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Privatisation and accountability in a "crony capitalist" Nigerian state

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ABSTRACT

Nigeria is richly endowed with oil and gas resources, but the country's continued reliance on loans from international financial institutions raises questions about the transparency and accountability of its utilisation of the huge revenues resulting from these two resources. In order to attract international capital to bolster its revenues from sales of oil and gas, a huge proportion of which continues to be used corruptly, the World Bank has encouraged the Nigerian government to subscribe to neoliberal economic policies by enlisting accounting firms and privatising state-owned enterprises. Key justifications for this have included enhancing accountability, reducing public-sector corruption, promoting market efficiency and attracting international capital. However, this paper presents evidence of the role of accounting in the undervaluation of assets, concealment of possible malpractice, and subversion of the accountability that it should have delivered in the privatisation process. The assumption that accounting will enhance accountability, reduce public-sector corruption and promote market efficiency in privatisation, and ultimately attract investment into a crony capitalist Nigerian state, appears to be an illusion created partly through the apparent legitimacy of accounting.

1. Introduction

Since the 1980s, with an increasingly global capitalist economy, developing countries have been encouraged to adopt neoliberal economic policies such as deregulation, liberalisation, privatisation of state-owned enterprises (SOEs), and adoption of International Financial Reporting Standards (IFRSs; see United Nations, 1993; World Bank, 2005).[1] These have been perceived to be necessary in order to enable countries, particularly poor ones, to partake in the wealth and financial opportunities promised by neoliberalism (see UNCTAD, 2005). Financial support has often been contingent on, amongst other things, the enlistment of accounting, on the grounds that this will create the necessary accountability in the national financial system to reduce public-sector corruption and enhance market efficiency. However, the drive to deploy accounting for this purpose must be viewed alongside the fact that the outcomes of accounting-linked privatisation in developing countries (Hawley, 2000; Uddin and Hopper, 2003), notably those of Africa (Andrews, 2013; Nellis, 2008), have often proved

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[1] With both financial and moral/ideological support from powerful nations (led initially by the US and European members of the G7, now G8) and international financial institutions, notably the World Bank and the International Monetary Fund, developing countries were encouraged to employ accounting methods and expertise (especially from global accountancy firms) and to privatise as much and as fast as they could (see Baker, 2001).

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at best disappointing and at worst disastrous (Lassou & Hopper, 2015; Rahaman, Everett, & Neu, 2007). It has been particularly questionable in countries in which cronyism is embedded within the socio-political, economic and cultural systems and corruption is endemic, a scenario that has at some point characterised most African countries (Lassou & Hopper, 2015), including Nigeria. In fact, evidence from studies undertaken on privatisation from the 1990s onward suggests that accounting practices may well have complicated and negative consequences (see McSweeney, 2009; Sikka, 2015). In crony as well as corrupt developing countries, such practices frequently undermine the espoused objectives of "accounting-led" change (see Craig, 2007; Graham & Annisette, 2012; Lassou & Hopper, 2015; Rahaman et al., 2007; Uddin & Hopper, 2003).

Studies of both developed countries (Humphrey, Miller , & Scapen, 1993; Ogden, 1995; Shaoul, 1997) and developing countries (Morales, Gendron, & Guenin-Paracini, 2014; Rahaman et al., 2007; Zhang , Andrew, & Rudkin, 2012) have documented the contradictory impacts of accounting numbers, techniques and practices in promoting neoliberal market reform policies, such as privatisation. For example, Shaoul (1997) has shown how accounting was used to justify the UK Government's claim that privatisation of water in England and Wales would result in increased efficiency and benefit every citizen, and has identified gaps between the initial rhetoric and subsequent outcomes. Ogden (1995) has investigated ways in which accounting numbers and information contributed to and shaped the process of organisational change in the ten regional water authorities of England and Wales. Humphrey et al. (1993) have provided an incisive account of how accounting agents, techniques and practices were enrolled to promote and legitimise Thatcher's government privatisation policies in the UK. As developing countries have also been encouraged to privatise, studies have found similar patterns of contradiction. Lassou and Hopper (2015) have examined how the World Bank's use of computerised accounting systems to effect reforms and improve governance and accountability in a former French colony in Africa were frustrated by the weak regulatory system and corrupt governance structure. Morales et al. (2014) have underlined the connection between accounting, neoliberal governmentality and discursive activity. Their study highlights the roles of the media and political actors in producing problematising trajectories that prevented the Greek financial crisis from excessively destabilising the spread of the neoliberal agenda of state privatisation. Zhang et al. (2012) have revealed how enhanced market efficiency, which was supposedly to be achieved through the use of fair value accounting to implement reforms in China, became an illusion created partly through the legitimacy of fair value accounting. Rahaman et al. (2007) have exposed the use of accounting numbers, techniques and practices to legitimise perceived exploitation in water privatisation in Ghana. Uddin and Hopper (2003) have shown that in privatisation in Bangladesh, as in other developing countries, accounting techniques and practices have been used to mask the redistribution of power and wealth to the new elite and multinational corporations in a new capitalist setting.

While the above literature provides some useful insights into how accounting has been used to legitimise the perceived exploitation of neoliberal privatisation, no previous study appears specifically to have examined the connections between accounting and cronyism. Cronyism has become an immanent feature of contemporary capitalist economies, in which those close to political policy makers and government officials continue to seek close personal ties with large corporations, and the infusion of corrupt practices continues to strengthen the monopolistic power of large corporations. This is particularly evident in developing countries such as Nigeria. This paper therefore highlights cronyism – a much neglected aspect of the neoliberal agenda of state privatisation – in a cronyist developing-country context. Specifically, the paper examines how accounting has been used to obscure cronyism in privatisation in the Nigerian socio-political context. Nigeria is a nation state whose ability to create wealth has been increasingly hampered by greed and moral indifference (Buhari, 2015), as well as a lack of transparency and accountability in the management of its huge deposits of oil and gas resources (African Peer Review Mechanism, 2008; Global Financial Integrity, 2013; Global Witness, 2010). Studies have noted that an ineffective regulatory framework and weak audit and legal institutions have encouraged cronyism in the Nigerian socio-political and economic system (Bakre, 2011; Madunagu, 2007; Mahmoud, 2006; Transparency International, 2014). Through the greed of a few cronies (Buhari, 2015) and the unethical practices of accountants (Bakre, 2007), SOEs have been mismanaged and the Nigerian commonwealth pillaged (Buhari, 2015).

In order to create transparency, accountability and market efficiency in the management of SOEs, the Nigerian government embraced the World Bank's encouragement to enlist accounting and privatise SOEs. However, in a cronyist socio-political system, encouragement to privatise SOEs led to the mobilisation of accounting to conceal cronyism and corruption in the privatisation process. This paper contributes to the literature theoretically and empirically by providing evidence from the Nigerian socio-political and economic context. The evidence suggests that, as long as cronyism and other corrupt interests are involved in the privatisation process, there will be a market for more or less legal proposals by accounting and legal experts, enabling "workarounds" to accounting rules. This paper shows that accounting rules can be flouted in ways that indicate internal cronyism and corruption in the privatisation process.

The framing and presentation of the evidence is organised around sections discussing accounting and cronyism, the research methods used, the socio-political context of accounting and cronyism, the empirical evidence, and fair value and accountability in a crony capitalist developing state: myth or reality? It concludes with a summary and discussion.

2. Accounting and cronyism

Accounting as an information system, and auditing as a monitor or "check" on the accuracy of the accounting information system, provide enormous potential to establish accountability and detect corrupt activities (Kimbro, 2002; p.336). Accounting has been considered to be an essential instrument in the privatisation process (United Nations, 1993) and in the