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The Problems of the Public Enterprise System in Nigeria: Capitalist Privatization or Management along Islamic Lines?

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Abstract: *The Nigerian public enterprise system has been quite large in size and scope of operations. Because of its importance, concern has been shown over the problems which are likely to hinder the efficient operation of the system. This paper examines the system to underscore its problems, and the sort of efforts being made or proposed to solve them. It focuses on privatization, which is being touted as the panacea to all problems. The argument is made that the privatization process, within the capitalist ethos and framework, would hardly be a viable option to follow in order to address the present problems. Both the theoretical and empirical bases of this argument are discussed. On this basis, the necessity of an Islamic perspective to the problems of public enterprise is suggested.*

A public enterprise is defined as an entity, owned or controlled by the government, which is supposed to earn the bulk of its revenue by providing goods and services to public. A public enterprise has a distinct legal identity and is expected to be self-accounting. Traditionally, public enterprises are found mostly in utility and the social services sectors of the economy. They are often set up by governments to provide services in the public interest. Their economic relevance is often predicated on the provision of social and economic infrastructures which usually exert large external effects on the other sectors of the economy, as a result of the indispensability of their services to such sectors.[1] Public enterprises have been set up to achieve

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a variety of other objectives, particularly in the underdeveloped countries.[2]

In Nigeria, the public enterprise system has been as old as the country itself. Historically, the system of state enterprises began in 1898 when the British colonial administration undertook the railway transport project from Iddo in Lagos to the hinterland. This was followed by mining, electricity, and marine projects which later led to the development of several ports.[3]

With time, public enterprises have increased not only in scope but also in complexity. Apart from those mentioned above, the Nigerian state has set up wholly or jointly owned industrial and/or commercial concerns in such diverse economic areas as iron and steel, motor assembly, the petrochemicals, aviation, pulp and paper, aluminum, ferrous and non-ferrous metals, insurance, and banks. Although available figures are hardly reliable, the increase in the number of public enterprises in the aforementioned fields of operations has varied from about 50 in 1960 to about 300 in 1983, and to about 3,000 in the late eighties.[4] In terms of employment, in 1986 there were around 301,000 employees in the public enterprises as against 243,000 in the purely private sector and voluntary agencies.[5] In short, the Nigerian public enterprise system has been quite important, accounting for about 50 per cent of the GDP for the eighties.[6]

Some Problems of Nigeria's Public Enterprises

Problems that confront the Nigerian public enterprises can be categorized into the general and the specific. The general problems are those which affect enterprises in both the public and the private realm. For instance, where the issue is the poor and the underdeveloped nature of utilities like electricity, water and telecommunications, which are services supplied by enterprises in the public realm, all the enterprises that are thereby forced to provide these services at an extra cost to the normal cost of operations, suffer as a consequence. But it must be stressed that the degree at which public enterprises in particular suffer from the general and specific problems would need to be seen as differentially expressed in the enterprises with regard to their various forms and complexities.

Thus, when the analysis of the problems of the public enterprises is undertaken, it is seen that general problems may arise from cases where the mission of an enterprise was poorly articulated as well as from the absence of feasibility studies regarding its viability. This point particularly refers to enterprises that are meant to carry out commercial functions. In some cases, such functions are too easily coupled with the need for providing services which are of a social and political nature. As a result, these enterprises are saddled with the problems of over-manning, operating with huge losses, pricing services either poorly, or exorbitantly, but in general, unrealistically.[7]

In the history of public enterprises in Nigeria, the Nigerian Airways can easily be cited as an example of this general problem. It operates on a number of routes in the domestic setting that are not commercially viable. However, the government desires to assure these communities that they are part and parcel of the political entity called Nigeria. At times such commercially unprofitable routes serve some powerful, important and influential Nigerians. So the hapless airline is made to operate them. Likewise the Nigerian Airports Authority operates about twenty airports located in various parts of the country, although the bulk of its revenue is generated by only three airports: Lagos, Kano and Port-Harcourt.[8]

A related problem is the poor capitalization of many public enterprises. Generally, public enterprises are known to have deficient working capital. The result is the inevitable higher ratio of loans to share-holders' funds if the affected public enterprise are to operate at all (see table 1). Moreover, in situations where subventions from the government do not come to the enterprises, or come rather late and inadequately, they are coupled with a poor financial basis and forced into inefficient operations, even where they might naturally or statutorily have enjoyed one form of monopoly or the other. Before the deregulation of the aviation industry in the early eighties, the Nigerian Airways, to cite it again in another instance, manifested this problem. Its debts, running into millions of dollars owed to both overseas and domestic contractors and suppliers, remained unpaid. On several occasions, this led to the seizure of its aircraft at overseas airports to compensate for defaults. Operational difficulties of this nature, no doubt, have crippled the efficiency of Nigerian Airways.

In certain cases, the problems of the Nigerian public enterprises are exacerbated by unnecessary interference from the government and the usually unwieldy bureaucratic red-tape. These problems may be expressed, in one sense, by setting specific guidelines to the enterprises such as the size and pattern of manpower recruitment, which may conflict with either the general or the specific policy guidelines on which the enterprises were set up, and in the other, by delay in meeting requests from such enterprises for taking specific policy decisions. For instance, if the enabling law requires a public enterprise to seek clearance from the supervising ministry before it can set its rates/prices, and the enterprise in question submits to the appropriate authorities who in turn fail to act with despatch, what could happen may be better imagined than described. In such a situation, the enterprise may actually sustain losses before its wishes are sanctioned, if at all. One can further stretch ones imagination to note the implications of such bureaucratic red-tape in an environment where the enterprise competes with the privately owned ones.

Table 1: Capitalization of Public Corporations, circa 70's in ₦ millions

Corporation	*Equity Capital*	*Outstanding Treasury loan*
Nigerian Railway Corporation	0.05	812.7
Nigerian External Telecommunications	2.00	25.0
Nigerian National Shipping Line	4.00	98.6
Nigerian Ports Authority	21.90	487.7

Source: Ministry of Finance. Quoted by G.P.O. Chikelu, "Issues on the Funding of Public Corporations in Nigeria," in National Institute for Policy and Strategiec Studies, *The Future of Public Corporations in National Develoment: A Policy Study. Proceedings of the Seminar on the Future of Public Corporations in National Development*, held at NIPSS, Kuru, Jos, September 22-24 1980, p. 43.

Many commissions of inquiry have been set up to probe, among other things, the corrupt practices manifested in some of the public enterprises. Corruption has been found to be a problem of many public enterprises; and the extent to which this phenomenon has been a serious problem can be gleaned from the reports of some of the commissions which have thus far been set up.[9]

Perhaps as a precursor to the study of privatization by the Nigerian state (which forms the analysis in the next section), the following statistics may facilitate the understanding of the problems of the public enterprise system. In the first place, the total investments in some of the enterprises mentioned in the preceding section, over a period of six years to October 1985, stood at ₦23 bn. When broken down, it translated into ₦11.4 bn in equity investments, ₦10.4 bn in loans and an additional ₦1.3 bn in guaranteed loans. In the second place, on the equity investments of ₦11.4 bn, the state received dividends of ₦993.7m (averaging about ₦159m per year). In the case of the ₦10.4 bn in loans, about ₦68m had been received as repayment, and ₦26m in interest payments.[10] This dismal picture elicited comments as follows:

> The rate of returns on the loans is sufficiently dismal to warrant any commentary. In the case of equity investments, compounded returns here at less than 10% is even less attractive than returns on a savings account—*which must be the most timid of investment options available in the economy at present*. What is most alarming about the statistics however...is the fact that in addition to the ₦23 billion in equity investments and loans, Government gave subventions of ₦11.5 billion to various parastatals and companies—ostensibly in the same six-year period in which the initial ₦23 billion was disbursed. [Emphasis in the original.][11]

The facts contained herein are therefore adjured to be the clearest indication of the administrative failure of the Nigerian state to carry out some of the functions assigned to the public enterprise system. But before privatization was embarked upon as *the* policy to solve some of these problems of public enterprises other measures were attempted.

Before discussing these measures, it is pertinent to say that the problems of public enterprises, especially the financial ones noted above, cannot be divorced from the fiscal crisis of the Nigerian state. This crisis was made worse in the late seventies and throughout the eighties to the present time because of a prolonged recession. The Nigerian recession, in turn, was expressed as: (i) a dramatic fall in and unstable foreign exchange volumes (or earnings) to import critical inputs into the operations of some of the public enterprises as well as the private ones; (ii) an accumulation by the state as well as its agencies—such as some of the public enterprises—of huge debts (both short-term and long-term); and (iii) an exponential increase in budget deficits. Highlights of these macro-economic issues are shown in table 2 below.

The crisis faced by the Nigerian state, as depicted in the above, was addressed through a number of measures put in place from the early eighties, and continued by succeeding regimes. The highlights of these includes the Economic Stabilization (Temporary Provisions) Act 1982, which was principally aimed at reducing foreign exchange commitments of the state and boost its internal revenues.[12] With the change-over to military dictatorship in 1983, the thrust of the Act was reinforced as other measures such as the counter-trade strategy were introduced to address the structural deficiencies in the economy. Essentially, the reform packages by the civilian and military regimes of the early eighties were monetarist—with the most ambitious being the package put in place by the Babangida Administration (1985-1993).

Table 2: Some Macro-economic Issues, Selected Years

Outstanding	*Net Foreign Exchange Flows ($ Million)*	*External Debts Outstanding (₦ Million)*	*Treasury Loan (₦ Million)*
1978	-2,210.7	1,265.7	-2,389.0
1980	4,393.1	1,866.8	-1,986.0
1982	-2,077.3	8,819.4	-2,899.3
1984	464.5	14,536.6	-2,615.1
1986	722.2	42,229.5[a]	-8,254.3
1988	-332.7	133,956.3[a]	-12,224.5
1990	2,124.5	9,614.3[a]	-22,116.1
1991	1,487.0	328,051.3[a]	-35,755.2
1992	1,062.0	544,264.1[a]	-55,949.1
1993	0.1[b]	633,144.4[a]	-107,735.3
1994	-0.2[b]	648,813.0[a]	-70,270.6
1995	n.a.	716,775.6[a]	1,000.0
1996	n.a.	617,320.0[a]	37,049.4[b]

Sources: Central Bank of Nigeria, *Bullion* 12, (1988)1: 22; Central Bank of Nigeria, *Annual Report & Statement of Accounts* (31st December, 1996), 83; P.J. Obaseki, "Foreign Exchange Managament in Nigeria: Past, Present, and Future," in Central Bank of Nigeria, *Economic and Financial Review* 29 (March 1991); Federal Office of Statistics, *Review of the Nigerian Economy 1993* (Lagos: Federal Republic of Nigeria, September, 1994), 92: United Bank for Africa PLC, *Monthly Business & Economic Digest* 15, (January, 1992)1: 7.
Notes: *a*=High yearly variations are as a result of the constant changes (declines) in the value of the Naira in the foreign exchange market; *b*=Provisional.

The Babangida regime introduced the Structural Adjustment Programme (SAP) with the following enunciated objectives: to restructure and diversify the productive base of the economy in order to reduce dependence on the oil sector and on imports; to achieve fiscal and balance of payments viability over the initial period of two years set for the programme; to lay the basis for a sustainable non-inflationary or minimal inflationary growth; and to lessen the dominance of unproductive investments in the public sector, improve its efficiency and intensify the growth potential of the private sector.[13] The latter objective provided the clearest clue to the government's determination to embark on the policy of privatization of public enterprises. Other policy measures pursued and aimed at revamping the economy, and by implication the public enterprise system, included the introduction of a Foreign Exchange Market (FEM) to establish a realistic exchange rate for the national currency (the *Naira*); trade and payments liberalization to encourage competition between domestic products and imported ones; tariff reform and rationalization to promote industrial diversification; deregulation, reduction of administrative controls and greater reliance on market forces to enhance efficiency; the strengthening of existing demand management policies and the adoption of appropriate pricing policies for petroleum products and public enterprise output.[14]

Elsewhere the argument has been made,[15] and as can also be gleaned from table 2, that these policy measures have not been successful. The reasons for the lack of success are rather complex to be adequately analyzed here. Suffice it however to mention that the wholesale adoption of a "text-book solution" along the lines of the International Monetary Fund's (IMF) conditionalities—and the grafting of the same on an economy that is structurally deficient, underdeveloped and still exploited by imperialism, could hardly help solve such problems. This point can easily be supported if one takes a comparative look at the political programme that the Administration simultaneously set in motion, and which ended in a dismal and historic failure. As privatization was and still is an aspect of the SAP, and as it is still given a pride of place as an alternative in a number of instruments that could be applied to sort out a messed economy, the next section is devoted to its analysis both conceptually and in the empirical Nigerian setting.

Privatization: Concept and Operation in Nigeria[16]

Conceptually, privatization is the process that can systematically lead to the withdrawal of a state from those activities which private persons and/or undertakings can perform more effectively than the government agencies or enterprises. And it is, therefore, defined as a transfer of ownership and control from the public to the private sector, with particular reference to asset sales.[17] The "privatization movement" in the early eighties in particular found ideological and political support in the monetarist policies and concrete action of the regimes of the Western World, especially the governments of Margaret Thatcher and Ronald Reagan. Due to their influence, the multi-lateral credit institutions, like the World Bank and the IMF, stepped up the tempo for privatization, especially in the debtor countries of the Third World. As many as twenty-two methods of privatization are usually identified in the literature;[18] but whichever method is resorted to, it often boils down to identifying areas of the public sector activities and partially or completely privatizing or commercializing them.

In Nigeria, the argument for privatization could be said to have been concretely provided by the economic doldrums and the dismal performance, as stated in the foregoing section, of some of the public enterprises. Before the Babangida Military Administration adopted it, the two preceding regimes also looked at the implications of privatization. On its part, the Shagari Civilian Administration (1979-1983) set up the Presidential Commission on Parastatals (The Onosode Commission) that recommended, *inter alia,* that: "an increased role by private sector should be considered especially in those parastatals where security and other sensitive aspects of public policy are not as paramount as the satisfactory delivery of service to the people."[19]

Although the administration accepted the recommendation;[20] it was characteristically slow and thus unable to come up with any policy guidelines before the regime itself was swept from power. When the Buhari Military Administration (1983-1985) came to office, partly to distance itself from the *ancien regime* and partly to examine the issue afresh. Given the circumstances prevailing then, it set up also a Study Group on Statutory Corporations and State-Owned Companies. The terms of reference of this study group included, among others, "...undertak[ing] an in-depth study of the desirability or otherwise of privatization of parastatals and state-owned companies—identify[ing] those that can be privatized and recommend[ing] the methodology of achieving such a programme in the public interest."[21]

The Study Group came up with the following recommendations: (i) the government should adopt the principles of selective privatization as a policy to perform better and save public funds; (ii) privatization should only be pursued where conditions are favourable and where vital national interest will not be jeopardized; (iii) privatization should only be seen as a gradual process and each case should be considered on its own merit and carefully worked out before implementation; (iv) in the event that the value of the shares which need to be sold to achieve the desired level of private sector participation is very substantial, government should consider giving special terms (like deferred payment schemes) to promote their sale; (v) since the principal aim of privatization is to improve efficiency in the delivery of service and enhance financial and operational performance, private sector equity participation must be large enough and properly structured to provide for the autonomy of the enterprise. In this connection, the order of share holding should provide for at least 35-45% to be sold to large shareholders, who are capable of buying up to a minimum of 3.5 to 5% of the shares each, while the rest should be sold to small shareholders.[22]

The Buhari Administration accepted virtually all the recommendations, but emphasized that the state "reserves the right to take reasonable action to ensure achievement of the objectives of the parastatals and protection of the public interest."[23] Furthermore, while reacting to the specific recommendations made about the eight public utilities also studied by the group, the administration indicated its preference for commercialization and rejected the privatization schemes drawn up for them.[24] The administration could not implement many aspects of the recommendations for privatization before it was also overthrown.

The Babangida administration's stance on privatization is found in the 1986 budget speech in which, among other things, Babangida said:

> Government parastatals have, for long, been subjects of study and policy review. They...have generally come to constitute an unnecessarily high burden on government resources....Government has now decided that as from 1986, the volume of non-statutory transfer to all economic and quasi-economic parastatals would constitute no more than 50% of their present levels. They are to find the balance from increases in their prices, charges, tariffs and rates. In respect of existing public holdings in commercially oriented enterprises, the government has also decided to divest its holdings in agricultural production, hotels, food and beverages, breweries, distilleries, distribution, electrical and electronic appliances, and all non-strategic industries. It will also consider reducing its holdings in banks, insurance companies and other financial enterprises without

> losing control.[25]

To give legal backing to this pronouncement, the state enacted the *Privatization and Commercialization Decree (No. 25)* in 1988. The highlight of the law which was to be implemented by a Technical Committee on Privatization and Commercialization (TCPC) —now known as the Bureau for Public Enterprises (BPE)—showed that the Nigerian state intended to fully privatize 67 of the enterprises in which it had 100 per cent equity control, to partially commercialize 14, and to fully commercialize 11. On the other hand, in major strategic sectors of the economy, the state was only prepared to partially privatize some of its holdings.

Indeed, privatization in the Nigerian context has been quite extensive, and going by the most recent data, its financial gains to government are as follows:

> The privatization of 55 government companies has...fetched the Federal Government a revenue of ₦3.3 billion as at the end of [1992]...[T]his amount was realised from the original investment [in presumably the affected companies] of ₦652 million. This is an indication that government has netted over 500% as capital gains.[26]

These alleged capital gains would have to be treated rather cautiously as we have seen in table 2, that from 1988 when the privatization programme began in the country, the state has continuosly sustained burgeoning fiscal deficits. Thus, we share the argument that:

> Although the proceeds from the sale of a public enterprise are typically treated as negative capital expenditure in fiscal accounts, thereby reducing the deficit, the reduction is only temporary. Rather than being a structural measure akin to a tax increase or an expenditure reduction, an asset sale is more closely related to bond financing in its impact. In both cases, there is an implicit commitment to raise additional revenue in the future—in the case of an asset sale to replace forgone income, and in the case of a bond issue to service debt. Only if an enterprise is run more efficiently and profitably in the private sector, will the budget benefit from privatization on a permanent basis.[27]

However, the extent of divestiture seems to be different from what the decree originally intended. For instance, some of the leading and longer established commercial banks under category *A*, namely, the Savannah Bank of Nigeria Ltd., the Union Bank of Nigeria Ltd., United Bank for Africa Ltd., and the International Bank for West Africa Ltd., have been virtually divested of state shares contrary to the stated aspirations to "maintain present holdings." These banks and the other industries in the oil marketing and cement categories are now largely privately owned; they are quoted on the Nigerian Stock Exchange, and, in accordance with the stipulation of the Companies and Allied Industries Decree of 1990, carry the tag "Public Liability Company" (PLC, for short), after their names.[28]

In some of the categories, namely, the steel rolling mills, the motor vehicle and assembly companies, the air and sea trading companies, etc., the prolonged recession and the political nature of the privatization exercise may be stalling the progress and implementation of the provisions of the 1988 decree. The provisions have either not been implemented or they might have been implemented half-heartedly. This much could be inferred from the admission of existing difficulties in the privatization programme which was stated in the 1995 budget speech of the Nigerian head of state as follows:

> ...owing to some identified inadequacies and the huge losses incurred by Government in realizing its investment, the sale of shares in public owned enterprises is hereby suspended [as] [t]here are certain enterprises which require high managerial and technical expertise if they are to operate profitably.[29]

Enterprises that might be affected as a result of this major policy shift were expected to be leased out on contract.[30] Of course, contract leasing is another aspect of the privatization process which has been resorted to at one time or the other in some of the advanced capitalist countries.[31]

Other issues of import in the privatization exercise in Nigeria include equity and welfare concerns. The equity issue is largely raised with respect to how the different sections of the country could be ensured a fair share in the privatized enterprises. The concern has largely been expressed with respect to the northern part of the country which is not only backward educationally and materially, but is also likely to be relatively disadvantaged in terms of shares purchased or controlled.[32]

As much as this issue (i.e., equity concern) may be considered important, it is not considered to be fundamental as the whole privatization programme is set within the capitalist ethos. Capitalism has its logic and people who raise this type of issue have failed to contextualize it. In other words, factors responsible for the differential access to the shares of the privatized industries emanate directly from the uneven development of the various sections of the country since integration into global capitalist system. Thus, the areas that are already relatively more developed, i.e., the southern part, are *mutatis mutandis* most likely to gain; firstly, from locational advantage; and, secondly, because they are likely to have more people with the added advantage of the knowledge and familiarity with opportunities which may avail themselves. In addition, the privatization programme is by definition a valorization process; i.e., shares are going to be traded ideally in the exchange stock market to those with the ability or wherewithal to purchase. Therefore, if equity issue is merely raised on spatial basis, the basic objective of capitalist efficient allocation of resources may not seem to have been addressed.

Thus, the more serious issue, even from the perspective of equity and, more so, from the social welfare angle, is what makes capitalist privatization untenable and unlikely to succeed in contemporary Nigeria. As has been strongly argued, dealing with the poor operational performance of the public sector should not automatically call for privatization. This is:

> ...because the existence of public enterprises for the supply of basic products should be part of the welfare commitment of every humane administration. As highlighted by Chapra ... the mission of the Holy Prophet (peace be on him) is defined in the Holy Qur'ān to be a merciful blessing for all mankind (al-Qur'ān 2:107). As such, all morally conscious political authorities should manifest the feature of being merciful by effectively catering for the welfare of all. [In addition], due to the large capacity of basic industries and the significant call they make on economic resources, public enterprises will emerge as natural monopolies....This is because natural monopoly is envisaged where due to economics of scales [sic] one firm of efficient capacity can provide all the required market demand and continuously increase its level of output at a lower marginal cost compared with two or more other firms [sic.] cost. The implication of this development is that while government will be able to regulate the monopoly behaviour of these corporations by preventing the higher prices and lower output associated with monopoly firms, it will be relatively more costly for government to effectively regulate private monopolies in a similar fashion.[33]

It needs to be stressed that this broad concern with welfare is what should be looked into with respect to the workers of privatized companies. Without doubt, workers are going to be retrenched while those still in employment are going to be exploited both extensively and intensively. In a word, capitalist privatization is antithetical to the pristine principles of Islam. In addition, it can be concluded that capitalist privatization is antithetical to the rules of fair play and justice.

What, then, is the Islamic option through which the problems of public enterprises could be addressed? From the outset, it should be noted that in respect of economic endeavour, including public entrepreneurship, the important Islamic guideline which needs to be kept in view is the principle of welfare. As explained by Mannan, the uniqueness of the Islamic concept of economic welfare lies in the fact that it cannot disregard the wider considerations of the general welfare such as morality, education, religion and wealth.[34] In other words, under the Islamic system of enterprise, the concept of economic welfare is used in a broader sense. It includes the creation of wealth resulting from increase of output of goods through optimal utilization of human and material resources. It should also be emphasised that Islam considers social and individual welfare as complementary rather than antagonistic. All economic endeavours are required to reflect the concept of complete harmony between the individual and the social good. Therefore, the focus should not be on water-tight dichotomy between public and private entrepreneurship, but on encouraging the emergence of a system whereby there is mutual cooperation such that each individual tries to maintain complete harmony between what is good for him and what is good for society.

The central difference between the capitalist and Islamic positions for privatization revolves around the question of state intervention in the private sector. As is known, the capitalist system discourages state intervention. However, even in this situation, two basic types of government interventionist policies are identified in the literature.[35] These are competition policy and industrial policy. Competition policy seeks to guide industrial operations indirectly by establishing a framework within which the pursuit by private enterprises of their interests in accordance with free market forces results in overall beneficial economic performance. The framework consists of both the market structures in which the enterprises operate within the set of government established guidelines regulating their conduct. Industrial policy, on the other hand, involves government intervention at the level of specific industries designed to bring about directly a desired outcome that would not otherwise occur. It is not intended to create a framework within which the market can be left to operate alone; rather it is intended to supplement market forces, or replace them.

The conventional rationale for competition policy has been the argument that competition acts as a control mechanism limiting the power of private enterprises, whereas monopoly gives the power to behave in ways that may be detrimental to the public interest. Thus, the case for competition is based on the proposition that it results in an economic performance considered desirable. So, it is commonly argued that, in the long-term, state policies should focus on the systematic elimination of monopoly. This, it is felt, can be achieved by introducing incentives in the process of production in the form of maximum utilisation of factors through government support in a manner that creates conditions approximating perfect competition.

The key problem of the conventional frameworks of privatization, as far as Islam is concerned, is that they ignore the role of ethics as an important factor in decision-making. The central contention in this paper is that within the disposition of Islamic epistemology, it is ethics that dominates the framework for privatization, and not vice-versa. Hence the Islamic framework differs from capitalism and Marxism by an ethical factor. Furthermore, the Islamic conception of ethics must be defined in terms of *ḥalāl* and *ḥarām* (permissible and prohibited) as laid down by the Sharīʿah. This point is crucial because Islam strongly asserts that ethics should symbolise the common values of a society. They should determine the socio-economic preference structures of the members of that society.[36]

The Islamic Solution to the Problem of Public Enterprise

According to Islam, the entire universe is created and sustained by Allah and man is appointed to serve as Allah's vicegerent, i.e. *khalīfah* on earth. As a *khalīfah*, man applies the powers and freedom delegated to him by Allah, but will be held accountable for his actions. Thus, man's accountability before Allah is both certain and logical, since in reality it is Allah who is the Sovereign, and not the *khalīfah*. It can thus be remarked that the Islamic strategy for nation-building within the context of privatization is largely determined by its ethical principles which are based on the fundamental concepts of *tawḥīd* (unity and sovereignty of Allah), *shūrā* (consultation), and *khilāfah* (vicegerency). This is attainable even in a multi-cultural society like Nigeria if the spirit of dialogue and consensus is adopted. The position of Islam is that sustainable development with *ʿadālah* (justice) is not possible without ethical development as defined by the Sharīʿah.

In Islam, the idea of a secular state is an anathema; it is simply not countenanced. This is because the state is considered as one which is established and run strictly in accordance with the laws of Allah as enshrined in al-Qur'ān and the Sunnah of Prophet Muhammad. The state, therefore, does not countenance any separation between the spiritual and the secular. Rather, it addresses all the needs of the citizens purely on the basis of what is *ḥalāl* and *ḥarām* as stipulated by the Sharīʿah.[37]

The Islamic community is considered as having been raised up for the guidance of mankind, in that they enjoin what is right and forbid what is wrong and believe in Allah.[38] The Muslims, according to Islamic teachings, have been appointed to the leadership of mankind because they possess those moral qualities which are essential for a just leadership. They are, therefore, expected to comprehend the responsibilities of the work entrusted to them and avoid the errors into which their predecessors had fallen, which resulted in not only contamination of the basis of belief in the unity of Allah, but in widespread corruption, terror, and immorality throughout the world.

From the preceding remarks, it can be noted that Islamic approach to dealing with the problems of public enterprise is founded on the absolute and permanent principle of the revelation of Allah and the Sunnah of His Messenger. However, if there is no guidance from revelation or Sunnah of the prophet regarding a certain problem, they are free to act in a manner they consider to be right through the exercise of *ijmāʿ* or *ijtihād*.

The basic difficulty in providing solutions to all forms of human problems—public enterprise included—is largely ideological. A large number of scholars and policy makers, Muslims included, tend to consider some secular models, especially capitalism, as the best way forward for mankind. The capitalist system conceives of the existence of an artificial contractual relationship between the state and the citizens of a society, who agree to relinquish their collective rights and freedoms, for control of scarce resources, the most important of which are monopoly of force and taxation to the state. In return, they are guaranteed protection from all forms of aggression and are provided with basic welfare services by institutionalised state agencies such as the police, the judiciary, and the armed forces.

However, as pointed out by Onimode,[39] the problem in this form of relationship is that, in practice, it is difficult for such a contractual relationship to emerge peacefully as a result of conviction under secular settings. It also happens that after the emergence of state, it may not serve as the expected charitable institution serving the welfare of the members. Class distinction and control of state apparatus, such as power or military hardware by a section, may at times lead to exploitation or oppression of others. Thus, in simple terms, scholars tend to analyse the emergence and survival of state in a capitalist political economy as a by-product of class conflict— which creates an instrument of class supremacy. This is because its survival is seen to be situated in the prospect of the most powerful class, dominating other social classes through the control of economic, political, and military power. In this process the key organs of the state, i.e., legislature, executive, judiciary and military, are controlled by members of the dominant class.

One other problem in this relationship is that by guaranteeing the monopoly of organs of state by the dominant class, the state tends to sustain injustice and inequality in the methods of distribution of amenities and social opportunities. As argued by Chapra, secularism, as the dominant worldview in both the West and the Third World, concerns itself with only the material aspects of life, and its essential principle is that human well-being can be brought about only by material means. He explains that while the pursuit of unlimited self interest, which sidetracks the important matters of morality, is what the market system stands for, a clear distrust in the ability of human beings to act in the interest of society is what the socialist strategy implies. All these strategies, including the welfare state approach are shown by Chapra to be riddled with innumerable problems. He argues that both the systems have failed to realise their professed goals of full employment and equitable distribution of income and wealth. This is because their worldview, and the strategy derived from it, are not in harmony with their professed goals. From this perspective, it can be reasonably concluded that these secular systems, which have themselves failed to realise growth, justice and stability, cannot serve as examples for developing countries.[40]

Another related ideological issue, vis-à-vis the application of Islamic principles, is connected with the multi-cultural nature of many of our communities, such as Nigeria. Nowadays, any effort aimed at recommending the application of Islamic principles to the issues of public concern is usually considered by policy makers as an affront to the principle of national unity. To them, national unity seems to be the wholesale abandonment of our Islamic heritage insofar as issues other than those of personal status, such as *ṣalāh, ṣaum, zakāh* and *ḥajj*, are at stake. It is, therefore, hoped that the above discussion should be adequate to enable our policy makers, especially Muslims, to have the courage to serve the cause of Allah in whatever capacities they find themselves. They really ought to realize that the only acceptable order of life for man is to live in absolute obedience to Allah in accordance with His commandments and the Sunnah of His Messenger. This is the Islamic approach to all issues as enshrined in al-Qur'ān:

> Now, do these people desire to give up the way of Allah's submission (Islam) and adopt a different way (knowing well), that all things in the heaven and the earth, willingly or unwillingly submit to Allah and to Him we shall all return...And whosoever adopts any other than this way of submission (Islam) that way shall not be accepted from him and in the hereafter he shall be among the losers. How can it be that Allah would guide the people who adopted disbelief after they had acknowledged the Faith, and after they themselves had borne witness that (Muhammad) was a true prophet, and after clear signs had come to them? For Allah does not guide the unjust people. The fitting recompense for their inequity is that they are under the curse of Allah and of the angels and of all mankind. (3:83-87)

Conceptual Issues

Using the framework of our earlier discussion, we now intend to examine, from the conceptual perspective, the Islamic approach to enhancing the efficiency and performance of the public enterprise system. It is hoped that the discussion in this section will serve to provide a framework of action, especially to our policy makers in their effort to improve the Nigerian public enterprise system. Two issues will be examined in this connection: The role of the state in the production and sale of public goods; and the question of allocative optimum vis-a-vis the public enterprise system.

Role of the State: Some of the reasons for the public ownership of enterprises may include the need to prevent the concentration of economic power in the hands of a few powerful private investors, the need to control monopoly behaviour generally, and the need to ensure maximum socio-economic welfare especially from industries which are naturally monopolistic thereby exhibiting declining costs for high levels of production. Another important aspect of public enterprise is connected with what is referred to as public goods. These are goods which, once they are supplied to one person, become automatically available to everybody else. Because a person does not have to pay to enjoy such facilities, the traditional private enterprise system will not accept to supply such goods. Also, in the case of Nigeria, it could be added that the state has to start and own certain enterprises such as electricity, railways, education, health, etc., because this is the only way they can get established, largely due to the absence of efficient capital market facilities to assist with the large sums needed for investment in those enterprises.

In Islam, the role of the state in the provision of public goods, will be to correct any observed distortions arising out of the failure of the market to lead the economy to socially optimum allocative level through the help of voluntary and non-profit economic institutions. It is this phenomenon, that is the prevalence of large scale voluntary flow of economic resources in the form of *zakāh, awqāf,* or *ṣadaqah*, which has led Faridi[41] to define a three-sector model for an Islamic economic setting, comprising of the state which is concerned with social welfare, the voluntary organisations also concerned with social welfare, and the private sector which is characterised by the interplay of the forces of demand and supply and thereby concerned with profit maximisation. The main proposition here is that any failure to attain the optimum level of allocative efficiency (defined in the following sub-section) by the private sector will be corrected by the voluntary sector. The state will come in to redress the gaps that are likely to remain perhaps due to the voluntary sector's inability to have a comprehensive programme for the society as a whole.

Allocative Optimum: The ultimate role of the Nigerian Public enterprise system has been defined in all the past National Development Plans as that of maximising the welfare of every citizen through an efficient utilization of the country's limited economic resources.[42] It has, therefore, been part of public policy that the criterion of economic costs is expected to be invoked in appraising the relative efficiency of the country's public enterprise system. Given this policy perspective, it can be observed that, at least in theory, the concept of allocative efficiency has been accepted as one of the economic models which could be utilised for controlling the performance of public enterprises. It is intended to draw attention to the inherent weakness of this model.

The concept of allocative optimum is, in general, concerned with the total use of economic resources across the economy. It forms an important part of welfare economics which is considered as a normative aspect of economic theory in that it tends to expound postulates by which policy makers are able to identify and rank all the alternative choices open to the economy on the basis of what is better or worse in terms of either social or individual preferences. Because a decision has to be made about which alternative is better and which is worse, it will invariably have to involve one form of value judgement or another. So for the purpose of formulating general welfare propositions many scholars and policy makers have traditionally recommended the use of certain value judgements credited to Pareto (1848-1923), which are popularly referred to as the Pareto Value Judgements. They are essentially two fold:

1. That each individual is taken to be best able to determine his or her preferences such that, for the individual it is accepted that he/she is better off in situation "x" if he/she prefers it to "y"; and
2. provided that an individual is better off in situation "x" than in "y" and that none is worse off after this change, it is accepted that situation "x" is superior for the whole economy than "y".

The greatest practical limitation of the Paretian approach to allocative optimum is that it can only be attained under a perfectly competitive condition. Since perfect competition not only does not, but also cannot, exist as a universal phenomenon, the policy relevance of the Paretian approach is questionable.[43] Furthermore, even where some appreciable degree of competition does exist, the situation may not lead to a Paretian optimum; for example, due to the presence of externalities and indivisibilities in the production and/or consumption of public goods. Again, it is quite likely for policy makers to accept an optimal level of economic attainment using the Pareto model which is morally deficient due to moral degeneration, such as corrupt tendencies in their attitudes. More importantly, the above-mentioned Pareto value judgements, which accord the individual the absolute freedom to decide what is good or bad for him or her, is Islamically unacceptable. This is because, man's freedom of choice, whether individually or collectively, is constrained by the moral teachings of the Sharī'ah. As mentioned in the Qur'ān, people will never become believers until they accept the holy Prophet as the judge for the decision of disputes between them, and surrender to his verdict in its entirety, without feeling the least resentment in their hearts.[44] As we explained above, the way of life taught by the holy Prophet under the guidance of Allah and the rules and regulations practiced and taught by him shall remain the final authority forever. Thus, the Islamic approach to the issue of allocative efficiency is based on the complete replacement of the traditional Pareto model by the three-sector model discussed earlier. As explained by Faridi,[45] the allocative function in an Islamic system will be performed through each of the three sectors (i.e. the government, the private sector, and the voluntary sector) working complementary to each other.

Initially, it will be expected that the market mechanism will contribute to allocative efficiency through the price system, pursuing the profit motive within the moral constraints of the Sharīʿah. The voluntary sector will be expected to make-up the shortage of production of goods and services which the market mechanism has failed to provide and to invest in such social ventures that do not attract private sector participation. Any gaps that may lead to deviations from allocative optimum, for example, in the form of income distribution inequality or presence of market imperfections are to be corrected by the state through the use of regulatory techniques approved by the Sharīʿah.

Strategy

The Islamic strategy for development uses a value-based framework derived from the Qur'ān and the Sunnah. As argued by Chapra, the first problem that every society faces in actualising its economic goals is how to filter out the unlimited claims on scarce resources in such a way that only those claims are left in which would pass the tests of both efficiency and equity.[46] Thus, while the price mechanism does perform the filtering function, it does not do so in an equitable manner. Islam, therefore, complements it by adding the moral filter which helps ensure equity. The moral filter attacks the problem of unlimited want at the very source—the inner consciousness of the individuals—by changing their preference scales in accordance with social priorities and making their claims on resources a function of human well-being. It requires a modest life-style and does not allow extravagance or the use of resources for ostentation or vain consumption.

The second problem that every society faces is how to motivate individuals to serve the social interest in conformity with the moral filter even when doing so hurts their self-interest. As explained by

Chapra, the idea of accountability before the Supreme Being can serve as a strong motivating force in inducing individuals to abide by moral values and in preventing them from pursuing self-interest beyond the limits of social health and well-being.[47] It is, however, still necessary to reinforce moral values maintained out of fear of the Supreme Being by economic restructuring in such a manner that individuals find it possible to serve their self-interest, only within the constraints of social well-being and economic stability.

Applications

Using the three-sector model of an Islamic economy discussed in this paper, specific roles can be outlined for each sector in such a way that the requirements for allocative efficiency and justice are met. In this model, the role of the state will be largely regulatory, e.g., through the formulation of effective macro-economic policies in such a way that income distribution inequality or the presence of market imperfections are corrected. The private sector will be largely concerned with the mobilisation of savings and investments through the provision of viable financial and capital market instruments using frameworks approved by the Sharīʿah. The voluntary sector will be mainly concerned with the effective channelling of savings in such a way that wastes are eliminated and excess funds are utilised solely for productive purposes.

In the case of Nigeria, mention has already been made in the paper about the focus of its privatisation programmes. The present government's framework, in particular, is for total transfer of ownership of all key public enterprises including the Nigerian Airways, the Nigerian Railways, the National Electricity Power Authority, and the four biggest commercial banks to private enterpreneurs. Using the 3-sector model, the government's privatisation drive may be revised using the following suggestions: In addition to its statutory regulatory functions, the government may consider retaining some level of equity participation, say 20%, in all privatised corporations, so as to have some direct say in the day-to-day functions of the corporations through its representatives. Naturally, the private sector will be expected to be the key stakeholder with, say 60% equity. The voluntary sector will retain the remainder, i.e., 20%. The key problem in this relationship as pointed out in this paper, is that a few capitalists are allowed to use their economic potential to obtain substantial equity control in these enterprises. One way out is to encourage mass equity participation by the public. But this is possible only if prospective investors have savings or access to investment funds through the financial or capital markets. This is the area where Muslims in the country are disadvantaged because almost all financial and capital market operations are interest-based. Since interest is unlawful in Islam, there is thus a need for the government to permit the emergence of an alternative system which is in consonance with Islam. This is important because many Muslim entrepreneurs are conscious of the prohibition of interest in Islam and this prohibition is found to provide a major reason why they are not comfortable with the services offered by conventional interest-based financial and capital market institutions.

Conclusions

The paper has tried to look at the problems of Nigeria's public enterprise system, which apparently led to the adoption of privatization as a policy measure. As we have pointed out, while the diagnosis of the problems could be accepted with a pinch of salt, it is clear that the use of the privatization approach has not been successful in tackling the indentified problems. Consequently, the Islamic option was examined and advocated on the basis of its relevance. In this regard, it is important to highlight the fact that Nigeria is a multi-ethnic and multi-cultural entity to which any suggested framework using an Islamic dimension is more likely to be misunderstood, than examined and accepted on its merits. However it should be stressed that Islam is the religion of not less than 60% of the country's huge population of 110 million people.[48] It is, therefore, not unrealistic for the Muslims to put across their views on national issues, for instance with respect to what to do with public enterprises. At this point, it is suggested that the principles that guided the conduct of the affairs of the first Muslim state during the time of the Prophet Muhammad (SAS), can fruitfully serve as our compass in contemporary Nigeria. It must also be stressed that the advocacy of the Islamic approach is not meant to be seen as an attempt to antagonize other communities in the country, but to show that a feasible alternative exists which can serve Nigeria well in place of the secular approaches which have all along tended to worsen our situation.

In fact, as argued by Adegbite, the country can only progress if it serves as a free market of ideas and intellectual discourse, rather than a closed shop, especially in today's information age. He aptly questioned that: "If it was legitimate to borrow from the British or

American system, why is a Nigerian citizen not at liberty to invite Nigerians to consider an Islamic alternative?" What we would only wish to emphasise, however, is that while our paper has focused on Nigeria, our view is that the Islamic option that we have discussed is as applicable to Nigeria as it is to the world.[49]

Notes

1. J.R. Nellis, *Public Enterprises in Sub-Saharan Africa* (Washington, D.C.: The World Bank Discussion Papers, 1986), p. vii; and A.S. Ayodele, "Public Enterprises and the Structural Adjustment Programme: Policy Implementation and Implications" in A.O. Phillips and E.C. Ndekwu (eds.), *Structural Adjustment Programme in a Developing Economy: The Case of Nigeria* (Ibadan: NISER, 1987), 109.

2. A.M. Choksi, *State Intervention in the Industrialization of Developing Countries: Selected Issues* (Washington, D.C.: The World Bank Staff Working Paper No. 341, July 1979), 8. See also M.A. Tokunboh, *Public Enterprises: The Nigerian Experience* (Lagos: Lantern Books, 1990), 6 & 8.

3. Tokunboh, *Public Enterprises*, 31.

4. Ibid., 32.

5. Ibid., 34.

6. M.I. Obadan, "Privatization and Commercialization of Public Entriprises in Nigeria," *NCEMA Policy Analysis Series* 1 (1995)1: 32.

7. Some of these general problems are also highlighted and discussed in A.S. Mikailu, *Ethics and Business Performance: An Islamic Analysis* (Zaria: Ahmadu Bello University Press for the Muslim Students' Society of Nigeria, 1989), 19-22.

8. Private discussions with an official of the Nigerian Airports Authority. See also A.O. Shabi, "The Critique of Nigerian Public Services: A Case Study of the Nigerian Airports Authority" (Dissertation submitted in partial fulfillment of the requirements for a B.Sc. degree in Political Science in Usmanu Danfodiyo University, Sokoto, 1993), 20-30.

9. Tokunboh, *Public Enterprises,* 105.

10. See, among others, A.K. Ubeku, *The Privatisation of Government Companies: The Imperative of our Time* (Lagos: The Nigerian Institute of International Affairs, 1987), 7; G.F. Mbanefoh, "The Public Sector and the Structural Adjustment Programme," in Phillips and Ndekwu (eds.), *Structural Adjustment Programme*, 103; and Ayodele, "Public Enterprises,"110.

11. Figures cited in a report by the First Bank of Nigeria PLC, quoted in

Ubeku, *The Privatisation of Government Companies*. See also the figures on this matter by the United Bank for Africa, *Monthly Business and Economic Digest* 16 (May, 1993) 5:1.

12. For details, see analysis in, among others, N.O. Yaqub, "State Intervention in an Economy: The case of the Nigerian State in the Automobile Industry" (D.Phil. thesis submitted to the Graduate School of the University of Sussex, Brighton, United Kingdom, 1989), 96-100.

13. These objectives were enumerated when President Ibrahim Babangida launched SAP in June, 1986.

14. Ibid.

15. See, among others, N.O. Yaqub, "Nigeria: A Political Economy" in A.S. Mikailu, A.D. Sheidu, K.K. Kamaluddeen and A.M. Bashir (eds.), *Planning for Development: Analysis and Implications of the 1995 National Budget* (Sokoto: Department of Management Studies, Usmanu Danfodiyo University, 1995), 1-11.

16. This section substantially draws from Yaqub "Nigeria: A Political Economy," 112-118.

17. See R. Hemming and A.M. Mansoor, "Is Privatization the Answer?" *Finance and Development* 25 (1988)3: 31-33.

18. M. Pirie, *Privatization in Theory and Practice* (London: The Adam Smith Institute, 1985).

19. Federal Republic of Nigeria, *Report of the Presidential Commission on Parastatals* (Lagos: Federal Government Printer, 1981).

20. See, Federal Republic of Nigeria, *Views of Government of the Federation on the Report of the Presidential Commission on Parastatals* (Lagos: National Assembly Press, 1982).

21. Major-General M. Buhari's Address on the occasion of the inauguration of the Study Group of Statutory Corporations and State-Owned Companies.

22. Federal Republic of Nigeria, *The Report of the Study Group on Statutory Corporations, State-Owned Companies and Public Utilities* (Lagos: Government Printers, 1984), 52-53.

23. Federal Republic of Nigeria, *Views of the Government of the Federation on the Report of the Study Group on Statutory Corporations, State-Owned Companies and Public Utilities* (Lagos: Government Printers, 1985), 14.

24. L. Adamolekun and O.M. Laleye, "Privatization and State-Control of the Nigerian Economy," *The Nigerian Journal of Policy and Strategy* 1 (1986) 1: 17.

25. I.B. Babangida, *1986 Budget Address to the Nation on 31st December 1985* (Lagos: Federal Government Printer, 1986), 11.

26. United Bank for Africa PLC, *Monthly Business and Economic Digest* 16

(February 1993)2: 3, 5.

27. Hemming & Mansoor, "Is Privatization the Answer," 32.

28. For a graphic and detailed analysis of the implementation of the privatization programme see, among others, Yaqub, "State Intervention," 10.

29. S. Abacha's 1995 Budget, reproduced in *Business Times*, January 16, 1995, pp. 5, 17 and 21. For more details on the ways and manner the Nigerian Government intends to go about contract leasing, see the 1995 Budget, as reproduced in the *Daily Times*, January 20, 1995, p.13. It must be added that three years thence, i.e., through policy enunciations in the 1998 Budget, such arguably complex public enterprises are now going to be privatized, of course, along capitalist lines with all the implications of the drawbacks mentioned in the text. The Islamic approach as explained below, if adopted, shall help obviate all of them.

30. For details of how the Nigerian government wanted to go about contract leasing at that time, see the Finance Minster's press conference on the 1995 budget, as reproduced in the *Daily Times*, January 20, 1995, p.13.

31. For details on contract leasing, other methods of privatization and operational modes, especially as they have pertained to Britain, see M. Pirie, *Privatization in Theory and Practice*, 24-86.

32. For details of this equity issue as it may affect the northern part of the country see, among others, B.M. Etham, "Distributional Equity," (Dissertation submitted in partial fulfillment of M.Sc. in Political Science to the School of Post-Graduate Studies, Ahmadu Bello University, Zaria, 1994); M.I. Anka, "TCPC: A Case for Northern Investors," *New Nigerian*, March 16, 1991, p.7; and S. el-Yaqub, "Investment Companies Privatization and Commercialization," *Sunday New Nigerian*, February, 11, 1990, p.7.

33. Mikailu, *Ethics and Business,* 40.

34. M.A. Mannan, *Islamic Economics: Theory and Practice* (Cambridge: Islamic Academy, 1986).

35. P.J. Devine, N. Lee, R.M. Jones and W.J. Tyson, *An Introduction to Industrial Economics* (London: George Allen and Unwin, 1979).

36. S.N.H. Naqvi, *Ethics and Economics: An Islamic Synthesis* (London: The Islamic Foundation, 1981).

37. For details on the specific Qur'anic injunctions and prophetic traditions, see Mikailu, *Ethics and Business,* 4-27.

38. The Holy Qur'ān, 3:110. A similar declaration has been made also in 2: 143. See also the *tafsīr* of Syed Abul Aᶜlā Maudūdī, *Towards Understanding the Qur'ān*, vol. 1, tr. and ed. Zafar Ishaq Ansari (Leicester: Islamic Foundation, 1988), for an explanation of these verses.

39. B. Onimode, *An Introduction to Marxist Political Economy* (London: Zed

Books Ltd, 1985), 202.

40. M.U. Chapra, *Islam and Economic Development* (Islamabad: I.P.S, 1993).

41. F.R. Faridi, "Theory of Fiscal Policy in an Islamic State," in Z. Ahmed, O.N. Iqbal, and M. Fahim Khan (eds.), *Fiscal Policy and Resource Allocation in Islam* (Islamabad: Institute of Policy Studies, and Leicester, UK: Islamic Foundation, 1983), 27-45.

42. See Federal Republic of Nigeria, *The Fourth National Development Plan, 1981-85* (Lagos: Government Printers,1981), especially p.33.

43. C.K. Rowley, and A.T. Peacock, *Welfare Economics* (London: Martin Robertson, 1975).

44. Al-Qur'ān, 4 : 65. See Maudūdī's commentary for more details.

45. Faridi, "Theory of Fiscal Policy."

46. Chapra, *Islam and Economic Development.*

47. Ibid.

48. Nigeria's estimated population as given by National Population Commission, (December 1996).

49. L. Adegbite, "*Shariah* in Nigeria" in *The Guardian* September, 9, 1997, p. 35.