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Chapter 18

Deregulation: Management and Administrative Implications

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Introduction

ONE of the consequences of globalization on developing countries is the demand for deregulation of some aspects of the economic activities. To regulate means to control something, so that it functions properly, or to control by rules, or external standards. Thus, regulations stand for rules relating to specific circumstances or items. Deregulation means removal of controls, rules, restrictions or standards on the operations of a functioning system. Having explained what is meant by the word deregulation, let us examine its application in the Nigerian economic system.

Deregulating the Nigerian Economy

The process of deregulating the Nigerian economy and the oil industry started seriously around the mid-1980s. Hitherto, some forms of control had been put in place regarding the production and marketing of oil products and some other essential products or services. Mineral oil is the major foreign exchange earner for Nigeria, accounting for sometimes over 90% of such earnings. Therefore, to focus on the process of deregulation, exploration, refining and marketing could not be a misplaced emphasis.

Instruments of Deregulating the Economy

A number of economic legislative instruments were put in place to usher in the deregulation of the oil sector and indeed the Nigerian economic system. The primary ones include:

(i) The Structural Adjustment Programme (SAP);
(ii) The Second-Tier Foreign Exchange Market (SFEM);
(iii) Privatization of government equity interests in public corporations and commercialization of the operations of government-owned parastatals; and
(iv) Removal of oil subsidy.

These constitute the most relevant ones for our discussion. Let us briefly examine them one by one.

Structural Adjustment Programme (SAP)

The Structural Adjustment Programme was introduced in 1986. This was consequent upon the rejection of the International Monetary Fund (IMF) loan by Nigerians, in a nationwide debate in 1985. The then military president, General Ibrahim Babangida, defined what SAP involved in his address to the nation on 26th June, 1986; thus:

> Our structural adjustment involves new uses of wealth, new property relations, new products and new production processes, new attitudes to work, new consumption habits and new interaction with the rest of the world. It seeks to harmonize what we consume with what we produce; using our own domestic endowment of human and material resources.

That was meant to be the Nigerian version of SAP, that is, SAP understood and accepted by most Nigerians. As the president emphasized, SAP involves new products and new production processes; "new" in the context means different from the existing products and production processes. Since existing products were imported, "new" would mean Nigerian products made through Nigerian production processes. New consumption habits to harmonize what we consume with what we produce, is a way of telling Nigerians that we must learn to be Nigerian, to produce Nigerian products and consume Nigerian products. New interaction with the rest of the world means a different orientation from Nigeria's present dependence on foreigners and foreign loans (Ayagi, 1990).

However, SAP was designed to attack and remove the fundamental structural distortions prevalent in the Nigerian economy since the 1970s. It was introduced to achieve the following objectives:

(i) To restrict productive base of the economy in order to reduce dependence on the oil sector and imports;
(ii) To achieve fiscal and balance of payments viability over the period;
(iii) To lessen the dominance of unproductive investment on the public sector, improve the sector's efficiency and explore the growth potential of the private sector;
(iv) To lay the basis for sustainable non-inflationary or minimal inflationary growth.

In order to achieve these objectives, a shift in economic policies became necessary.

Thus, SAP was fundamental to the reformulation and reorientation of the Nigerian economy. It was the complete overhaul of the Nigerian economy from what it was by the end of 1985. It was an economy in which the first part of the 1960s was basically agricultural, and which depended on export of agricultural products for its foreign exchange earnings. Then, the country abandoned agricultural production and concentrated on oil, the newly discovered source of foreign revenue, which was exported in return for billions of dollars from the close of the early 1970s. The huge foreign revenue was however wasted, such that, at the end, heavy foreign debts were incurred. Therefore, SAP was intended to disengage the economy from its heavy dependence on foreign imports that landed the country in heavy foreign indebtedness.

Second-Tier Foreign Exchange Market (SFEM)

In the same address referred to above, the president also stated:

> The main elements of our present strategy are to gradually reduce the degree of our currency's overvaluation, to correct systematically the structural distortions in the domestic economy; and to discourage the high import dependence, to efficiently ration the competing national uses, and to progressively strengthen the international competitiveness of our non-oil production.

Foreign exchange and import on which Nigeria heavily relied had caused the country all the trouble and suffering that spurred the need for an IMF loan. Nigerians were used to the rationing of foreign exchange through the import licensing approach. The advent of SFEM merely changed the rationing system.

To implement SAP and SFEM, two decrees were promulgated and they were accompanied with guidelines which explained the operations of the two systems. The two decrees were designed to de-emphasize the roles of import and foreign exchange in the economic life of Nigerians. They were also to emphasize self-reliance, self-pride and professionalism as regards Nigerian products.

Privatization and Commercialization

Privatization is the process whereby government equity interests in companies, corporations and parastatals are being sold to private individuals and companies, including foreigners. The net effect of this is the transfer of ownership and control of many Nigerian companies back to foreigners. The same foreigners from whom the equity shares were bought when the indigenization decree was promulgated were now being considered for the transfer, control and management of the commanding, heights of the Nigerian

economy in place of Nigerians (Ayagi, 1990). This is because, through the Debt-Equity Swap Programme, an ingenious device of our foreign creditors, foreigners are to sell some of their debts to buy Nigerian companies.

According to Soludo (2008), that debt swap is a change of one creditor for another in respect of loans. Typically, the parties assign loans or give sub-participations to each other without otherwise changing the terms of payment.

Commercialization means that government parastatals like the National Electric Power Authority (NEPA), that receive subsidies from government, are to become self-supporting and make profit from their operations. They are not to expect subsidies from the government any more.

However, the Privatization and Commercialization Decree of May 10, 1999, established the National Council on Privatization (NCP), part of whose responsibilities is to design a programme that would liberalize the nation's economy in line with global economic realities.

The Removal of Oil Subsidy

One sour point in the relationship between government and labour has been the repeated attempts by the former to totally remove the subsidy on oil which the latter has stoutly opposed, and which has resulted in frequent strike actions. However, the continued maintenance of oil subsidy is considered by the IMF/World Bank as hampering the free operation of market forces. Although the oil subsidy issue is abhorrent to Nigerians, since it is a non-negotiable conditionality for an IMF/World Bank interference, it had to be pursued by government. Thus, successive governments since the era of Babangida have continually raised the prices of petroleum products. These price increases were to remove the so-called subsidy and thus deregulate oil-marketing activities.

Consequently, almost all the actions taken by the government since the inception of SAP and SFEM in 1986 were directed towards servicing huge foreign debts: These include:

(i) Drastic reduction in expenditure;
(ii) Selling off of all government investments to the private sector;
(iii) Trade liberalization to allow foreign goods in;
(iv) Selling of government equities in Nigerian companies to foreign non-voting shareholders;
(v) Raising the price of oil domestically to make Nigerians consume less so that more oil could be sold for foreign exchange;
(vi) Restructuring the economy and returning people to farming so that agricultural goods could be produced in surplus for export to earn foreign exchange.

The emphasis has been and remains on foreign exchange (Ayagi, 1990).

Management and Administrative Implications of Deregulation

Whatever one may observe as the motives and the operational defects of deregulation, there are a number of positive management and administrative implications. This is because the SAP, SFEM, and Privatization and Commercialization Decrees, singly and in combination, had all imposed new behavioural patterns on Nigerians. Some of these implications are highlighted bellow:

(i) Stimulation of Innovation and Innovative Behaviour

As noted above, SAP called for new ideas, new products and production processes, new attitudes, new consumption habits and new interactions with the rest of the world. This, in essence, involved technological, product, marketing and organizational innovations. Simply stated, innovation could mean newness or "differentness" in products, production processes, marketing, relations and the coming into being of an entirely new organizational form. It could also be a contextual innovation by imitating the existing technology in use in a different environment than that of the organization in focus. Technology could also be acquired by patenting or by stealing. Therefore, entrepreneurs in the oil industry and other areas are being challenged to put on their thinking caps and embark on innovative responses to the challenges posed by deregulation in the oil and other sectors. Nigerians have to be innovative, even if this involves imitating local and foreign competitors in terms of technology, products, marketing and the organizational process. These are challenges that call for a realignment in management and administrative practice.

(ii) Economic Self-Reliance

Another economic implication of deregulation which is closely linked with innovation, is its demand for self-reliance as an option to the reality of the situation facing Nigeria and Nigerians which led to the deregulation. Self-reliance means the ability to sustain oneself regardless of whatever any outside party docs or does not do. It is also defined as having or showing confidence in one's own powers, judgment, and the like. Self-reliance is equated with self-respect, that is "a feeling that one is behaving and thinking in ways which will not cause one to be ashamed of oneself." As noted above, SAP again seeks to harmonize what we consume with what we produce. It does this through the use of our own domestic endowment of human and material resources. For a whole country to be self-reliant, one of the most important factors is confidence. People should have confidence in themselves and believe that they are not inferior to any persons or groups of persons. But they must also know their limitations. Thus, Nigerian entrepreneurs in the oil sector and other areas of the economy need to have confidence in our abilities to compete effectively with their foreign rivals within the system. This calls for positive change in attitude and practice, otherwise foreigners will reap most of benefits of deregulation.

(iii) Economic Disciplined Behaviour in the Use of Wealth

This calls for substantial savings on the part of the indigenous entrepreneurs, and it is very important. Thus, portions of people's current incomes must be saved and invested in the creation of capital, labour, and land improvement for future incomes. The relatively wealthy entrepreneurs have to invest in technological advancement. All these call for strict financial discipline, in order to be able to sacrifice current consumptions so as to produce future greater wealth.

(iv) Development of Skilled Labour

Consequent upon the need for self-reliance is the requirement for developing a highly skilled and productive labour force. This is a call for investment in the human asset, just as the need for investment in technology to match rivals in the market. The employee that will be innovative, self-reliant and disciplined, must be properly trained. The entrepreneurs in these areas equally require training and development. The entrepreneurs, most especially, must be knowledgeable about happenings in the technological, marketing financial, legal and other environments.

(v) Freer Functioning of the Forces of Demand and Supply

One important thing about SFEM is that it brought about the deregulation of the Nigerian economy, thus allowing for the market forces of demand and supply to take responsibility for the outcome. It is not necessarily the best policy, and it does not have to be. Democracy is not about the "best" but about "the most acceptable" options (Odife, 1988). Deregulation encourages market forces and eventually the "most acceptable" economic decisions become the "best" in the marketplace. The efficiency of the market improves when there are large numbers of buyers and sellers. Everyone therefore benefits from the resulting competition.

(vi) Increased Competitiveness

The resulting effect of privatization and commercialization of public enterprises, and trade liberalization, is increased

competitiveness in the marketplace. The question then is, will the indigenous entrepreneurs, more importantly, the independent oil marketers in the oil sub-sector, be able to withstand the competitive forces? This question arose because foreigners and multinational companies are no more constrained to enter into any segment of the Nigerian oil industry. This calls for financial resources, personal and organizational skills that will provide the independent oil marketers with viability in the business environment. Therefore, every effort made in searching for effective strategies to achieve more rapid industrial transformation in this country is worth it.

(vii) Forming of Partnerships

One strategy that the independent oil marketers and other operators within the Nigerian economic system could use to improve their operational efficiency is forming of partnerships which calls for heavy capital outlay. This should not be a serious problem if the operators employ disciplined behaviour in their interpersonal relationships and in the use of wealth. Such partnerships will put the independent marketer in a better position to match foreign competitors. It will also place other entrepreneurial groups within the economy on a better footing.

(viii) Stimulation of Export

Firstly, one of the effects of SFEM with the devaluation of the naira is to make Nigerian products relatively cheaper. Take, for example, if the exchange rate of the Nigerian currency to the American dollar is "two naira is equal to $ 1," when the naira is devalued, because of payment deficits, to say "four naira is equal to $1," this means that, before the devaluation, $1 purchased Nigerian goods worth two naira. The consequence of devaluation is that the same $1 would now buy Nigerian goods worth four naira. In terms of Nigerian goods, "take a litre of oil" being sold for two naira before devaluation (devaluation is assumed to affect only the exchange rates between currencies leaving domestic prices unchanged). Nigerian goods are valued in naira. Foreigners wishing to buy Nigerian goods must do so in naira. They must exchange their foreign currencies for the naira. Thus, the American importer of oil after devaluation would exchange the same $ 1 to get four naira which would now purchase two litres of oil instead of one.

Thus, by changing the exchange rate between the two currencies devaluing the naira, Nigerian goods are made cheaper and more attractive to the foreign buyer. He would now buy more of such Nigerian goods than before with the same amount of money. Therefore, by making Nigerian goods cheaper, more would be exported in exchange for more foreign exchange revenues. Similarly, foreign imports would be less attractive to Nigerians as they have to pay more naira to bring in the same amount of imports as before. But we are witnessing in Nigeria a contradictory economic situation because of our high taste for foreign goods.

Secondly, the removal of oil subsidy will discourage extravagant consumption premium spirit (commonly know as patrol) of oil products. For example, among working-class Nigerians, when the price of premium motor spirit (commonly known as petrol) was raised to twenty-two naira per litre, many cut down on frequent social visits to friends and relations, thus embarking on only important visits. The net effect of such cuts is that surpluses will develop within the system; which could be exported. This practice has persisted till now that the government has defiantly deregulated the downstream sector of the petroleum industry and Pms sells for between ₦65 and ₦100 per litre.

In summary, the deregulation process has created opportunities for indigenous entrepreneurs, especially the independent oil marketers, to embark on the exportation of oil products.

Creation of Investment Opportunities

The deregulation of the oil industry has created several investment opportunities. In addition, the government has started the process of privatizing the refineries. This is another avenue for indigenous independent oil marketers to safely invest their money.

As a result of the importance of the oil industry to the Nigerian economy, let us briefly outline some areas in which independent oil marketers could safely invest their funds using their private initiatives. These are as follows:

(1) The exploration, production, and trading in oil which represents the principal source of Nigeria's foreign exchange earnings at present.

(2) In the short term, imported refined oil products could be stored at the depots already created by the independent oil marketers. In addition, locally refined oil products could also be stored there. Thus, the distribution and marketing of such products through the depots are made easier.

(3) Apart from creating their own depots as a short-term measure, independent marketers could have leased to them NNPC subsidiaries or depots. As a body, independent oil marketers could negotiate credit facilities on an arrangement worked out with the NNPC, on such leased subsidiaries and depots.

(4) There are investment avenues in the transportation of petroleum products (crude and refined). Thus, independent oil marketers are opportuned to invest in tankers, vessels, barges and ships for the transportation of oil and its by-products.

(5) Investment in refined oil products: There is a long list of refined products on which to invest. Some of them are (a) LPG plant, (b) PMS, (c) DPK, (d) AGO, (e) Blankpol-LPFO, (f) base oil of different grades, (g) paraffin wax, (h) asphalt, (bitumen), (i) LRS (j) petroleum jelly, (k) transformer oil (Lube oil), (l) reformats and (m) de-aromatized kerosene for industrial use.

Another area of investment is in the production of petrochemicals. These include polyethylene, polypropylene, benzene, phenol, carbon black and industrial solvents.

Financial Implications

It is to be noted that the investments required in executing projects relating to some of the areas listed above are quite enormous. In fact, the entry level for investments directed at an LPG plant or ship utilization may be very high relative to the resources at the disposal of an individual independent oil marketer. Obtaining financial help therefore becomes crucial for the smooth operation of the independent oil marketers. They require substantial capital to embark on the projects listed above.

Desirable Pattern of Industrialization

One of the results of SFEM is that very few large projects can be contemplated by the private sector. For individuals, the logic of co-operation is becoming very compelling. Thus, the desirable pattern of industrialization in the oil and other sectors will include the following:

(a) *Capacity Utilization:* Industries which can use greater amounts of local raw materials will have to be encouraged to achieve greater capacity utilization.

(b) *Cottage Industry:* Small-scale industries based in rural areas and using technologies from India, Korea, Taiwan, etc., will need to be encouraged.

(c) *Consolidation and Amalgamation:* As it becomes more difficult to establish new industries, the conglomerates and more efficient operators will attract more resources. Thus, at the end of SAP, it is expected that Nigeria should experience far greater industrial concentration than before. This is why it is necessary for the independent marketers to consolidate or amalgamate to face competition from foreign investors.

Conclusion

In this chapter, an attempt was made to define deregulation in the Nigerian context; that is in terms of SAP, SFEM, devaluation of currency, and privatization of public companies. Through various legislations and their operational consequences, the government had mandated several changes in behavioural patterns. Thus, the management and administrative implications of deregulation, as discussed, focused on its:

(1) Stimulation of innovation and innovative behaviour;
(2) Economic self-reliance as an option to reality;
(3) Economic disciplined behaviour in the use of wealth;
(4) Developing skilled labour force;
(5) Freer functioning of the forces of demand and supply;
(6) Increased competitiveness;
(7) Formation of partnerships;
(8) Stimulation of export;
(9) Creating of investment opportunities; and
(10) Financial implications.

To maximize the exploration of the opportunities created by deregulation, co-operation in the forms of partnership, consolidation and amalgamation is needed by the independent oil marketers and other entrepreneurs within the Nigerian economic system.

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Review Questions

(1) What do you understand by deregulation in the Nigerian economy?

(2) How can Nigerians best exploit the opportunities provided by deregulation of the economy?

(3) Use appropriate examples to support your explanation of the following concepts:

(a) Privatization and commercialization;
(b)Secondtier Foreign Exchange Market (SFEM).

(4) Discuss the Nigerian version of Structural Adjustment Programme (SAP).

(5) Enumerate and discuss the implications of deregulation.