the processing of applications for allotments was not completed for over six months thereafter. This meant that investorsâ€™ funds were tied up unduly while interest on bank loans for purchase of shares was being paid. Prospective investors who failed to secure share allotment suffered unnecessary financial loss.

(x) Moreover, the pricing policy of the capital issues Commission tended to induce some companies to resort to private arrangements with a handful of Nigerians for much higher prices for their shares. This avoidance of public offer, in effect, narrowed down the extent of corporate shares (securities) available to the Nigerian investors and encouraged the use of various doubtful tactics to secure maximum allotments of shares publicly offered. Thus, the distribution of holdings in the indigenized firms between Nigerian governments and among Nigerian individuals and associations has been unsatisfactory. Such distribution has been inequitable, bearing in mind the Nigerian federal structure ethnic and economic class interests.

## 8.3 Privatization

### 8.3.1 What is Privatization?

It is the transferring of the means of production and distribution from the public sector to the private sector and, to some extent, subjecting public enterprises to the management objective and methods of the private sector. This means the emergence of a dominant sector – the private sector – in an initially mixed economy.

### 8.3.2 The Role of the Public Sector

Over the years, the public sector (represented by the government and its agencies) has its main functions in the economy. These are:

(i) regulating the economic system and the economic activities and their inter-relatedness;

(ii) directing allocation of resources in production and distribution;

(iii) effectively providing social services to the entire nation.

**The Failure of the Nigerian Public Sector**

In order to appreciate the developmental thought behind privatization, it is important to make a brief reference to some of the failures of the public sector:

(i) Government parastatals have, for long, been subject of study and policy review. They have generally constituted an unnecessary drain on government resources.

(ii) The public sector has now realized that the level and nature of its control of economic activities are not optimal.

(iii) The Federal Government is dissatisfied with the meagre returns on equity investments and the huge volume of non-statutory transfers to wasteful parastatals.

(iv) As the private sector tends to take precedence over the public sector (the two sectors are known as pure mixed economy) and the mixed economy moves towards a free market economy, the public sector fails regularly in its traditional functions, including the provision of social services.

(v) Worst of all, the private sector itself has shown no serious concern for the developmental objectives of the Nigerian economy; examples are lack of local sourcing of raw materials for local production, heavy environmental pollution and the poor quality of locally produced goods.

### 8.3.3 Forms of Privatization

It would be erroneous to think that privatization means the outright transfer of shares in the public corporation into private hands. In fact, privatization could take various forms:

(a) **Management contracts:** Here, while government retains ownership of the equity of the enterprise, a private expert management firm is hired to manage the firm for efficiency and profitability at a fee. For . example, BMB Dutch consultants and the Federal Mortgage Bank, KLM and the Nigeria Airways, RITE of India and the Nigeria Railway Corporation, most government hotels and the Arewa Hotel management.

In some other cases a technical partner takes up the responsibility of management.

(b) **Leasing arrangement:** A private management firm is invited to lease the enterprise with a view to managing it for a share of the profit. This is more appropriate to service industries. For instance, it was used successfully to reactivate nationalized hotels in Jamaica. Such managements too can be either local or foreign.

(c) **Contracting services:** By this option, the government provides public services and utilities by contracting them out to the private sector through competitive bidding.

For instance in Nigeria, the government hires contractors to provide services such as road and building constructions and maintenance. In Chile and Coteâ€™Ivoire, private firms are employed to supply water to the capital cities.

(d) **Deregulation and withdrawal:** Here, the government deregulates the market and therefore removes the monopoly hitherto enjoyed by such corporations and ensure that they compete with private ones. The motive is to improve the quality of services provided. Examples are Okada, Kabo and Gas Airlines competing with the Nigeria Airways on the domestic routes. The same competition was recently announced in respect of overseasâ€™ airline operations for the privately owned airlines. The marketing boards have also been completely deregulated already. Of recent, deregulated enterprises in Nigeria include the marketing of petroleum products, oil refineries, radio, television and telecommunications companies.

(e) **Divestiture:** This is where the government handover its enterprises to the private sector, by selling the shares outright to the public. It can be total or partial. Mexico divested all its hotels and motor vehicle manufacturing firms. Britain, Brazil and Chile have all used this option extensively at one time or the other; for example, British; Telecom in Britain. This is the option that the Nigerian government is considering.

### 8.3.4 Advantages of Privatization

(a) Privatization provides large funds for the government and such funds could be (hopefully) re-invested in areas of absolute need in the economy.

(b) Provision of basic needs such as health, housing, education, roads, water, electricity, etc. could be better achieved by the government.

(c) The burden of taxation, resulting from governmentâ€™s wasteful investments in public corporations, would be made lighter.

(d) There would also be a better re-allocation of government financial resources, for the development of social infrastructures such as roads and dams.

(e) The application of expertise management approach to almost all â€˜privatizedâ€™ industries would be the best thing that ever happened to the Nigerian economy: it might lead to quite some growth in economic output and a boost in employment generation.

(f) Part-ownership of enterprises by the workers, trade union members and the low-income groups could be some tremendous incentives to the lower cadre, the working population of the nation.

### 8.3.5 Disadvantages of Privatization

(a) The privatization of strategic enterprises may affect the security of the country.

(b) Profit maximization may be the driving force behind the operations of privatized industries or enterprises.

(c) Privatization may deprive the government of revenue, which is being derived from the privatized enterprises.

(d) Privatization may lead to unemployment if the new owners of the privatized businesses decided to lay off staff.

(e) The privatized enterprises can hold the nation to ransom by manipulating the economy.

**Summary**

Nationalization is government acquisition of enterprises hitherto run by private individuals.

â€¢ The original owners of such businesses are encouraged to exchange their shares for government stocks that are of fixed interest rates rather than dividends.

â€¢ With nationalization, governments could pursue national economic policies designed to take care of the interest of the larger population of the society.

â€¢ However, nationalization is found to have its own shortcomings: inefficiency, bureaucracy, lack of initiatives and loss of confidence by investors, leading to capital flight.

Indigenization is a legal design meant for the disengagement of foreign ownership from some local industries either wholly or partially, depending on the category of an industry.

This is the prescription for the unacceptable situation of massive foreign ownership in Nigerian industries. The legal backing for indigenization came in the form of two decrees. The Nigerian Enterprises Promotion Decree of 1972 which was later amended as the Indigenous Enterprises Promotion Decree of 1976. The NBCI and Agricultural Credit Bank are two offshoots of the decrees, as aids to potential investors. The two decrees raised the level of awareness investment purposes among Nigerians. Some top management positions went to Nigerians, and there were savings in foreign exchange resulting from a reduction in repatriated funds abroad.

Privatization is the latest conception of government in curing the inefficiency of government enterprises in Nigeria. It means turning the means of production and distribution from the public sector to the private sector

There are many ways of doing so: by lease, by management contracts, technical experts contracting services and outright selling out of shares, i.e. divestiture.

However, some advantages are likely to accrue from privatization: better allocation of government resources, relief from burden of subvention, a boost to employment prospects and economic growth.

**Revision Questions**

**Essay Questions**

1. (a) What is nationalization?
   (b) Discuss the statutory procedures in adopting nationalization.
2. What are the gains to the Nigerian economy from the two indigenization decrees?
3. Give a list of ten industries affected by the indigenization decrees.
4. Give FIVE advantages and FIVE disadvantages of nationalization.

*(NECO 2001)*

5. State the objectives of indigenization.
6. State the likely gains that might come from privatization
7. Write short notes on each of these terms:
   (i) Nationalization
   (ii) Privatization
   (iii) Indigenization
   *(iv)* Commercialization
8. List and explain FIVE reasons why the government goes into public enterprises.

*(NECO 2001)*

***Objective Questions***

1. The process of bringing a company under exclusive state ownership and control is known as
   A. nationalization
   B. commercialization
   C. indigenization
   D. privatization
2. The body that currently oversees the privatization and commercialization processes in Nigeria is the
   A. Bureau of Public Enterprises
   B. Securities and Exchange Commission
   C. Technical Committee on Privatization and Commercialization
   D. Nigerian Stock Exchange
3. A core investor in the current phase of privatization in Nigeria is one who
   A. can mobilize foreign currency equivalent to the value
   B. will be at the core of the enterprises
   C. has the technical know-how of the enterprise
   D. can afford to buy most of the shares of the enterprises

*(JAMB 2002)*

4. The commercialization of public enterprises is aimed at
   A. advertising and promoting the goods and services of the enterprises
   B. increased assistance and patronage of the enterprises by the public
   C. increasing efficiency and making the enterprises self-sufficient
   D. selling the goods and services of the enterprises
5. A major benefit derivable from the privatization and commercialization of public enterprises in Nigeria is
   A. revenue generation
   B. information technology
   C. employment generation
   D. increase in wages

*(JAMB 2003)*

6. Privatization is concerned with
   A. government ownership of companies
   B. equal ownership between the public and the government
   C. the dilution of ownership among the public
   D. the individual ownership of companies

*(JAMB 2003)*

7. One way by which government reduces the repatriation of capital is through
   A. naturalization
   B. nationalization
   C. divestiture
   D. indigenization

*(JAMB 2001)*

8. What is NOT a reason for government participation in business enterprises?
   A. controlling monopoly power
   B. price control and consumer protection
   C. provision of public utilities
   D. provision for heavy capital investment

*(NECO 2001)*

9. The development of commercial activities in Nigeria was facilitated largely by
   A. a good transport system
   B. the indigenization decree
   C. a convenient medium of exchange
   D. a high level of production

*(JAMB 1995)*

10. One disadvantage of nationalization is
    A. private initiative in business undertaking is discouraged
    B. the major industries are not left in private hands
    C. the government is able to provide large capital needed for the vital industries
    D. large profits coming from the big industries are available for the use of all the citizens

**Project**

List ten public corporations in your locality. State their failures and successes and suggest the modalities of privatization you would recommend for each one of them.