AN EMPIRICAL STUDY OF THE PHENOMENON OF RETROACTIVE PARTICIPATION OF SUB-NATIONAL INVESTMENT COMPANIES IN PRIVATISED FIRMS IN NIGERIA

By

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DECLARATION

I, Ademola Adesoji Moushibahou solemnly declare that the work hereby submitted is my own work and own composition and where the works of other persons have been used or referred to, such sources have been duly acknowledged and mentioned.

Ademola Adesoji Moushibahou

APPROVAL PAGE

This is to certify that this research project was carried out under our strict supervision and has been approved for submission to the Department in partial fulfilment of the requirements for the award of the Doctor of Philosophy of St. Clements University.

Academic Adviser

Administrator

St. Clements University

DEDICATION

For my lovely daughters Hadassah and Tabitha

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ABSTRACT

In the course of this work, we have attempted to grasp the essence of privatisation, to understand its various and diverse forms of practice, and to assess its inferable character. As a global phenomenon, privatisation is still crystallising political, economic and social interests.

Around the world, the implementation of privatisation has varied in policy, polity, strategy and method. In Nigeria, the Nigerian privatisation programme has always been centralized under a federal policy and polity without an effective interface between the Centre and the states. The Federal Government's resolve to disengage from State-Owned Enterprises did not always meet similar interest on the part of States and Local Governments. As a consequence, in Nigeria, most of Sub-national Governments have adopted a substitutive approach which entails the transfer of their stakes to their respective Sub-national investment companies. These companies strive to promote those stakes beyond what is expected from other ordinary shareholders, leading to unresolved board conflict. We postulated that the more stakes are held by Sub-national investment companies in privatised firms, the more unresolved board conflicts are likely to occur in these privatised firms.

We approached the problem, firstly by suggesting a set of variables which are likely to reflect the concepts of "*sub-national stakes*" and "*unresolved board conflicts*". Secondly, we collected the related data for three different periods (Dec.'07, Dec.'08 and Dec.'09). The correlation of averaged data for Dec.'07, Dec.'08 revealed two positive causal links, firstly between "weight of running assets" and "unresolved conflicts related to goal setting" (ρ_0 = 0.7202) and secondly between "weight of commercial patronage" and "unresolved conflicts related to manager's appointment" (ρ_0 = 0.6595). Based on subsequent hypothesis testing, there was no sufficient evidence to reject the null hypothesis (H_0: $\rho = \rho_0$) in both cases. The correlation of the 6 correlation coefficients scored by both links for the three periods (Dec.'07, Dec.'08 and Dec.'09) gave a positive correlation of 0.7449; suggesting the test-retest reliability of the measurements.

These results imply that "unresolved board conflicts" might increase as sub-national companies increase their stakes in privatised firms. More precisely, their contributions to the "running assets" and the "commercial patronage" of privatised firms respectively affect the "goal setting" and "manager's appointment" in privatised firms. The results also suggest the need for privatised firms to implement a sound conflict management framework.

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ABBREVIATIONS

AMC: Asset Management Company

APEC: Asia-Pacific Economic Cooperation (APEC)

APN: African Privatisation Network

APN: Asia-Pacific Privatisation Network

BA: British Airways

BOOT: Build Operate Own and Transfer

BOT : Build Operate and Transfer

BPE: Bureau of Public Enterprises

CAMA: Companies and Allied Matters Act

CBN: Central Bank of Nigeria

CDF: Comprehensive Development Framework

CEE: Central and Eastern Europe

CEEPN: Central & Eastern Europe Privatisation Network

CEGB: Central Electricity Generating Board

CN: Canadian National

CSCS: Central Securities And Clearing System

CSD: Central Securities Depository

EIRO: European Industrial Relations Observatory

EOI: Expressions of Interest

ESAF: Enhanced Structural Adjustment Facility

FA: Financial Advisor

FEM: Foreign Exchange Market

FGN: Federal Government of Nigeria

GDP: Gross Domestic Product

HIPC: Heavily Indebted Poor Countries

ICEG: International Centre for Economic Growth

ICRC: Infrastructures Concession Regulatory Commission

IDA: International Development Association

ILO: International Labour Organisation

IMF: International Monetary Fund

IPOs: Initial Public Offer

ITU: International Telecommunication Union

IWA: International Water Association

MBOs: Management Buy-Outs

MEBI: Management and/or employees Buy-Ins

MEBO: Management and/or employees Buy-Outs

NCEMA: National Centre for Economic Management & Administration

NCP: National Council of Privatisation

NGO: Nongovernmental Organisations

NIPC: Nigerian Investments Promotion Commission

NSE: Nigerian Stock Exchange

OAU: Organisation of African Unity

OECD: Organisation for Economic Cooperation and Development

PIPOs : Privatisation IPOs

PN: Privatisation Network

PPP: Public Private Partnership

PSIRU: Public Services International Research Unit

PSPRU:Public Services Privatisation Research Unit

PSRP: Poverty reduction strategy paper

R&D: Research and Development

RFP: Request for Proposals

ROR: Return On Revenue

SAP: Structural Adjustment Programme

SAPRIN: Structural Adjustment Participatory Review International Network

SEC: Securities Exchanges Commission

SIP: Share Issue Privatisation

SNGs: Subnational Governments

SOEs: State Owned Enterprises

SOQ: Statement of Qualifications

SSA: Sub Saharan Africa

TCPC: Technical Committee on Privatisation and Commercialisation (TCPC)

TERI: The Energy and Resources Institute

UNCTAD: United Nations Conference on Trade and Development

UNECA: United Nations Economic Commission for Africa

UNEP: United Nations Environment Programme

WB: World Bank

WWII: World War II

Chapter 1: GENERAL INTRODUCTION

1.1 The concept of privatisation

Understanding what is privatisation (how it works, its prevalence and the ideas and doctrines which underlie it), is essential for politicians, government officials and their advisors who are considering adopting, or are currently managing, privatisation programs (Alan N. Miller, 1997)[i].

According to Fran M. Collyer (2003)[ii] "although the orthodox, economic definition of privatisation is virtually hegemonic, other discipline areas have sought to develop alternative understandings of privatisation." In this regards, for example, Feigenbaum and Henig (1994), Gormley (1994), and Chamberlin and Jackson (1987) see privatisation as fundamentally a political phenomenon rather than economic, administrative, or fiscal.

From this perspective, privatisation is a policy strategy used to shift power between various constituencies, alter the structural capacity of government and its responsibilities, realign and restructure decision making and institutions, and/or create new interest groups and classes (cf. Henig et al., 1988; Samson, 1994:90).

In this chapter, we shall attempt to apprehend the topical dimension of privatisation as suggested by various authors, as a conflict-ridden ideological topic, as a yardstick in fiscal management, as a participatory development strategy, and as a new paradigm in public management systems.

1.1.1 Ideological privatisation

Cameron Bankord defines an ideology as "a group of ideas that modify people's thoughts, beliefs, and actions. The thought of ideology involves relative ideas to the role of the government, society, morality, and nationality that establishes action." He further explains that "The four functions of an ideology are: Explanatory, Evaluative, Orientative, and Programmatic."

Hilary Appel[1] (2004)[iii] stated that "In order to understand the transformation of ownership in post-communist states, ideology must be taken into account." He "offered a four part argument outlining how ideology determines the development of privatisation programs and shapes property rights systems. According to him, "firstly, ideology shapes the choice by policy-makers to base the new property system on private ownership; secondly, prevalent ideologies affect the economic interests and strength of potential opponents to government programs; thirdly, ideology shapes how leaders go about building support for their programs; and fourthly, a lack of compatibility between the ideological basis of a program and the ideas of elite and mass groups increases the cost of political reinforcement."

This view is otherwise supported by Martinez-Gallardo, Cecilia and Murillo, María Victoria (2009)[iv] who concluded that "even when financial constraints pushed politicians toward policy convergence, partisanship continued to shape policy making. Using electricity privatisation as an example, he showed that the regulatory content of privatisation varied according to the identity of privatizers. The regulatory choices made at the time of privatisation were largely driven by the ideological legacies of the privatizing administrations,

[1] Assistant Professor of Political Science at Claremont McKenna College and a Kennan Institute Research Scholar, lecture on 25 October 1999.

the distributive effects on their constituencies, and the identity of the experts they relied on for technical advice."

On a philosophical stance, Anders Aslund (2006)[v] underlines the fact that a "New Capitalist Order" contains original insights about privatisation and ideology; which new order is considered to be a rethinking of many post-communist phenomena, such as property rights and oligarchs, and become a standard reference on privatisation and post-communist transformation."

Building upon the controversies portrayed by mainstream libertarians, free marketeers and anarcho-capitalists, Kevin Carson (2003)[vi] studied the content of this "new capitalist order" and concluded that "libertarians and anarcho-capitalists, in calling for the abolition of state property and services, typically call for a process of "privatisation" that relies heavily on the corporate capitalist model of ownership." However, he examined alternative libertarian models for "privatizing" government property and services.

In the light of the views supported by "libertarians and anarcho-capitalists", Carlson notices that "the picture of the future market economy, so far as business enterprise is concerned, is simply the present corporate economy minus the regulatory and welfare state--an idealized version of Nineteenth Century "robber baron capitalism", before suggesting "other alternatives, equally valid from a free market anarchist perspective, such as placing government services like schools and police under the cooperative control of their former clientele at the town or neighbourhood level" against the fact that "giant corporations that have received the lion's share of their profits from the State can be regarded either as legitimate private property or the result of theft."

However, from a pragmatic standpoint, O. Igbuzor[2] (2003)[vii] asserts that for privatisation to take place there must be in existence public enterprises, which need to convert into private enterprises, because there is the reasoning that private ownership or control or management would be better than public ownership, and that privatisation is part and parcel of a reform agenda to turn around these enterprises so that they can deliver goods and services more efficiently and more effectively. He emphasises that the reasoning about privatisation is ideologically controversial, and that it cannot be substantiated by the existential reality of Nigeria.

Igbuzor, broadens this view by explaining that "For a major part of the twentieth century there were two opposing ideologies on how society should be governed and developed: capitalism vs socialism or ideologies of the right versus ideologies of the left. Capitalist ideology typified by neo-liberalism insists that a self – regulated system will bring about spontaneous process of development.

H. Appel (1999)[viii] anticipated Igbuzor's opinion by answering the question of why some governments included special privileges for industrial and regional groups in mass privatisation in order to explore more broadly the factors determining the design of privatisation programs and the evolution of property rights in post-communist countries. As matter of fact, at the end of the 20th century with the end of the cold war, there was an ascendancy of capitalism and neo-liberalism. Hence, this paved the way for a renewed drive for privatisation.

1.1.2 Fiscal privatisation

[2] Otive Igbuzor is Programme Co-ordinator at the Centre for Democracy and Development (CDD)

Rolph van der Hoeven et al. (1998)[ix] pose that as to the process of privatisation itself one can distinguish various forms of privatisation (Kikeri et al. 1992) and that Khul (chapter 6) distinguishes three basic forms of privatisation, i.e. 'political privatisation' where all citizens are provided with shares or vouchers of state enterprises regardless of their economic viability, their capital stock and their management; fiscal privatisation where firms are sold to the highest bidder in order to increase public revenues; and economic privatisation in which the government or a government agency manages the restructuring and negotiate clauses on employment, social benefits, training and redundancies with potential private entrepreneurs.

In terms of modes of privatisation, according to Getahun Seifu[3] (2010)[x], "it should be noted that the types and processes of privatisation could differ from one country to another." He further argues that "Just as the reasons for the creation of public enterprises are varied, the reasons for their privatisation are also varied. In addition to the failure to meet the original objectives, diminishing profits to the State or continual increase of losses on the State, privatisations of public enterprises are also caused by other internal and external factors. These are (a) higher fiscal pressure on governments (high budgetary deficit, large domestic public debt, and large external debt), (b) higher dependency on loans from international organizations (WB and IMF), (c) a large share of SOEs in total investment, (d) inferior and poor performance of SOEs in production and profitability, and (e) lower long term growth."

Sequeira, Sandra (2006)[xi] emphasizes "that since the 1990s, privatisation has touched nearly every African country through the forceful role of International Financial Institutions (IFIs) and foreign donors. But despite the uniformity of the policy recommendations, these privatisation schemes have differed in design, strategy, pace and scope.

[3] LL.B; LL.M; Manager for Compliance Monitoring and Investigation at ECX; and part-time lecturer in law at St. Mary's University College Faculty of Law and the Faculty of Law of Addis Ababa University.

However, Sameer Dossani[4] (2007) cautions that "The effect of fiscal privatisation is that currency values are left to the whims of international speculators who can run a currency up or down at a moment's notice. The prime example of this is the Asian financial crisis of 1997, when the actions of a single shareholder caused a run on the Thai baht, and the repercussions of that action led to one of the worst financial crises the world has seen."

In Nigeria, privatisation was introduced as part of the SAP with the aim of stabilising government fiscal deficits. It was formalised by the privatisation and commercialisation decree of 1988. Subsequently, the public enterprises decree 1999 further institutionalised privatisation. These laws essentially provided for applicable procedures for the sale of shares of SOEs as well as special provision relating to commercialised enterprises.

But according to Ademola Ariyo and Afeikhena Jerome (1999), implications relating to sustainable development and welfare, especially from the poverty reduction point of view, were largely ignored resulting into noticeable defects in these decrees. Ademola et al. outlined the fact that "The privatisation framework focused on issues of share valuation, issuance and distribution, with little or no attention paid to fiscal institutional dimension and management reforms."

In this regards, Igbuzor (2003) reported that "it has been argued that the Nigerian privatisation exercise is not accompanied or preceded by an articulated and properly phased public sector reform and it will therefore not result in more efficient production of public goods nor will it make any significant positive impact to fiscal balance". Igbuzor further argues that "Civil society in Nigeria is concerned that the privatisation exercise in Nigeria will lead to further widening of the gap between the rich and the poor in Nigeria."

[4] Sameer Dossani is the Director of Amnesty International's Demand Dignity Campaign. Prior to joining Amnesty in 2009, Sameer served as Director of 50 Years Is Enough: U.S. Network for Global Economic Justice which campaigns for the radical reform of international financial institutions including the World Bank and International Monetary Fund.

Against this backdrop, Ademola Ariyo and Afeikhena Jerome (1988) had suggested that privatisation should be guided by the principle of partnership for development. They argued that “doing so would help broaden the conception of privatisation from its narrow perception.”

1.1.3 Developmental privatisation

According to Christian Barry[5] (2003)[xii] “over a billion people currently lack access to safe water and other basic services. This adversely affects their nations' prospects for higher economic growth, improved health care services, and higher educational levels.” He further argues that “while there is broad agreement about the need to reform the delivery of basic services, there is sharp disagreement over the institutional reforms needed to achieve this goal. Perhaps the most significant point of dispute is over whether basic services should be privatized.”

Contrary to ideological discussions on privatisation, Barry reports that “public and private providers tend to confront similar, if not identical, obstacles. Thus solutions associated with private provision can often be applied to government-provided services, and vice versa.” He further reports that “the issues at the heart of the debate could be addressed more effectively if they were decoupled from the more politically divisive issue of provider competence. For instance:

- **Private financing.** Adequate financing is essential for providing good services, especially given the large investments required for upgrading infrastructure and technology.

[5] Christian Barry is Deputy Director of the Centre for Applied Philosophy and Public Ethics (CAPPE) and is a Senior Lecturer in the School of Philosophy in the Research School of Social Sciences (RSSS) at the Australian National University.

Innovations in private capital markets, including municipal bonds, securitization, and loan guarantees can be used to increase capital flow to both private and public sectors. Yet just as public financing does not automatically necessitate public delivery, neither does tapping private financial markets for long-term investment require privatisation or contracting-out.

- **Subsidies.** Most people agree that some form of subsidy should be used to ensure that the poor are not excluded from basic services, but there are two well documented problems with this. First, targeted subsidies in particular can be administratively complex and require significant resources to implement. Inaccurate information about users can also lead to exclusion of the poor and inclusion of the nonpoor. Second, subsidies are often designed to benefit the middle class. For example, income levels required to qualify for "lifeline" tariffs for electricity can be set so high that even well-off households fail to reap any benefits.

- **Regulation.** Both publicly and privately-delivered services require regulation but in many cases, governments may not have either the capacity or political will to regulate any provider, whether public or private. In such circumstances it is important to ask what kind of regulatory capacity can be created in the short term, and how sustainable that regulatory capacity will be over time.

- **Corruption.** Privatisation is notorious for inducing bribery and benefiting politically well-connected elites; but public organizations also engage in rent-seeking behaviour that is pernicious and deeply entrenched. No wonder that advocates on both sides of the issue tend to invoke the problem of corruption in justifying their stance. However, there is today a growing consensus that the key to fighting corruption, regardless of the type of service provider, lies in promoting greater transparency and ensuring that citizens play an active role in monitoring the provider.

Bos Dieter (1997)[xiii] postulate that "many of the problems of privatisation in developing countries result from the lack of information about the situation of the economy and from the lack of determination on their path of privatisation." In order to address the lack of information, Bos Dieter suggested a theory of incomplete privatisation contracts. Meanwhile, in developing countries, "private sector development" and "the participation of the private in the development of infrastructure" have constituted new paradigms in the school of thoughts of privatisation.

According to a study entitled "Private Sector Participation in Infrastructure in Africa" produced and directed by Jerome Afeikhena, released at the 2008 start of the African Economic Conference of 2008 and published in July 2010, "Sub- Saharan Africa recorded the emergence of 357 private infrastructure projects between 1990 and 2007, representing investments of more than 68 billion US dollars."

According to Afeikhena, "The 357 projects identified by were carried out after a wave of privatisations that marked the 90s in developing countries. Faced with the lack of maintenance challenges and poor public infrastructure management of public infrastructure, these countries turned to the private sector to develop and manage infrastructure projects. This attitude was welcomed and encouraged by the multilateral development banks." In concluding his study, Afeikhena cautioned that "The mixed results of this wave of privatisation do not mean that we go back to the old formula of all-state, but the opposite."

Indeed, according to the African Labour Research Network (2009)[xiv], experiences of successful privatisations around the world show that it comes in many shapes and sizes, for example: (i) Direct sale of public assets and shares to the private sector, (ii) Corporatisation: This means that government departments (or functions within departments) are reconstituted as state-owned corporations, (iii) Commercialisation: The introduction of market-driven logic into the enterprise, and the introduction of commercial goals, values and private sector management orientation, (iv) Contracting-out/out-sourcing: Also known as the privatisation of service provision, referring to the situation in which the public service, parastatal or local authority stops to provide a service and enters into contracts with the private sector to provide it, (v) Public-private partnerships: Here the state remains the owner but enters into a contract with a private company that provides a service. This usually happens through service contracts, management contracts, lease contracts, or long term concessions.

In the context of development cooperation, PPPs have been used as a tool for development since the 1980s (Mitchell-Weaver and Manning 1992). For the partnership to really be a partnership "the actors must be involved in some ongoing set of interaction which require real partnership on the part of all concerned (Mitchell-Weaver and Manning, 1992:48)". The parties participating in the PPP have combined forces to accomplish a shared objective. If one party just acts like a silent partner providing necessary capital this would not count as a PPP. Government paying the bill for private development costs or vice versa does not constitute a partnership. All sides of the PPP must be involved in planning, building, and operating or implementing the project. Public-private partnerships have been used by government agencies for development cooperation in countries such as Germany and the United States (Miraftab 2004).

The background of this can be found in the increasing importance of NPM in developed countries during the Thatcher and Reagan years. International financial institutions applied the same logic (lower public expenditure, privatisation and etc) to the development strategy of developing countries.

Anna Knutsson[xv] (2008), attempted to answer the question of "How does the role of the corporation express itself in a PPP in development cooperation? She further purposed to define the characteristics of a successful public-private partnership. Public-private partnerships in their theoretical conceptualization are hybrid organizations. She shows that the success of a PPP depends on the behaviour of the corporation, and what its interests are. The conclusions drawn from her empirical study is that the role of the corporation changes from the traditional role of shareholder interest to a wider responsibility towards stakeholders.

However, William L. Megginson[6] and Maria K. Boutchkova[7] in their work titled "The impact of privatisation on capital market development and individual share ownership", presented at The Third FIBV Global Emerging Markets Conference & Exhibition (Istanbul, Turkey, April 2000) and The Thirteenth Plenary Session of the Advisory Group on Privatisation (Paris, France; September 1999) have argued that "privatisation programs have had a dramatic impact both on the development of non-U.S. stock markets and on the participation of individual and institutional investors in those markets."

They professed that this development has taken place against the belief that "governments usually adopt privatisation programs primarily to raise revenue, and in order to improve the (often dreadful) economic efficiency of former state-owned enterprises" and contrary to the "hope that privatisations implemented through public share offerings will develop their

[6] Professor & Rainbolt Chair in Finance; Michael F. Price College of Business; The University of Oklahoma
[7] Doctoral Candidate, Michael F. Price College of Business, The University of Oklahoma

national stock markets." They further explained how this contradicts the fact that "recent economic research (Levine (1997), Demirgüç-Kunt and Maksimovic (1998), Levine and Zervos (1998), Rajan and Zingales (1998), Subrahmanyam and Titman (1999) and Henry (2000a,b)) has given added impetus to this objective by conclusively documenting a direct link between capital market development and economic growth." In highlighting the cause of this backdrop, they also elucidated the fact that "A looming demographic crisis in the pay-as-you-go pension systems of many European and Asian countries has lead to a dawning realization that broad and deep capital markets are a prerequisite for developing a funded pension system", thus leading governments to adopt share issue privatisation programs as a means to jump-start the growth of these markets.

1.1.4 Transferral privatisation

Hsueh-Liang Wu[8] (2007)[xvi] studied the variance of post-privatisation performance outcomes which took place in the process of ownership transfer in Taiwan. The aims of the study was to add to the body of literature by identifying sources of performance changes in privatized firms, based on Taiwan's experience in privatisation.

His findings suggest "an indispensable role of supportive policy measures, including market openness, post-privatisation involvement of government and corporate reforms prior to privatisation, in the performance effects of privatisation." This interesting finding upholds the importance of "change management" in guaranteeing the overall performance of privatisation policies from both a macro and micro perspective.

[8] Department of Business Administration, National Cheng Kung University, Taiwan, Republic of China

Jonathan Boston (2001)[xvii] poses that when assessing the impact of a particular policy initiative it is common to compare, if possible, the results achieved after the relevant change with those before the new policy was introduced. He notes that 'before and after study' of this nature require reliable benchmarks or yardsticks against which comparison can be made, and such benchmarks are often unavailable. He argues that in the area of public management it is common for performance measures (or indicators) to be altered (sometimes yearly), thus making inter-temporal comparisons all the harder.

For instance, in the formation of a PPP, the change of the power structure is also visible in the increased legitimate power for non-governmental actors in a PPP; this makes the PPP more pluralistic than corporatist (Mörth and Sahlin-Andersson, 2006). The private partner, also called the profit partner is often represented by a corporation. James Austin & Arthur McCaffrey (2002)[xviii] strived to deepen our understanding of the nature and role of businesses in public-private partnerships (PPPs). Their research reveals a greater heterogeneity and diversity of engagement and partnering types than is generally recognized in traditional regime typologies.

For Fisher, Donna K (2005)[xix], there are emerging perspectives on leadership with the changes in organizational characteristics where decision making processes become more inclusive. Because of the changes, it is reasonable to conclude that the role of the leader is also changing. This role is increasingly seen as one of coach and facilitator, providing coordination of efforts and orchestration of worker skills, talents, and motivation toward the facilitation of team performance. Shivers-Blackwell, Sheryl L. (2004)[xx] Managers can and do behave differently in similar organizations and within similar jobs.

They affirm that manager's perceptions of the organizational setting influence their leadership behaviours. Their work introduced a mechanism for explaining the relationship between organizational context and leadership behaviour in integrating transformational and transactional leadership theories with research on organizational context and role theory. They have identified organizational contextual and personality variables that influence transformational and transactional leadership behaviours.

Conclusion

Privatisation is a multidisciplinary and multisectoral concept with important social, economic and political implications. We have decided to explore the ideological, fiscal, developmental and managerial dimensions of privatisation by reviewing available literatures.

At this juncture, we have been able to establish the ideological nature of privatisation as determined and shaped by beliefs with a strong anthropological drive. Although privatisation tends to be amalgamated to a new capitalist order and free market, it encompasses a socialistic form through mass participation.

Privatisation has proved to have multifaceted political, fiscal and economic driving forces involving public and private actors, individuals and groups. Privatisation has been apprehended as a means to propel socio-economical changes and wealth redistribution.

The engineering of privatisation encompasses a wide typology of privatisation processes which could differ from one country to another, even as the object of privatisation rank from tangible to intangible elements including public functions, corporate shares, corporate governance. Privatisation has also yielded to various types of management arrangements and control systems.

Divers national and supranational bodies are actively involved in the implementation of various privatisation programs, making privatisation a global topic making it a core contributor to the globalisation process. Privatisation has been viewed as a factor exacerbating the dichotomy between developed and developing worlds.

Nevertheless, privatisation has been advocated upon as a means to bring about development, to mobilize resources and to foster developmental partnership among public and private actors. The need to develop infrastructures, to reduce poverty and to ensure the steady provision of much needed public services has supported the implementation of diverse forms of privatisations programs around the world.

With private and public entities more and more facing the same collateral challenges, privatisation phenomenon is progressively experiencing a conceptual transformation which leads to an emphasis on implementing more or less technological or dematerialised market and utility infrastructures, with advocates of specialisation and public accountability losing ground in favour of proponents of a stronger public and private partnerships in the framework of institutional decentralisation and deregulation, focusing on the fight against corruption towards a more transparent contracting and outsourcing systems.

The mixed results attributable to past privatisation programs have enhanced interests in change processes management in public and private organizations, both at micro and macro levels, narrowing down on behavioural and attitudinal considerations to fit the increasing trend in responsibility sharing arrangements witnessed in various types of PPP, and other emerging transformational and transactional types of service delivery systems.

1.2 Overview of the dissertation

The present dissertation consists of two parts, Part 1 and Part 2 respectively dedicated to a review of available literature on privatisation, and a research activity. Both parts are intended to deepen our understanding of the concept of privatisation through, and to b.) Examine a topical problem associated with its implementation in Nigeria

1.2.1 Overview of the literature review

The literature review (Part 1) is divided into three chapters. Chapter 2 deals with the essence of privatisation, Chapter 3 examines the practice of privatisation, and chapter 4 focuses on a review of empirical studies and theories of privatisation.

1.2.1.1 Essence of privatisation

This section examines the concept of privatisation from the perspective of three paradigms: the political paradigm, the ideological paradigm and the theoretical paradigm. Each of these three paradigms attempts to answer the questions “How is privatisation structured?”, “How has privatisation emerged?” and “What are the discursive dimensions of privatisation?”.

In order to answer the question “How is privatisation structured?” in the framework of the political paradigm, we shall report on authors’ views regarding the polity, the policy and the politics of privatisation. The interest of this question resides in the world polity theory.

The question “How has privatisation emerged?” shall lead to look at the ideological paradigm of privatisation from a deterministic perspective about the circumstances that led to privatisation as a world policy drive. In this context we shall discuss examine the “Washington Consensus” and its implication in Latin America, the Lisbon Council and the social changes in Eastern Europe, and the contextual global imbalances and Breton Woods institutions.

The discursive dimensions of privatisation shall cause us to look at dichotomies surrounding “public versus private interests”, property rights and competition, externality in privatisation scenarios, and some internality as captured in the process of modelling privatisation.

1.2.1.2 Practice of privatisation

This section shall focus on privatisation as both subject and object. As a result, we shall give account of author’s point of views about both “privatisation as a political instrument” and “instruments of privatisation policy”.

Under various circumstances privatisation has been used as a political instrument, in order to achieve diverse political objectives, including economic growth, socio-economic transformation, market reform, and infrastructural development.

Also, as a rhetoric, privatisation has constituted in some cases a distinct policy whereby call for specific process, legal, fiscal and monetary instruments. These two distinctions highlight a geographical and a time variance of the concept of privatisation.

1.2.1.3 Empirical studies and theoretical models of privatisation

The review of empirical studies and theoretical models of privatisation has focused on available empirical studies, theoretical studies as well as a case study of the Nigerian privatisation programme.

In the framework of the review of empirical studies, we have looked at ownership structure and government intervention modalities, the comparison of pre-privatisation and post-privatisation stages, privatisation in transitional economies, and privatisation in non-transitional economies.

In the course of reviewing theoretical works on privatisation, we have examined the principal agent-theory, the contract theory of government, transaction cost from the point of view of property rights, partial privatisation in the light of incomplete contract theory, and some privatisation optimisation models.

The case study of the Nigerian privatisation programme have been planned to demonstrate the shift from political economy to privatisation. In this pursuit, we have attempted to highlight the implications of the Nigerian federal system, the doctrine of federal character, government's entrepreneurial policy, the intervention framework of the Central Bank of Nigeria, and the privatisation policy framework, before an assessment of the impacts of privatisation.

1.2.2 Overview of the research activity

Our research activity sought to understand the phenomenon of the retroactive effect of the participation of Sub-national investment companies in privatised firms in Nigeria. This topic owes to the peculiarities of the Nigerian political system and its implications as regards the Federal government's privatisation policy. In the background of our study, we have highlighted both its context and justification before exposing our methodology.

1.2.2.1 Summary of the context

The context of the study is determined by several factors including a political system characterised by a constitutional federalism involving 36 states and 774 local governments, the Public Enterprises (Privatisation and Commercialisation) Decree 1999 which confers to the three-tier of government the role to fund the national privatisation agency which is mainly an emanation of the Federal Government.

The public accountability framework remains unclear and volatile as regards the responsibility to provide public services such as transportation, power and water. In addition, specific constitutional provisions uphold underlining rules that are diversely interpreted by the stakeholders as regards the economical powers attributable to each of the three tiers of government. The enforcement of federal character obligations overlaps the core civil service system to shape the board and management of state owned enterprises.

1.2.2.2 Summary of the justification

The justification of the study owes to conflicting behaviours between the Federal Government and State governments as regards the adoption and the enforcement of privatisation policy and objectives. In fact, while the Federal Government divests its stakes in SOEs, State governments float their respective investment companies which are registered in the forms of limited liabilities companies, and which actions do not forcefully match the strategic privatisation goals of the federal government. More precisely, these sub-national public agents have the tendency to increase their respective stakes where the federal government attempt to divest its own.

The privatisation process has been marred by several cases of cancelled privatisation transactions. Amidst raising pressures from State governments to be involved in the provision of utilities such as power, the implementation of the power sector reform act passed in 2005 has been delayed. The decentralisation of public utilities from the centre to the peripheral tiers of government is still an issue being debated upon by the political classes including the National assembly.

Problematic developments are being witnessed in the press as the Bureau of Public Enterprises (BPE), more recently announced its intention to revoke the privatisation of over government-owned companies which have failed to perform to expectation. The hurried manner under which most privatised companies were sold, particularly without due diligence carried out to ascertain the financial and technical competence of the buyers, has even been underpinned by the current management of the Bureau of Public Enterprises (BPE). Moreover, the lack of effective regulation of privatised companies has been brought in the public place.

It is above all mentioned that fifteen years after the initiation of privatisation programme in Nigeria, there has not been a comprehensive assessment of the post-privatisation performance of affected enterprises. It is also consistent that the Nigerian privatisation program requires several fundamental restructuring and improvements to augment and maximize its impact on

Nigerians. Among measures being advocated upon are a workable privatisation model, the establishment of additional sector regulatory commissions, the improvement of post privatisation regulatory framework, the enacting of Nigeria's competition laws.

1.2.2.3 Overview of the methodology

The research methodology provides for a description of the research problem, a reference to the theoretical framework of the problem, the research question, the research hypothesis, the stated objectives of the study, the data collection procedure and hypothesis testing, a description of the sampling method, a validity and reliability test, a statement of the assumptions under the study, the limitations of the study and the expected findings.

The research problem

Besides broad political and socio-economical issues, we have identified a behavioural problem characterised by the fact that, while Federal Government disengages from SOEs, Sub national governments (through their respective sub national investment companies) increase and/or maintain their own stake in those firms. This phenomenon results into a trend of conflicts between stakeholders. We adjudged that that phenomenon could have a reversal effect on Federal Government's privatisation programme. We opine that this problem can be studied from a strategic management perspective.

The theoretical framework of the problem

After having ascertained that the problem could have strong managerial implications, we have decided to study it in the framework of strategic management theory. More accurately, the problem was associated with issues pertaining to the legitimacy of interest groups, the relationship between internal and external coalitions, shareholders interests, and conflict management. The problem was therefore examined in the perspectives of Stakeholder theory, Constituency theory, Shareholder theory and Conflict management theory.

The research question

The research questioned the relationship between the participation of sub-national investment companies and "organizational effectiveness" of privatised firms, and therefore sought to establish the relationship between the "Occurrence of unresolved board conflicts" and the "weight of Sub-national stakes in privatised firms.

The research hypothesis

The null hypothesis of the study postulated that the occurrence of unresolved board conflicts in privatised firms correlates the weights of sub national stakes in a privatised firm; while the alternative hypothesis suggest that the occurrence of unresolved board conflicts is not correlated by the level of sub national stakes in privatised firms.

The data collection procedure

The data collection procedure was linked to the institutional framework defined by the Companies and Allied Matters Act (CAMA) which compels all firms (including privatised firms) to appoint a company secretary for the purpose of performing the function of following up and keeping firm's backlog of information including periodic board minutes and firms' yearly financial reports.

Through company secretaries a preliminary inventory of firms which were privatised between 2000 and 2007 was conducted; subsequently, the companies which satisfied the criteria of sub-national participation without post-privatisation take-overs and/or mergers were retained for data collection for three periods (i.e. December ’07, December ’08 and December ’09).

The sampling method

The sampling method was based on a nonprobability sampling strategy, using a convenience sampling approach in a nonrandom manner. We excluded the privatised firms without sub-national shareholding as determined by the company secretaries assigned to collect the data used in the process of this study.

Hypothesis testing, validity and reliability test

The null hypothesis was tested by correlating the averaged data for Dec.’07, Dec.’08. This first correlation revealed two positive causal links, firstly between "weight of running assets" and “unresolved conflicts related to goal setting" and secondly between "weight of commercial patronage" and "unresolved conflicts related to manager's appointment". The correlation of the 6 correlation coefficients scored by both links for the three periods (Dec.’07, Dec.’08 and Dec.’09) provided for the test-retest reliability of the measurements.

Assumptions, limitations and the expected findings of the study

We assumed that the target firms observe fundamental principles of organisational effectiveness theory, that their goals and objectives are clearly spelt and prioritised, that they have the required capacities to implement their self-defined objectives, that they have a distinctive and rational organisational culture, that they implement rational organisational processes, that they are able to acquire the human, financial and technical resources required for their harmonious and continuous development, that all types of interests are clearly identifiable among all groups stakeholders, including Sub national stakes, that unresolved internal conflicts are well documented in the minutes of board meetings, that both internal and external constituencies of privatised firms have clearly defined satisfaction criteria, that those privatised firms comply with rules and regulations imposed by government as regards the nature of their respective activities, and that managers of privatised firms explicitly develop and maintain a sound relationship with different stakeholders' groups, including salient stakeholders' groups.

The study had for limitations; Firstly, the fact that we had to rely on company secretaries for the accuracy of the data supplied because the weights of stakes were predetermined by these professionals who were solely guided by the standards and guidelines applicable to their profession; Secondly, the fact that the variables were self-defined exposes the results of the study to criticism as regards the generalisation of the results thereof; Thirdly, in the course of our study the definition of stakes was limited in scope; Fourthly, the data collected relate to the privatisation exercise carried out between 2000 and 2007.

Objectives and rationale of the study

The study aims to analyze the impact of sub national governments' behaviours on the Federal Government's privatisation policy; to identify the formal and informal drives and modalities of sub national governments' participation into the privatisation process; to assess the impact of sub national interests on constituency process, business process and market process in selected privatised companies; to assess the impact of sub national interests on the corporate and managerial values of privatised companies; to suggest an optimal and comprehensive institutional privatisation framework to take into account and to streamline sub national governments' contributions into the privatisation policy.

In line with its underlined objectives, various institutions and groups shall benefit from its outcomes; these are: the National Council of Privatisation (NCP), the Bureau of Public Enterprises (BPE), The Nigerian Stock Exchange (NSE) as well as the Stock and the Securities Exchanges Commission (SEC) , the Nigerian Investments Promotion Commission (NIPC) and Infrastructures Concession Regulatory Commission (ICRC), etc. Others are: Shareholders and more generally stakeholders of privatised firms.

PART 1: LITERATURE REVIEW

Chapter 2: Essence of privatisation

2.1 Introduction

Contextual definitions

Paul Starr (1988)[xxi] referring to privatisation as the transfer of any government function to the private sector including governmental functions, depicts privatisation as a bidirectional movement whereby "on the one hand, private interests reach into the conduct of the state and its agencies; on the other, the state reaches across the public-private boundary to regulate private contracts and the conduct of private corporations and other associations".

Gilmour and Jensen (1998)[xxii] have defined privatisation as the corporatization of public functions in the form of "performance-based organizations structured around an effective public accountability scheme through a coherent differentiation between corporate responsibility, government accountability and citizen rights.

According to Gregory Gleason (2001)[xxiii], "the goal of privatisation is to establish ownership rights by means of identifying a specific set of property rights that were exercised previously by the state and by transferring these as ownership rights to individuals or entities in the private sector."

These three views attempt to explain the concept of privatisation from three different angles: property rights, government functions, and public accountability. But Louis De Alessi (1987)[xxiv] while noting that "privatisation has drawn support on both ideological and pragmatic grounds", provides for a more causal definition of privatisation to assert that "the term privatisation is typically used to describe the transfer of activities from the public sector to the private sector and includes contracting out as well as reducing or discontinuing the provision of some goods and services by government." What are the determinants of privatisation?

Ideological origin

The concept of privatisation cuts across political, economical, social spheres with government at the centre stage, and appears in the literature as both ideology and policy. Appel Hilary (2000)[xxv] suggests four mechanisms by which ideology determines the design and implementation of privatisation programs. Firstly, ideology shapes the choice of policy-makers to base the new property system on private ownership; secondly, prevalent ideological context affect the economic interests and strength of potential opponents to government programs; thirdly ideology shapes how leaders go about building support for their programs; fourthly the lack of compatibility between the ideological basis of a program and the ideas of the elite and mass groups increase the cost of political reinforcement of privatisation.

For instance, M Harris and al. (1997)[xxvi] assert that in Israel, « although Labour and Likud policymakers may both choose privatisation as a policy, different political environments and political bases may affect such choices." He argues that "although the underlying factor behind privatisation was always budgetary pressure irrespective of the political ideology involved, some difference exist between parties in the implementation of privatisation, with Labour demonstrating a greater propensity to sell complete enterprises, and Likud engaging in more partial sales of state assets. They further argue that this difference results from the differing ability of each party to negotiate with Israel's largest labour union.

Using the experiences of Russia and the Czech Republic for comparison, Appel supports the fact that ideology, as a coherent set of ideas and beliefs shared by many, is the key variable needed to answer the question “Why did these two cases differ so radically in the extent of privileges offered to certain groups?” He however argued that the relative power of various interest groups in society explains the design of privatisation in specific countries. What is the ideological basis of privatisation?

The literature about privatisation as an ideology is most frequently associated with American writers who often consider the United States government to be too big (although the United States does not own as many public enterprises as do countries in Europe and on other continents).[xxvii]

Ideological adaptation

According to Alan N. Miller (1997)[xxviii] the most important distinction between the privatisation programs in the United Kingdom and the developing countries is ideological. He explains that the ideological motivations of privatisation in the United Kingdom’s privatisation programs are primarily based on the tenets of neo-liberalism. In developing countries, privatisation programs are based primarily on pragmatic considerations. He accounts that since the Thatcher-led privatisation program in the United Kingdom began in 1979, more than a hundred developed and developing countries have initiated their own privatisation programs.

He however peculiarly notes that "Today, privatisation is being carried out by governments of all ideological types, including communist Cuba, Labour governments in Australia and New Zealand, populist and social-democratic governments in Argentina and Mexico and capitalist democracies like the United States." Privatisation has therefore transcended ideological paradigms and has become a widely enforced public sector management system.

Public sector adjustment

In Nigeria, according to Otive (2003)[xxix], "Privatisation was formally introduced by the privatisation and commercialization Decree of 1988 as part of the Structural Adjustment Programme (SAP) of the Ibrahim Badamosi Babangida's administration (1985 – 93), with SAP as a neo-liberal development strategy devised by international financial institutions to incorporate national economics into the global market.

How thence has the concept of privatisation been admitted into other ideological paradigms from its neoliberal origin, to become a widely shared belief?

Belief system

According to J. Nicholas Ziegler (1997)[xxx], in Germany, "the motivation to privatize Lufthansa was initially fiscal, while the motivation to privatize Deutsche Telekom rested from the outset on the belief that a privatized enterprise would be better able to compete in more open markets." He suggests that despite the initial differences in motivation, the privatisation process in both cases quickly came to include the goals of raising money for the national treasury as well as making the companies more acceptable to international capital markets by giving management more flexibility in personnel matters and organizational change.

However, these privatisation experiences were not shaped entirely by forces in the international economy; since in both cases, privatisation required persistent and energetic planning by political actors as well as managers at the enterprise level. In the light of Ziegler's findings, the understanding of the phenomenon of privatisation calls for a careful examination of its external and internal dynamics, as embodied by ideology one hand and policy on the other hand.

2.2 The political paradigm of privatisation

Politics

According to Maarten Hajer[9], (2003)[xxxi], as politics is conducted in an institutional void, both policy and polity are dependent on the outcome of (political) discursive interactions. How should policy analysis respond to the changing context of policy making?

Niamh Hardiman[10] and Colin Scott[11] (2008)[xxxii] drew from the works of Oliver Treib and his colleagues the distinction between institutional properties (polity), actor constellations (politics), and policy instruments (policy) in the analysis of modes of governance (Treib et al. 2005) and argued that it is their contention that we need to pay more attention to the first aspect of governance, that is, to 'polity', understood as the institutional properties of the state."

Polity

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Polity is “a covenant or a mutual agreement and a commitment to walk together and support one another” (Kaminetzky, 2006). “A polity is a state or one of its subordinate civil authorities, such as a province, prefecture, county, municipality, city, or district. It is generally understood to mean a geographic area with a corresponding government. Thomas Hobbes considered bodies politic in this sense, in Leviathan. In previous centuries, body politic was also understood to mean "the physical person of the sovereign" (in monarchies and despotisms, the emperor, king, or dictator, and, in republics, the electorate). Today, it may also refer to a representation of the ethnic or gender demographics of a region; for example, in many liberal democracies, cabinets are chosen to represent the body politic” (Wikipedia).

Policy

K.O. Odunaike, M.B. Amoda, O.A. Olatoye (2010)[xxxiii] assert that “privatisation is any policy change that enlarges the scope for private enterprise to compete with state owned enterprise or even ones that might cause public enterprises to behave more like private firms.” What are the characteristics of national and international privatisation polity?

Institutional void

Hajer explored “the dynamics of policy making and politics in a changing world, beginning with introducing the idea of policy making without a polity.” The absence of polity is characterized as an “institutional void.” Besides this view, Peter Hand (2002)[xxxiv] explains that “In policy governance, a governing board’s primary function is not to make decisions, but rather to define policies to guide decisions throughout the organization.” Who governs privatisation and set applicable standards? Who guarantee the political legitimacy of privatisation?

2.2.1 World polity theory

Globalisation

Frank j. Lechner[12] (2001) advances that "Globalization is the growth and enactment of world culture. Since at least the middle of the nineteenth century, a rationalized world institutional and cultural order has crystallized that consists of universally applicable models that shape states, organizations, and individual identities (J. Meyer et al., "World Society and the Nation-State," Am. J. of Soc. 1997). He further advances that "Conceptions of progress, sovereignty, rights, and the like, have acquired great authority, structure the actions of states and individuals, and provide a common framework for global disputes." He explains that "The world cultural order consists of models defining actors (e.g., nation-state, individual), purposes (e.g., development, progress), and principles (e.g., human rights, justice)."

World society

Lechner offers four main "elements of collective world society" which contribute to and implement the tenets of this order: international governmental organizations, especially those in the UN system; nation-states, which engage in copying that leads to diffusion; voluntary associations in many different fields, some operating as social movements; and scientists and professionals, as experts whose own authority derives from world-cultural principles (1997: 162-6)."

[12] Professor Department of Sociology Emory University Atlanta

'Neo' variants of governance

Holger Daun[xxxv] explicates that a "new governance has emerged whereby the state allows market and civil forces to decide upon, implement and administer education and other collective goods and services, which the state has traditionally been in charge of." John Gerard Ruggie (1998)[xxxvi] also give accounts of "how post-war realism and liberalism in international relations theory evolved towards the respective "neo" variants and, despite the differences that remain, converged on a common neo-utilitarian analytical foundation."

2.2.2 Polity of privatisation

Comprehensive concept

Joakim Berndtsson[13] (2009)[xxxvii] poses that "In the literature on the changing nature of war, the term privatisation has been used in a wider sense to designate the increasing presence and impact of a number of essentially non-state actors and, including rebel forces, NGOs, international aid organisations, guerrillas, private companies and warlords (e.g. Møller 2005: 12ff). In this broad perspective, privatisation is seen as an indication of a general "de-statization" of war where non-state and transnational actors play increasingly important roles (Münkler 2005: 16ff) ... More specifically, privatisation signifies a process whereby something that has been, or been seen as, a public responsibility is transferred to the private sector (Lundqvist 1988: 4ff, 12; Feigenbaum et al. 1999: 1)."

[13] School of Global Studies, Gothenburg University

Object or subject

According to Ritzer, George (2007)[xxxviii], "The major social institutions, in addition to the polity and economy are each taken as object and subject of globalization." Ralf Michaels and Nils Jansen (2007)[xxxix] highlighted Europeanization, globalization and privatization as interrelated processes and proposed a conceptual clarification of key notions in the debate on "private law," "state," "Europeanization," "globalization," and "Privatization".

For instance, "The Law on Privatisation of State-Owned and Municipal Property" of the Republic of Lithuania provides that "privatisation object" means shares or any other assets belonging to the state or a municipality by the right of public ownership and which the Government of the Republic of Lithuania or a municipal council decides to privatise. Housing belonging to a municipality may not be a privatisation object; "privatisation subject" means natural and legal persons of Lithuania or a foreign state, who acquire the privatisation object under this Law. Privatisation subjects may not be Lithuanian state or municipal enterprises, institutions and organisations financed out of the state or municipal budgets, as well as stock and close stock companies, banks and insurance agencies wherein more than 50% of the shares are held by the state of Lithuania or a municipality."

Connector

In the perspective of world polity, privatisation is a legally regulated link between subject and object of privatisation as provided in literature; for instance a simplified static model of cadastral system (with some modifications) can be found in Hanssen (1995), Mattsson (2004), Zevenbergen (2004) where a property right connects owner (i.e. subject) with land (object). However, Michaels and Nils Jansen argue that "Europeanization, globalization, and private governance mean different things to different people, but one thing seems clear: they change the role of the state in the world."

2.2.3 Policy and privatisation

A means

According to R. Janssen, J. van der Made[xl] "Over the last decade privatisation has been used frequently as a policy Instrument to reduce the financial burden of the public sector." And they add that "In most countries there is a mix of public and private interests in health care. Because of this, privatisation is an important issue in health care policy analysis." We derive from this view that privatisation is used as an instrument of sectoral policy instrument, targeted at reducing public financial burdens in various sectors including health sector.

An instrument

This view is corroborated in the Government paper number 1 of 2000 published by the Ministry of Finance and Development of Planning, saying that "Since the early 1980s, the increasing interest of many governments in privatising public enterprises has rendered privatisation itself an important policy instrument. This instrument has been used to reduce financial and administrative burdens on governments, improve the production and distribution of goods and services, streamline government structure, and reinvigorate industries owned and/or controlled by the state."

In this same vein, in a case study on Tanzania's Experience with Privatisation Policies, published by the African Forum and Network on Debt and Development in 2007, it is written that “Privatization is widely thought to be a valuable policy instrument that leads to a greater good. New values into public assets are expected to be injected via privatization of public resources and the privately held capital base of a country can thus be increased. Thus, in general, privatisation is a key part of the so-called "Washington Consensus" and both the International Monetary Fund (IMF) and the World Bank include privatisation of some or all state-owned enterprises as an integral part of their structural reform packages. The World Bank is the leader in promoting privatization as an economic reform policy.”

A method

In this case “Arguably, privatization itself is a form of deregulation: although in principle state-owned enterprises can be required to operate as fully commercial operations, in practice they are frequently used as instruments to achieve certain types of political or public policy goals. Privatization therefore typically involves abandonment by the state of some of its very specific policy instruments.”

2.2.4 Politics of privatisation

Pro-privatisation and anti-privatisation

Wei Li, Christine Zhen-Wei Qiang, and Lixin Colin Xu (2001)[xli] postulate that “The ability of an interest group to influence policies depends not only on the cohesiveness of the group itself but also on the degree of democracy in the environment where it operates. A more democratic society often provides more effective channels for its constituents to voice concerns and erects lower barriers for its constituents to organize interest groups. As a result, the degree of democracy is expected to matter in reforms. But its effects will depend in general on the outcome of political contests between pro-reform and antireform interest groups."

According to John Nellis[14] (2003)[xlii] "In 2001, a clear majority of people surveyed by Latinobarométro in 17 Latin American countries felt that privatization had not been beneficial, and by higher percentages than in previous surveys. A follow-up survey in 2002 showed a decline in anti-privatization sentiment in a few important countries—Colombia, Peru, Brazil and Ecuador—but increasingly negative views in Paraguay, Uruguay, Bolivia, Chile, Mexico, Venezuela and, not surprisingly, Argentina. In every country surveyed in 2002, the percentage of respondents who agreed that "the state should leave economic activity to the private sector" was less than it had been in 1998."

Equally, in Nigeria, according to O Igbuzor, "Civil society actors in Nigeria are concerned that the privatization exercise will lead to further widening of the gap between the rich and poor in Nigeria ... There are also concerns that the privatization programme will reinforce male dominance and ownership of property in Nigeria. In fact, it can be argued that women were excluded from the privatization process from the start."

SAPs (Structural Adjustment Programs)

SAPRIN, The Structural Adjustment Participatory Review International Network (*SAPRIN*), a coalition of civil society organizations from nine countries on four continents, asserts that "Structural adjustment—the term has been a panacea for some and a curse for others. Political leaders and development experts have praised it and condemned it, but few have actually measured its impact on all sectors of a country's economy."

[14] Senior Fellow, Center for Global Development

As provided by members of this global coalition, “Structural adjustment programmes are the largest single cause of increased poverty, inequality and hunger in developing countries. The World Bank and the IMF have compelled country after country to adopt a ‘one size fits all’ economic strategy, so exposing the world’s weakest economies to the full force of the global market place.”

For Monower Mostafa (2008)[xliii], the common agenda of IFIs include, dismantling public institutions and public enterprises that deprives people but give immense authority to big business, removing all supports and protection for local industries and agriculture by liberalizing imports, supporting export oriented activities to meet the needs of western market by supplying cheap product at the expense of economy and environment, withdrawing state's responsibility of providing basic services such as health care and education for the people and raising prices of fuel, gas, electricity, raising fees of education and healthcare to create good business opportunities of the global companies.”

But according to him, what actually happened is that “The structural adjustment policies (SAP) undertaken by the World Bank group has so far brought the most devastating results in most countries. These are some of the results actually found in the countries SAP was implemented in:

- Indiscriminate import liberalization and financial-sector policies that have attracted investment away from productive investment and deeply hit domestic manufacturing sectors and employment
- Small farmers and women have been affected more negatively by the differentiated access to resources for production. Reforms have directly and indirectly affected the

ownership, control and use of productive land, further skewing the distribution of wealth and incomes in rural area

- Real wages have deteriorated, Unemployment and job insecurity have increased, family incomes decreased generating an increase in child labor as a result of labor-market reforms and other adjustment measures, particularly among the lowest income groups
- The privatization of public utilities and services has usually resulted in significant price increases for the public, paralleled by little improvement or education in access and service. The quality of education and health care has generally declined
- The policies have in general circumstances yielded generation of increased current-account and trade deficits and debt; disappointing levels of economic growth, efficiency and competitiveness; the misallocation of financial and other productive resources; the "disarticulation" of national economies; and the destruction of national productive capacity; and extensive environmental damage"

Poverty reduction strategy papers (PSRPs)

"The PRSP is a national programme for poverty reduction which is the foundation for lending programmes with the IMF and the World Bank and HIPC debt relief. The essential features are: it is developed in a participatory way; it is nationally owned; it lays out a policy framework and agenda for tackling poverty. Only HIPC (Heavily Indebted Poor Countries) and ESAF (Enhanced Structural Adjustment Facility) countries are required to produce a PRSP. They must have a PRSP before they can seek new programme support from the IMF or Bank. The Bank and Fund Boards must approve a country's PRSP before a lending programme is agreed with the Bank and Fund." (Angela Wood, 2000)[xliv]

Poverty Reduction Strategy Papers (PRSP) are prepared by the member countries through a participatory process involving domestic stakeholders as well as external development partners, including the World Bank and International Monetary Fund.

However, according to World Development, “Analysis of four completed PRSPs and twelve Interim PRSPs by World Development Movement finds that civil society groups are dissatisfied with the extent of public involvement and that IMF and Bank influence is weakening government ownership. It concludes that "the policy content of these strategies does not constitute a major change from the past. This is particularly worrying given the substantial body of evidence showing that structural adjustment programmes did not reduce poverty". "A critical assessment of the predicted and actual impact of PRSPs on poverty is urgently needed." (http://www.brettonwoodsproject.org/art.shtml?x=15997, 2001).

In this regards, as ascertained by Wood (2000), “the Meltzer report for the US Congress has recommended that the IMF should get out of long-term adjustment lending and the PRGF should be closed down. Similarly, the UK Treasury Committee has recommended that the IMF should not be involved in debt reduction programmes.”

Comprehensive Development Framework (CDF)

“The Comprehensive Development Framework (CDF) was launched by the World Bank in January 1999 in response to … difficult circumstances.”[xlv] According to Joseph E. Stiglitz (2002), the Comprehensive Development Paradigm sees development as a movement. “Development represent transformation of a society, a movement from traditional relations, traditional ways of thinking, traditional ways of dealing with health and education, traditional methods of production, to more modern ways (Stiglitz, 1998).”

He argues that “according to the standard model, the former socialist regime, with its former planning (which by necessity was informationally inefficient), distorted prices, and attenuated incentives, led to outputs that were markedly below the economy’s potential output. Reforms – Privatisation, free market prices, decentralization) even if not perfectly implemented, should have moved the economy far closer to its potential, and output should have risen … Part of the explanation lies in the destruction of the organisational capital; part lies in the fact that more than privatisation is required to make an effective market economy; but yet another part of the explanation in the destruction of the already weak social capital, manifested in the growth of the so-called mafia.” He formally adjudges that “privatisation in Russia has not resulted in an effective market economy, and it increased inequality without any compensating increase in productivity or growth. Rather than providing incentives for wealth creation, it provided incentives for asset stripping – with huge movement of capital abroad.”

Stiglitz acknowledges the fact that “the first point id that development challenges are structural and social, and cannot be overcome through stabilisation and policy adjustment alone (they required a long term and holistic vision of needs and solutions), secondly, policy development cannot be imported or imposed; without domestic ownership reforms and investments are not sustainable.” Stressing on the need to foster participation, he declares that “Had a more broadly participatory process arrived at a homegrown privatisation scheme which was then carried out on a scheduled determined by domestic concerns, perhaps the combined wisdom and knowledge of the citizenry could have headed off the most egregious failure of privatisation.”

According to Nagy Hanna (2000), “The first point is that development constraints are structural and social, and cannot be overcome through economic stabilization and policy adjustment alone—they require a long-term and holistic vision of needs and solutions. Second, policy reform and institutional development cannot be imported or imposed; without domestic ownership, reforms and investments are not sustainable. Third, successful development requires partnership among government, local communities, the private sector, civil society, and development agencies. And fourth, development activities must be guided and judged by results." Quoting (Stiglitz 1998), Hanna asserts that "Among recent examples of failures to take the long view are privatisation in transition economies, civil service reform, and deregulation of the financial sector." She admits that "Privatisation increases inequality if the appropriate regulatory framework and environment for private sector development are missing. In transition economies the rush to mass privatisation, without establishing the underpinnings of capitalism, led to corrupt sales, lack of restructuring, insider-dominated transactions, and unregulated actions by investment funds."

The global move from public monopolies toward privatisation and deregulation has required tackling a much broader range of issues: sector unbundling, private participation, regulation, competition, interregional trade, resettlement, environment, access by the poor, and renewable energy sources, among others. "Decentralization, privatisation, and weak regulation have raised new challenges for monitoring and evaluation. Chile's power sector is typical: the combination of unbundling, privatisation, and weak regulation led to deterioration in monitoring and evaluation" (World Bank, 1996).

Conclusion

The political paradigm of privatisation is made of specific sets of politics, polity and policy; so that privatisation does take in an institutional void, as it belongs to the world polity of globalisation, contribute to the formation of world society. Privatisation partakes into what could be called Holger Daun's 'Neo' variants of governance.

From the Polity perspective, privatisation is a comprehensive concept involving a number of essentially non-state actors and, including rebel forces, NGOs, international aid organisations, guerrillas, private companies and warlords (e.g. Møller 2005: 12ff). Privatisation is a multidimensional concept invariably relating to and connecting objects and subjects.

In the framework of policy making, privatisation applies as a means, an instrument, or method of governance. As means, privatisation used to be an integral part of sectoral policies. It is an instrument used to reduce financial and administrative burdens on governments, improve the production and distribution of goods and services, streamline government structure, and reinvigorate industries owned and/or controlled by the state. As a method, privatisation is a form of deregulation which requires special divesture procedures and techniques.

Privatisation has favoured the crystallisation of adverse interest groups; pro-privatisation and anti-privatisation which contribute to policy dialogue and polity constituencies. The wide antipathy to privatisation related policies have led to its lack of popularity and to criticisms mainly from civil society organisations. Such policies include the Structural Adjustment Programs initiated by the World Bank and the IMF but viewed civil society organizations as a cause of increased poverty, inequality and hunger in developing countries.

However, privatisation is still omnipresent in most Poverty reduction strategy papers (PSRPs) of most Heavily Indebted Poor Countries. Nevertheless, a Comprehensive Development Framework (CDF) was launched by the World Bank in January 1999 in order to capture the essence of development as a transformation of a society, a movement from traditional relations, traditional ways of thinking, traditional ways of dealing with health and education, traditional methods of production, to more modern ways; because the global move from public monopolies toward privatisation and deregulation has required tackling a much broader range of issues: sector unbundling, private participation, regulation, competition, interregional trade, resettlement, environment, access by the poor, and renewable energy sources, among others. Democratisation, decentralization, privatisation have raised new challenges.

2.3 The ideological paradigm of privatisation

What is an ideology?

In his work titled "Discourse, Ideology and Context", Tenu A. Van Dijk (University of Amsterdam) has developed some theoretical instruments which shall be used to disentangle the complexity of privatisation as an ideology. According to Djik, groups form the social basis of ideologies. In this regard, he postulates that "the first problem is that it is not easy to formulate the independent social conditions of groupness without falling into the trap of circularity.

For instance, it is noteworthy that feminism may be the ideology of feminists, but if feminists are only defined by their ideology, we do not seem to have advanced very much in the social definition of ideology (Ryan, 1992; Smith, 1990). Thus, we must assume that other social factors of group membership, group organization, leadership, group practices and rituals, as well as institutions may have to be accounted for in the social component of a theory of ideology, as we know from the theory of social movements in general (Larana, Johnston & Gusfield, 1994)."

In this same vein, Djik defines ideologies as a special form of social cognition shared by social groups. "Ideologies thus form the basis of the social representations and practices of group members, including their discourse, which at the same time serves as the means of ideological production, reproduction and challenge (for details, see Van Dijk, 1998). He however argues that we have few explicit ideas about the internal structures of the mental representations of ideologies. And without such representations we are unable to detail the ways ideologies influence the underlying mental processes involved in discourse and other social practices. In fact, he is of the view that examining the ways ideologies influence contextualization is one of the many puzzles that we face in bridging the gaps between discourse, cognition and society.

Belief systems

Djik, he explains that rather trivially, ideologies consist of a specific kind of ideas. In somewhat more technical jargon (in social psychology and political science), we would call them belief systems or social representations of some kind (Aebischer, Deconchy & Lipiansky, 1992; Augoustinos, 1998; Farr & Moscovici, 1984; Fraser & Gasket). 1990).

According to Djik, this means that they are not personal beliefs, but beliefs shared by groups, as is also the case for grammars, socioculturally shared knowledge, group attitudes or norms and values; assuming that ideologies form the basis of the belief systems or social representations of specific groups (Scarbrough, 1990).

For instance, at the basis of group knowledge and attitudes we may find a related ideology just as a neo-liberal ideology forms the basis of socially shared beliefs of specific groups (for instance corporate managers) about the “freedom of the market” or the “intervention of the state.”

Social representation

Thus, interestingly, Djik if of the opinion that cognitively, ideologies are a form of self-schema of the members of groups, that is, a representation of themselves as a group, especially also in relation to other groups. Processes of social identification ultimately take place on the shared social representations called ideologies. The social inspiration for a theory of ideological structure therefore must be sought in the basic properties of (social) groupness, of which the following ones have particular relevance: 1. Membership devices (gender, ethnicity, appearance, origin, etc.): Who are we?; 2. Actions: What do we do?; 3. Aims: Why do we do this?; 4. Norms and Values: What is good or bad?; 5. Position: What is our position in society, and how we relate to other groups?; 6. Resources: What is ours? What do we want to have/keep at all costs?

Value systems

Djik believes that “Ideologies can be good or bad depending on the consequences of the social practices based on them. Thus, both racism and antiracism are ideologies, and so are sexism and feminism. Ideologies may thus serve to establish or maintain social dominance, as well as to organize dissidence and opposition.”

He further argues that “If ideologies control the social representations of groups, they also control the knowledge acquired and shared by a group. This is true, however, only for a specific kind of knowledge, namely what we shall call group knowledge. These are the social beliefs which a group holds to be true, according to its own evaluation or verification (truth) criteria, as is the case for scientists, members of a church or members of a social movement. Of course, for other groups, such beliefs may be mere opinions or false beliefs, and therefore not be called knowledge at all.

However, the crucial, empirical and discursive, test to distinguish knowledge from other beliefs is that knowledge shared by a group tends to be presupposed by its members, and not asserted, in text and talk (except in pedagogical discourse, as well as in discourse directed at non group members). It is this group knowledge, then, that may be ideologically based.

Shared opinions

Djik supports the idea that attitudes are also forms of social representations; they are socially shared opinions; they are general but limited to specific social domains, and they may be organized by underlying ideologies. He also notes that the use of this notion is different from that in much traditional social psychology, where attitudes (and especially attitude change) was also used to refer to individual opinions of persons (see also the critique of Jaspars & Fraser, 1984).

Djik notices that "Ideologies are general and abstract. They are about general principles of the group, basic convictions, and axiomatic beliefs." For various domains in society, however, groups have more specific belief systems, for which he uses the traditional social psychological notion of attitude, though defined in a different way (Eagly and Chaiken, 1993).

Thus, whereas feminism, sexism, racism, socialism, neoliberalism and ecologism are ideologies (among many others), people may have specific attitudes about issues, such abortion, immigration, the death penalty, euthanasia or drugs, among many others. The beliefs of such attitudes hang together, so that one may also assume that attitudes have some fixed, categorical structure that facilitates acquisition, change and application in concrete cases. Clusters of such attitudes may power an ideology for instance people's attitudes about immigration, ethnic integration, or the role of foreigners in the labour or housing market, may be based on a racist (or antiracist) attitude.

Cognitive interface

Djik identifies mental models as the cognitive interface through which these social representations have specific impact on concrete discourses and social practices. He argues that "Whereas social representations are traditionally located in social memory (or semantic memory) as shared by groups, mental models constitute the personal, episodic memory of individual people. Mental models are representations in episodic memory and may simply be identified with people's experiences. They are representations of the specific acts/events people participate in, witness or hear/read about.

The mental basis of such specific stories is the models people construct in episodic memory. Such mental models probably also have a schematic structure, namely the schematic structure of events (setting, participants, actions, etc.). The general beliefs of social representations may be instantiated in these mental models: Instead of thinking about immigrants in general, we are now thinking of Leila or Mohammed.

Communicative discourse

Djik calls context models the subjective, mental representations of the communicative event and the current social situation as it constrains current discourse (for detail, see Van Dijk, 1999). He argues that "Without a conception of the communicative event as represented by a context model, participants are unable to adequately contribute to ongoing discourse." Indeed, without context models, adequate, contextually sensitive discourse is impossible. "Contexts are not out there, but in here: They are mental constructs of participants; they are individually variable interpretations of the ongoing social situation". Djik postulates that context models are not static mental representations, but dynamic structures. They are ongoingly constructed and reconstructed by each participant in an event, and they change with each change in (the interpretation) of the situation, if only because of the ongoing changes of discourse itself (one of the components of context).

Contextual influence

Djik underlines previous works to broaden contexts to embody the meaning of domain as Wodak (1996) also defines contexts in a broad way, and distinguishes between different concentric circles of contextual influence, beginning by the discourse itself, and stretching towards societal and historical contexts. Djik argues that since domain applies, in an overall, global fashion, to all properties of the many types of situations of such domains, it also makes sense to speak of global or macro categories of context models (see also Cicourel, 1992). As a result:

"Politicians in parliament know they are now doing politics and hence in the domain of Politics, and teachers are aware they are in Education, as judges are aware they are in the area of Law. This general domain (as subjectively represented - and therefore sometimes misguided) will influence the contents of many of the lower level categories of the schema."

Djik further characterises the roles of participants in a subjective global domain as simultaneously engaging in global actions, such as legislation, teaching or doing justice. He asserts that "local actions realize these global actions (such as criticizing the government, ask students about what they have learned, etc.). In this frame the roles of participants may affect the production and comprehension of ideological discourse, as Djik assumes that "there are three basic types of role that are contextually relevant: communicative roles, interactional roles and social roles. ..."

Djik explicates that "Vital for the definition of the context are the relations between the participants, as they define them (and of course the participants may have different models of these relationships, as is typically the case in relations of dominance). Again, this is a vast area of representation, running from the overall categories such as formal and informal, to such relationships as those of power or authority."

Djik rules that "contexts need to be defined in cognitive terms, namely in terms of the goals, knowledge and other beliefs of the participants. The goal-directedness of discourse is of course crucial to interpret the interactional functions of discourse, obvious at all levels. The knowledge component is the very basis of a host of semantic and pragmatic properties of discourse, such as implications and presuppositions: The speaker must know what the recipient already knows in order to be able to decide what propositions of a mental model or of the social representations are known to the recipients; and vice versa.

Distinctive content

According to Djik, “underlying ideologies as well as the attitudes they organize may also impinge on the various categories and their contents that define the context model.” These context models may relate to parliamentary debates as portrayed in following example: “The initial situation of this debate may be assumed to be contextually characterized as follows for all participants: Domain: Politics; Global action: Legislation; Setting (date: March 5; time: 11 am; location: House of Commons); Local action: speeches of MPs; Participants’roles (Communicative: Speakers, recipients; Interactional: Government vs. Opposition; Social: MPs, Conservative vs. Labour members; British citizens); Cognition (Knowledge: Immigration and current immigration policies; Aim: Debating asylum policy).

2.3.1 Latin America and the Washington Consensus[xlvi] (John Williamson)[xlvii]

Public debts

The term “Washington Consensus” was coined in 1989 (John Williamson, 2004). Just as postulated by Djik, Williamson states that the story of the so-called Washington consensus started in the Spring of 1989 when he was testifying before a Congressional committee in favour of the Brady Plan, as he argued that “it would be good policy to help the debtor countries overcome their debt burden now that they were making profound changes in economic policy, along the lines advocated by Balassa, Bueno, Kuczynski, and Simonsen (1986). But he “encountered rank disbelief in the Congressmen before whom he was testifying that there were any significant changes in economic policies and attitudes in process in Latin America.”

Consultative conference

As stated but Williamson, after discussion with Fred Bergsten (the director at the Institute for International Economics), he decided to convene a conference to test the extent to which he was right and to put the change in policy attitudes on the record in Washington.

The background of the conference said inter alia on its opening page: "This paper identifies and discusses ten policy instruments about whose proper deployment Washington can muster a reasonable degree of consensus….The paper is intended to elicit comment on both the extent to which the views identified do indeed command a consensus and on whether they deserve to command it. It is hoped that the country studies to be guided by this background paper will comment on the extent to which the Washington consensus is shared in the country in question…."

Reform agenda

He further explains that "the Washington of this paper is both the political Washington of Congress and senior members of the administration and the technocratic Washington of the international financial institutions, the economic agencies of the U.S. government, the Federal Reserve Board, and the think tanks."

The ten reforms that constituted Williamson's list were as follows: 1. Fiscal Discipline; 2. Reordering Public Expenditure Priorities; 3. Tax Reform; 4. Liberalizing Interest Rates; 5. A Competitive Exchange Rate; 6. Trade Liberalization; 7. Liberalization of Inward Foreign Direct Investment; 8. Privatisation; 9. Deregulation and 10. Property rights

He later participated in several meetings where he not only argued that the policies included in his ten points were in fact being adopted fairly widely in Latin America, as the conference had confirmed, but also that this was a good thing and that lagging countries should catch up.

New ideology

Williamson comments that "From the standpoint of making propaganda for policy reform in Latin America, Moisés Naím (2000) has argued that in fact it was a good term in 1989, the year the coalition led by the United States emerged victorious in the Cold War, when people were searching for a new ideology and the ideology of the victors looked rather appealing.

However, as Williamson would argue "But it was a questionable choice in more normal times, and a terrible one in the world that George W. Bush has created, where mention of Washington is hardly the way to curry support from non-Americans. It was a propaganda gift to the old left.

Nevertheless, as a defendant against wide criticism, Williamson stated that "The third interpretation of the term "Washington Consensus" uses it as a synonym for neo-liberalism or market fundamentalism. This Williamson regarded as a thoroughly objectionable perversion of the original meaning."

America's influence

According to Williamson, "Whatever else the term "Washington Consensus" may mean, it should surely refer to a set of policies that command or commanded a consensus in some significant part of Washington, either the US government or the IFI[xlviii]s or both, or perhaps both plus some other group. Even in the early years of the Reagan administration, it would be difficult to contend that any of the distinctively neoliberal policies, such as supply-side economics, monetarism, or minimal government, commanded much of a consensus, certainly not in the IFIs."

Williamson noted that "Stanley Fischer[xlix] was most supportive of the basic thrust of the paper, saying that "there are no longer two competing economic development paradigms" and that "Williamson has captured the growing Washington consensus on what the developing countries should do."

As Williamson (1990)[l] would later ascertain, "Since the launching of Baker Plan in 1985, both the US Government and the World Bank have taken an active role in pressing developing country Governments to divest themselves of state enterprises. The principal motivation is the belief that private ownership sharpens the incentives for efficient management and thereby improves performance. A subsidiary objective, however, is that of easing the strain of public finances both by the cash received from the sale itself and by elimination of the need to finance new investment and often ongoing deficits. Considering that state versus private ownership was the litmus test of one's position on the political spectrum, support for privatisation (at least where it promises to increase competition) has become surprisingly broad."

Changes in Latin America

As Williamson would note, "A similar transformation in attitudes seems to have taken place in Latin America... since 1985, only one country has deliberately undertaken a major nationalisation: Peru nationalised its banks in 1987. Meanwhile, privatisation has come onto the political agenda in one country after another and is apparently rather a popular cause ... a recent public opinion poll found 49 percent of the Peruvian public in favour of privatisation and only 35 percent against. Actual sales have been modest so far, except in Chile, Mexico and Costa-Rica (and perhaps Colombia and Jamaica), but the trend is unambiguous and quite strong."

Nevertheless, according to Williamson "Patricio Miller[li] was extremely critical about the speed of privatisation in Chile and of some of the techniques that have been employed to further the process, which he argues have further aggravated in wealth ownership. This may undermine the legitimacy of the operation and thus threaten the efficiency benefits that it was hoped would result, ... Felipe Larrain[lii], Eliana A. Cardoso[liii] and William Cline[liv] are other participants who expressed the view that privatisation was being treated as to much of a panacea."

2.3.2 Social change in Eastern Europe and the Lisbon Council[lv]

Interest groups

Hilary Appel[lvi] declares that "In order to understand the transformation of ownership in post-communist states, ideology must be taken into account". According to Appel, empirical studies of post-communist privatisation tend to emphasize the relative power of various interest groups in society to explain the design of privatisation in specific countries. Appel offered four arguments outlining how ideology determines the development of privatisation programs and shapes property rights systems.

Firstly, ideology shapes the choice by policy-makers to base the new property system on private ownership as he argued that economic ideas embedded in economic theory influence economic policy-making.

Secondly, prevalent ideologies affect the economic interests and strength of potential opponents to government programs since in the transformation of property rights in post-communist states, the ideological context directly shaped the legitimacy and thereby the authority of certain groups.

Thirdly, ideology shapes how leaders go about building support for their programs as he argued that Russian property officials, in contrast to those in the Czech Republic, tried to establish a system of property relations without ideological reinforcement. Czech reformers linked the creation of the new property regime to the founding of a post-communist national identity. Fourthly, a lack of compatibility between the ideological basis of a program and the ideas of elite and mass groups increases the cost of political reinforcement as the incompatibility becomes important when leaders lack the political skill to overcome the high costs of political reinforcement and popular support.

Strategic transition

According to Norman Fairclough[lvii] (2005)[lviii] "The term 'transition' has been widely used to represent a planned transformation from socialist economies and one-party states to market economies and western-style democracies." He asserts that "Transition construes change as a passage from a well-defined point of departure to a pre-defined destination." He poses that one "can identify strategies for 'transition', which link narratives of the past and present to imaginaries for the future, drawing upon particular sets of discourses. For the Central and

Eastern European countries, the dominant 'transition' strategy has been also an external strategy for change, promoted by the IMF, the World Bank, the European Union, foreign governments and so forth."

He however notes that "It is a strategy – and some would say an ideology - which has been widely criticized within and outside Central and Eastern European for its 'one-size-fits-all' character and its failure to recognize (as some economists put it) the inevitable 'path-dependency' of change. Its direction, scale, speed are conditioned by past trajectories as well as existing circumstances, which actually vary tremendously between Central and Eastern European countries (Zamfir, 2004)."

Specific process of change

Norman argues that "transition" also suggests that change in the post-communist countries is distinct from change in other regions, but when one look at actual processes of change in these countries there are clear continuities with as well as differences from change in other regions. He also notes that 'globalisation', 'knowledge-based economy' and 'information society' are of general relevance for contemporary processes of change." He advances that "For instance, the privatisation of state industries has taken place in all countries, but its extent and pace and modalities have varied considerably in accordance with different strategies developed in different countries."

He adjudges that "The significance of discourse both in strategies for 'transition' and in actual processes of change in Central and Eastern European countries has been widely recognised, for instance in Romania by Miroiu (1999), but also more indirectly in the emphasis on the discursive character of neo-liberalism, given the fact the dominant ‘transition’ strategy is neo-liberal in character (Bourdieu & Wacquant 1998, 2001).”

2.3.3 Breton Wood institutions and the blame of global imbalances on Africa and Asia

The current account deficit of the United States of America

According to Rajan, “The world economy has become dependent on the US as a “consumer of last resort”, fuelled by US government deficit-spending and US household debt financed consumption.

Aided by the willingness of surplus-country residents to acquire dollar-denominated assets the US has been able to pull approximately 70% of global capital flows in order to finance its current account deficits (Rajan, 2006).

These deficits were hardly being financed by other developed economies, except for Japan and Germany representing the two largest industrial surplus countries which accounted for only 30% of aggregate current account surpluses.

Export led strategies in developing nations

Developing and transition economies particularly oil-exporting countries of the Middle East have therefore became crucial alternative sources of finance to the United States’ current account deficits.

According to Buira & Abeles (2006)[lix], these developing countries have recently surpassed emerging Asia in terms of financing flows. Buira et al. explain that "prevalent export-led development strategy enforced in these developing countries' which sustains global imbalances was supported by the International Monetary Fund's policy.

In fact, the so-called 'savings glut', a term popularized by Ben Bernanke[15] which points to the excess of savings vis-à-vis investment in developing countries (particularly in Asia) as the main moderator of global imbalances, results to a great extent from developing economies' export-led growth strategies, which necessitate competitive exchange rates and tend to limit domestic absorption.

Backstopping public waste in underdeveloped countries

In Nigeria, the public enterprises reform was an integral part of the Structural Adjustment Programme (SAP) in 1986 (Adeyemo, 2008)[lx]. Adeyemo notes that "At the International scene, the World Bank in 1981 declared for the dismantling of the African Public Enterprises system." Quoting (Probsting, 1977) it is argued that: "African governments should not only examine ways in which public sector can be operated more efficiently but should also examine the possibility of placing greater reliance on the public sector... what is needed is straight forward acceptance of the principle that under certain circumstances, liquidation of public enterprises may be desirable."

Classical or neo-classical and the liberal neo-liberal framework

[15] Ben Shalom Bernanke began a second term as Chairman of the Board of Governors of the Federal Reserve System on February 1, 2010.

However, Adeyemo argues that "theoretically, privatisation of Public Enterprises (PEs) has some ideological underpinnings as conceptualized by the classical or neo-classical and the liberal neo-liberal schools of thought." In support to this position, Adejumobi (1999) asserts that "the hegemony of the neoliberal economic orthodoxy in the global arena has evoked market principles and policies, including the privatisation policy, as the dominant means of economic management and service provision and delivery." He stresses that "The privatisation policy, like the market policy of structural adjustment programmes (SAPs), is a fundamentalist economic project, rather than a sanguine economic policy, which can promote societal welfare. It seeks to reconstruct the object, nature and basis of social welfare services, from a social and public orientation, to a private one, which has implications for the issues of allocative efficiency, social and class inequities, access to the provision of those services and societal development." He is constant in this view as he declares that the phenomenon of privatisation as a component of the structural adjustment programme (SAP) is not new - it is one of the major means through which SAP seeks to roll back the frontiers of the state, deregulate the economy and enthrone the hegemony of the private sector and market forces in economic activities.

Conclusion

According to Djik, ideology is a contextual phenomenon powered by a discourse nurtured by a belief system supported by distinctive kind of ideas, crystallised by social representations animated by a set of converging value systems. Some widely shared opinions result from any ideology. Ideologies have distinctive contents which are propagated via cognitive interfaces through communicative discourses under contextual influences.

The Washington consensus and the Lisbon council have constituted the driving forces behind the ideological propagation of privatisation into respectively Latin America and Central Eastern European countries.

One the one hand, the Washington Consensus which was adopted in the form of a reform agenda was aimed at supporting the efforts of Latin American countries in the process of managing their public debts. The said ten-point agenda included : 1. fiscal discipline; 2. reordering public expenditure priorities; 3. tax reform; 4. liberalizing interest rates; 5. competitive exchange rate; 6. trade liberalization; 7. liberalization of inward foreign direct investment; 8. privatisation; 9. deregulation and 10. property rights. The post cold war context of the Washington consensus favoured its adoption as a new ideology linked to market fundamentalism, under the influence of America and the Bretton Woods Institutions. Contextual changes in Latin America were supporting the principles advocated upon by the Washington consensus, as public opinion were already largely in favour of privatisation.

One the other hand, the Lisbon Council, a think tank and policy network committed to defining and articulating a mature strategy for managing current and future challenges has facilitated the social transformation of Central Eastern European countries, mainly through the transformation of ownership. In each of the countries, the spirit of the Lisbon council benefitted from ideologically inclined interests groups; but with rather different political reinforcement cost. This change occurred in the form of a strategic transition targeted at a planned transformation from socialist economies and one-party states to market economies and western-style democracies. The change occurred as a specific process, with different directions, scales, speeds as conditioned by past trajectories as well as existing circumstances.

Breton Woods's institution embodied the rationale for the promotion of privatisation, in the view of managing global imbalances, in the context of US current account deficit, by capitalising on surpluses registered by developing and transition economies particularly oil-exporting countries of the Middle East. In support to this policy, it was necessary for the IMF and the World Bank to put under control financial demand arising from underdeveloped nations, by backstopping public waste in underdeveloped countries so as to safeguard available 'savings glut' reserved in priority for the stabilisation of global imbalances centred on US public deficit. This policy thrust was packaged in the framework of a broad Structural adjustment program which includes as a means to ensure efficiency in the public sector, and a way to boost state exceptional revenue. But the overall policy was seen as an "hegemony of the neoliberal economic orthodoxy in the global arena has evoked market principles and policies, including the privatisation policy, as the dominant means of economic management and service provision and delivery." Moreover, it was considered to be "a fundamentalist economic project, rather than a sanguine economic policy, which can promote societal welfare."

2.4 The theoretical paradigm of privatisation

Orthodox approaches

Mavroudeas Stavros and Tsoulfidis Lefteris (1999)[lxi], report that critical review of orthodox approaches to privatisation reveal deficiencies. Quoting Fine[lxii], they argue that within the orthodox theory of privatisation, there is a shift from the old Keynesian public sector economics (founded on notion of market failure) towards a new synthesis. They amplify the idea of "three distinct trends: new political economy, neoclassical new institutionalism and the neo-Austrian school.

The first strand analyses state economic activity on the basis of the notion of rent-seeking. Neo-classical new institutionalism studies the relationship between market and non-market institutions based on the concept of transaction costs. Finally, the neo-Austrian school distances itself from the equilibrium analysis and the formal mathematical models of the two previous strands and is primarily concerned with the dynamics of a market economy in an uncertain and changing world. The marriage between these strands is rather uneasy since there are considerable differences among them."

"However, there is a common core approach based on three main points. The first is the notion of the quantity theory of competition (Weeks (1981)), that is the conviction that the main and decisive part of the economy has to be left to the market and the only role for the state is to oversee the smooth and unhindered operation of competition. This belief - as Fine notes - is true only in the context of orthodox neo-classical economics and under extremely restrictive conditions.

The second common point is the change in what constitutes industrial economics, with the neglect of the informal and institutional elements and the recourse to mathematical equilibrium models and game theory. The new industrial economics used by the new synthesis have narrowed the range of explanatory factors to those that immediately amenable to mathematical modelling.

The last common point is the resulting redefinition f industrial policy which has been confined to competition, regulation and ownership (at the expense of previously important areas, such as R&D, skills, infrastructure, vertical integration etc.)". (Mavroudea Stavros & Tsoulfidis Lefteris, 1999)

Scenario planning approach

Taken its impetus for changes through transaction, competition, transfer of ownership and behavioural changes, the study of privatisation has overstretched into the domain of "scenario planning". According to Moya K. Mason (2010)[lxiii], "Scenario planning is the application of visual dialogue. It is a way to structure and facilitate strategic thinking in management teams and multi-organizational corporations where there is increasing uncertainty in the business environment. The beauty of scenario thinking is that it allows us to tell each other stories about how the world might work. The key element is not whether we are right or wrong, but rather, that we dig deep down to understand that it is our assumptions and perceptions that underpin the imaginations in each scenario, and evaluate their plausibility. Scenarios are not linear or mechanistic; they are displays of exponential connections."

Mason argues that "The process of building scenarios starts with looking for driving forces, forces that influence the outcome of events. Driving forces are the elements that move the plot of a scenario, and determine the story's outcome. The problem is that they may seem quite obvious to one person but hidden to another, and without driving forces, there is no way to begin thinking through a scenario.

He adds that "Every enterprise, personal or commercial, is propelled by particular key factors, such as the workforce and goals. Others, such as governmental regulations, are external. Identifying and assessing these fundamental factors is both the starting point and one of the objectives of the scenario methodology. Underlying driving forces can include social dynamics, technological issues, economic issues, political issues, environmental realities, technological change, government economic and social policy, demographics, international environmental institutions, and world commodity markets."

Process approach

Cornelius Dube[lxiv] (2008) further stresses the difficulty to theorise privatisation by asserting that "privatisation encompasses all the measures and policies aimed at strengthening the role of the private sector in the economy." He explains that "Privatisation takes many forms, covering a vast array of government assets, enterprises and operations. The nature of the assets being privatised or to be privatised provides a useful means of classification. Broadly, privatisation efforts can be classified as asset transfers, outsourcing and enterprise transfers."

According to him, asset transfers refers to transfer from the public to the private sector of non-operating assets, such as physical property (land, buildings, equipment, machinery, etc.) and the transfer from the public to the private sector of asset based (typically infrastructure) operations, such as water, wastewater, ports, airports, roads, railways and similar assets; as well as outsourcing which occurs when the government contracts from the private sector for services or products are being or have traditionally been performed or provided by government employees.

Responsibility for service or product delivery is delegated to the supplier/contractor while the government retains oversight authority; and Enterprise transfer: transfer of ownership from the public to the private sector of an operation or function (a going concern), which is producing a marketable good or service. The transfer may include people, intellectual property, facilities and other assets."

2.4.1 Public sector versus private sector

Dichotomy

While proponents of privatisation see that aspect of economic reform as an instrument of efficient resource management for rapid economic development and poverty reduction, the critics argue that privatisation inflicts damage on the poor through loss of employment, reduction in income, and reduced access to basic social services or increases in prices (Nwoye).

According to Mushtaq H. Khan[lxv], "The public sector has been used for different purpose in different contexts. This has ranged from being an instrument for learning and technology absorption (with greater or lesser success) as in Taiwan and Malaysia, to an instrument for job creation and political stabilization." He suggests that although the effectiveness of public sector management has often been studied using principal-agent models, and presented as an information and incentive problem, we also need to look at the political constitution of the state.

Institutionalism

On their part, Teresa et al. (2007)[lxvi] advance that "in OECD countries, Empirical evidence nevertheless suggests that the following three institutional factors may improve public sector performance: Decentralisation of political power and spending responsibility to sub national governments, Appropriate human resource management practices, In the education and health sectors, there is evidence that increasing the scale of operations may improve efficiency.

The perspective in these two assessments is rhetorical to the traditional discourses on privatisation which on the same basis of the underperformance of the public sector suggests the sale and divestiture of government assets and function.

Ram Mohan (2005)[lxvii] notes as a challenge to economic orthodoxy that "Over the past decade India has been undertaking a programme of economic reform, and at the same time the economy has been growing at a high rate. As part of the reform programme, and in line with prevailing economic thinking, India has been privatising its large, ungainly public sector. One assumption underlying this programme is the dogma that public sector enterprises are doomed to inefficiency, and that competitive market forces can be relied on to make firms more efficient once they are privatised. But is this really true? » He arrived at the conclusion « that, contrary to the prevailing view, private sector firms do not outperform public sector firms across all sectors. He also shows that revenue-raising considerations have weighed more heavily with the government than efficiency objectives. »

Against these paradoxical suggestions, Rim Kaâniche Mestiri (2010)[lxviii] stresses the positive impact of privatisation by stating "that (in the case of Tunisair) the privatisation procreated a net improvement of technical inefficiency, allocative inefficiency and consequently the cost inefficiency. Furthermore, we assert that this enhancement is owed to a net improvement of allocative rather than technical efficiency."

2.4.2 Public choice theory, public versus private interest

Microeconomic influence

According to Russell Hardin[lxix], “Everybody's business is nobody's business”. In his essay on privatisation, Paul Starr advances that “Public choice, ill-named because the only choices it recognizes are essentially private, is both a branch of microeconomics and an ideologically-laden view of democratic politics. Analysts of the school apply the logic of microeconomics to politics and generally find that whereas self-interest leads to benign results in the marketplace; it produces nothing but pathology in political decisions. These pathological patterns represent different kinds of "free-riding" and "rent-seeking" by voters, bureaucrats, politicians, and recipients of public funds. Coalitions of voters seeking special advantage from the state join together to get favourable legislation enacted. Rather than being particularly needy, these groups are likely to be those whose big stake in a benefit arouses them to more effective action than is taken by the tax-payers at large over whom the costs are spread. In general, individuals with "concentrated" interests in increased expenditure take a "free ride" on those with "diffuse" interests in lower taxes.

Hardin adds that “Similarly, the managers of the "bureaucratic firms" seek to maximize budgets, and thereby to obtain greater power, larger salaries, and other perquisites. Budget maximization results in higher government spending overall, inefficient allocation among government agencies, and inefficient production within them. In addition, when government agencies give out grants, the potential grantees expend resources in lobbying up to the value of the grants--an instance of the more general "political dissipation of value" resulting from the scramble for political favours and jobs.

Variance of self interest

At the heart of all public choice theories there is the notion that officials at any level be they in the public or private sector, "act at least partly in his own self- interest, and some officials are motivated solely by their own self-interest." (Downs et al, Anthony), (Brown et al., 1967).

For Downs, broader motivations such as pride in performance, loyalty to a programme, department or government, and a wish to best serve their fellow citizens may also affect a bureaucrat's behaviour, and the level to which self-interest plays a role in decisions is different for each of five bureaucratic personality types that he identifies. For Niskanen, self-interest is the sole motivator.

Constitutional origins

Felkins[lxx] credits James Buchanan[lxxi] and Gordon Tullock as the primary developers of Public Choice Theory. He comments that "Their book, Calculus of Consent, published in 1962, is still considered the classic piece on this subject." He quotes some passages as follows: "Tullock and I considered ourselves to be simply taking the tools of economics, looking at something like the structure of American politics in the way James Madison had envisioned it. That is, it was clearly not a majority democracy, which would be the parliamentary model (which was the ideal, at that time especially, of all the political scientists), rather it was a sort of a constitutional structure. We were the first to start analyzing the Constitution from an economic point of view. There were other people who analyzed particular voting rules, like majority voting, but we put that in a constitutional structure and provided an argument for choices among voting rules. We concentrated on that. So, in a sense, I considered us to be simply writing out in modern economic terms more or less Madison's framework of what he wanted to do, as opposed to anything new and different. It turned out that nobody had looked at it in that way."

And they add that “Public Choice is nothing more than common sense, as opposed to romance. To some extent, people then and now think about politics romantically. Our systematic way of looking at politics is nothing more than common sense.”

No market or market failure in the public domain

But in the perspective of privatisation, as Mildred (2008)[lxxii] would put it “lower and less stable privatisation in the US stems in part from adherence to public choice emphasis on the benefits of market competition over public monopoly. By contrast, Spanish municipalities reflect an industrial organization approach, and create hybrid public/private firms which benefit from both market engagement and economies of scale available under monopoly production. We conclude that managing monopoly may be more important than competition in local service delivery.”

This difference accounts for the fact that, as they explain, “The theory of public choice as articulated by William Niskanen (1971), views the government bureaucrat as a neoclassical actor seeking to maximize public budgets and public power. As such, government service production is expected to be excessive, inefficient and unresponsive to citizen desire for choice. Privatisation, in this context is offered as a panacea to break apart government monopoly, promote efficiency through competition, and provide citizens with greater choice in a market context.”

In fact according to Mildred et al., “Charles Tiebout (1956) first challenged the notion of public market failure by arguing that, at least at the local government level, a market does exist for public services providing both competitive pressures on local government managers to be efficient, and choice to mobile citizen consumers. Thus, the importance of competitive markets has figured heavily in the US privatisation debate (Savas 1987; Eggers and O ’ Leary 1995).”

They also argue that “David Lowery (1998) has challenged the market foundations of public choice, arguing that public services are at best quasi-markets with a single buyer (government) and a small set of alternative private producers in any given local market. Elliot Sclar (2000) supports this point both theoretically and empirically. Empirical studies of privatisation have failed to find consistent cost savings, and while some attribute this failure to study design, others point to lack of competition, poor contract specification, and principal-agent problems as primary sources of failure (Boyne 1998a; Hodge 2000).”

Furthermore, they push forward the fact that “A meta-analysis of all published econometric studies of privatisation and costs in water and waste (Bel and Warner 2007) finds limited support for public choice theory due to lack of competition. ... Industrial organization theories that address the structure of the market, firm and regulatory environment are more effective in explaining lack of cost savings under privatisation. Contracting increases separation between ownership and management, and industrial organization gives attention to control mechanisms (through regulations and the operation of capital markets) that help improve the alignment between ownership objectives and management activities (Vickers and Yarrow 1988). Designing contracts to stimulate dynamic competition and reduce the likelihood of future monopolization is difficult (Laffont and Tirole 1993; Bolton and Dewatripont 2005).”

Economical influence on voters

A thoughtful application of “public choice” to a microeconomic perspective as explained by Starr (1998) provides that “the general lines of criticism may be at least briefly suggested. First, while the theory presents voters as narrowly self-interested, considerable evidence suggests that, even on economic issues, voters identify their interests with the overall performance of the economy, rather than simply voting in line with their private experience. Voters, in other words, are capable of recognizing a collective interest apart from their own. Indeed, the whole point of "government by discussion" is to discover and express common interests not easily voiced or achieved in the private sphere. The public choice approach simply does not comprehend this preference-shaping function of political democracy. It also neglects the restraints built into the architecture of liberalism.”

Private benefit of public goods

Adeyemo (2008), while giving account of various schools of thought of privatisation in Nigeria advances that “the ‘public choice approach to policy and political analysis tries to explains the behaviour and provide sets of standards about what the government does. The theory assumes that people are rational, utility-maximizing individual and that economic efficiency becomes the prime criterion for judging the political, social and economic system. Consequently, all the government does is to judge in terms of the impact on individual choice and economic efficiency.”

He explicates that “Public choice posits that the nature of goods and services determines whether they should be provided through the market system or through the public sector. The point is that private goods should be provided by the market whereas government should provide public goods. In sum the theory posited that where public goods provide separable private benefits (e.g. education) the recipients of the private benefit should be required to pay for net portion of the cost that represents the private benefit (Ostrum & Ostrum 1991)."

Adeyemo notes that "Like many other developing countries, Nigeria government has been seen over the years, as having gone beyond the effective and efficient provision of public goods to the provision of private goods. And it has not only failed on both scores, it has also overextended itself in its public sector commitments through the establishment of too many state enterprises and through continued financial support of those enterprises that have continued to lose money. This scenario has created unprecedented high level of public sector deficits financed mostly through heavy external borrowing, high inflation rates and balance of trade deficits. The end product of this tendency is that privatisation would enable government to cut public expenditures and reduce its involvement in activities the private sector can undertake (Ugorji, 1995)."

2.4.3 Property rights theory and competition

Claim-making

According to Starr (1998), "The normative theories justifying privatisation as a direction for public policy draw their inspiration from several different visions of a good society. By far the most influential is the vision grounded in laissez-faire individualism and free-market economics that promises greater efficiency, a smaller government, and more individual choice if only we expand the domain of property rights and market forces." He nevertheless notes that "In liberal democratic thought, public and private are central terms in the language of claims-making." This "claims" occur in two directions, first, the concept of a public government implies an elaborate structure of rules limiting the exercise of state power, and second, “when the members of a liberal society think of their homes, businesses, churches, and myriad other forms of association as lying in a private sphere, they are claiming limits to the power of the democratic state.” Starr argues that these limits are not absolute as private property rights, for example, are not an insuperable barrier to public control or regulation.”

Reassignment versus fine-tuning

However, he posts that “Even within the economic theory of privatisation, there are some subtle but important differences between two approaches: the radical view of privatisation as a reassignment of property rights and the more moderate, conventional view of privatisation as an instrument for fine-tuning a three-sector economy.”

Starr asserts that “Private ownership and competitive markets are normally thought to go hand in hand, but the two issues of ownership and market structure are often separate.” But he offers some flexibility in the conduct of the thoughts on both issues as he explains that “For the economist devoted to both, the question then arises as to which object of affection is more beloved: private ownership or competition.”

Privatisation versus liberalisation

Starr posts this thoughtful flexibility as the crossroads between privatisation and liberalization. According to him “Here a difference of opinion appears among economists that corresponds to a preference for either privatisation or liberalization. Those who believe that efficient performance depends on private ownership per se favour privatisation, even in cases generally regarded as natural monopolies. Conversely, those who see competition as the critical spur to efficiency are more skeptical about the benefits of privatizing monopolies and often put more emphasis on other policies, such as deregulation."

He further explains that "In the case of a government telecommunications monopoly, for example, those who stress ownership may be willing to privatize the monopoly intact, whereas those who stress competition may prefer to break it up before sale or even to keep it in public ownership while allowing private firms to compete with it on equal terms."

He further unveils the root source of the thought about privatisation and liberalisation by saying that "Thus the perspective that unequivocally points to privatisation as desirable policy holds that property ownership is the fulcrum of political economy. Curiously, the two unlikely bedfellows sharing this appreciation of ownership are Marxism and Chicago economics, which draw from it opposite but equally strong conclusions about the overriding importance of getting ownership into the right sector. From the Chicago tradition come two closely related clusters of work: the theory of property rights and the theory of public choice. Both attempt to enlarge the conventional economic paradigm by treating the classical firm and modern package of property rights as only one of various possible institutional forms. In this enlarged model, public institutions merely represent an alternative property rights configuration, which, on theoretical grounds, the Chicago School predicts regularly will perform less efficiently than private enterprise."

Incentivised property rights

He further explains how both concepts (privatisation of ownership and liberalisation through competition) have been applied to firms economics as drawn from the schools of thought of political economy, by asserting that "As developed by economists such as Armen Alchian, Ronald Coase, and Harold Demsetz, the theory of property rights explains differences in organizational behaviour solely on the basis of the individual incentives created by the structure of property rights."

2.4.4 Privatisation scenario, externalities and socio-economic dialogues

Questioning regulatory capacity

In its report Developed through a multi-stakeholder process facilitated by UNEP[lxxiii] and published in 2002, IWA[lxxiv] postulates that "Under a privatisation scenario, governments will have to play an important regulatory role. Reservations have been expressed about the capacity of governments in developing countries to manage large commercial entities, due to a lack of regulatory capacity in most of these countries." In projecting future conditions, IWA suggests the development of alternative scenarios reflecting alternative goals and investments, as "It is now increasingly imbedded in water management policies and planning scenarios, ranging from national policies, to policies for states, cities and smaller communities.

In this same vein, in the search for more legitimacy, participatory approaches to privatisation were being advocated by development institutions, as for instance in Cameroon[16], the annual report of the joint IDA-IMF advisory note on the poverty reduction strategy repeals that "authorities adopted the privatisation scheme of the remaining three sectors, including banana, rubber and palm oil sectors in October 2005; the scheme will be finally adopted after a round table meeting that will help validate the privatisation scenario retained with the private sector." Privatisation is also a learning process for most governments that have embraced privatisation, generally ex nihilo.

[16] See Republic of Cameroon, Joint IDA-IMF advisory note on the Poverty Reduction Strategy, Third Annual Report,March20,2006

Questioning users' sensitivity

For instance, in the framework of the privatisation of electricity distribution in Honduras behavioural response was studied through "The quantitative analysis of behavioural response used a more detailed definition of how electricity price might change and a wide range of household behavioural characteristics. Unlike the purchasing power analysis, no account was taken of possible changes in general prices. The price changes were calculated for eight different scenarios, comprising different combinations of the possible reforms. Although there is a commitment to reform electricity, government as yet to decide on the details, and the scenarios were designed to reflect the range of options which might be considered." And the following features of electricity reform were incorporated in the scenarios: an increase in efficiency of 25%, elimination of subsidies (or a 33% reduction in the subsidy ceiling), an increase in coverage of 2.3% annually, a reduction in social investments, the generation of profits. "Thus, household behaviour was simulated both before and after the various reform change scenarios." Mary Lisbeth Gonzalez and Jose Cuesta[lxxv] report that as regards « Behavioural Response, The eight different reform scenarios resulted in changes in the average electricity consumer price of up to 81%. Within these average prices, some scenarios included changes to the subsidy structure, which could result in some consumers paying 1.37 times more than the average increase."

Questioning participation

However, as TERI[17] would notice "in a scenario of private entry and competition, it is commonly perceived that private entities tend to focus on high-income consumers, therefore

[17] See Training Module on Infrastructure Deregulation, TERI - The Energy and Resources Institute ,2003

people with low-income might be neglected. Also, given higher costs of providing infrastructure facilities and lower purchasing power in rural areas, these areas might remain unconnected in an environment of private entry and competition. This is generally the premise that has continued the grant of subsidies in the post-reform scenario. Moreover, once the grant is sanctioned it becomes politically difficult to withdraw it.” TERI recommends that “in the changing scenario, the Government has to place a conducive institutional structure, for good policies and strong institutions both are central to effective governance.” TERI argues that “The Government is ideally a policy maker in the changing scenario.”

2.4.5 Modelling privatisation, internalities and investors’ participation

From government function to shared roles

On the models of privatisation, Victor Craig[18] advances that “Privatisation of airports may occur in one of the following ways: Sale of a concession to a private sector entity (consortium of operator, financier and developer) to operate and develop a single airport for a stipulated concession period ranging from 20 to 50 years; Sale of a concession to a private sector entity to develop and operate a system of several airports on behalf of one or more strategic investors, or on behalf of the public at large as shareholders, for a stipulated concession period; Sale of shares in a national airports authority to the private sector (entirely or in partnership with government), such that the authority becomes an entity in the private sector; Sale of a concession to a private sector entity to develop and operate a facility on a government-owned airport (passenger terminal, cargo centre etc.) for a stipulated period of time, after which ownership in the facility may revert to the state. This is the typical build-operate-transfer (BOT) project. Examples of each of the above models of privatisation may be

[18] Director Air Transport, Halcrow AirPlan - Malaysia

found at airports around the world. Outright sale of an airport to private sector interests is the most common model, as exemplified by the privatisation of the major federal airports of Australia to consortia of domestic and foreign investors. Recently, the New Zealand government followed the same model for Wellington Airport, and also sold its interest in Auckland Airport to the public through a general share issue."

Sustainable and replicable designs

Models of privatisation can be replicated elsewhere when the same condition applies. He argues that "Outright sale of an airport to private sector interests is the most common model, as exemplified by the privatisation of the major federal airports of Australia to consortia of domestic and foreign investors." Craig refers to privatisation as a set of models of activities as he suggests to "review bidders' financial model and to examine assumptions in the model, and extent to which model accounts for sensitivity to changes in key variables and assumptions; to establish a conclusion regarding whether the bidders' financial model generates reasonable results. Revise and update bidders' model to account for factors not otherwise accommodated."

Gordon (2009) [lxxvi] notes that Egypt, Philippines, and Pakistan are among countries that have allowed privately owned entities (with or without government equity participation) to build, own, and operate major power plants to sell electricity to the government-owned electric utility through BOT and BOOT models. At the end of a specified term (10 to 20 years, usually), it is contemplated that project ownership will be transferred to the government. He explains that "The use of computer models for determining the economic viability of constructing a new district energy system or expanding an already existing system is now available." However, he points at some variations in the BOT models such as Concession agreements, with transfer at the end of the concession term; No transfer of the facility at the end of a specified term (the BOO model); Construction by the government utility and sale to a private owner/operator; and Lease by the government utility of a privately constructed and owned plant. He further explains that "In countries that allow privately-owned electric generation facilities or thermal energy systems, an important question that must be addressed is the choice of a regulatory model. While there is no standard model, it is important to establish a transparent regulatory framework, not subject to retroactive changes, that addresses certain basic matters."

Adaptable model

Dankar et al. (2003) [lxxvii] insist on the need "to critically examine the model for incorporating the private sector in physical infrastructure development." In describing models of privatisation, they assert that "The new economic policy of liberalization evolved through the economic crisis of 1991 when government sought private sector participation, including that of multinational corporations, in various sectors including those hereto reserved as a monopoly of government. The disinvestment commission appointed in 1996 by the Central Government to recommend a strategy of privatisation of forty three public Sector Units (PSU) has suggested different methods for different organizations depending on the nature of the PSUs, the areas of their operations, and, their present status. Recommendations have encompassed a range of actions for example as follows: 1. Sale of 100 % of government holding as in the case of Modern Food Industries limited, Pawan Hans Helicopters Limited, Ranchi Ashok Bihar Hotel Corporation, and Utkal Ashok Hotel Corporation Ltd which are two hotels owned by India Tourism Development Corporation; 2. Partial disinvestment varying from 74 % in the case of Hindustan Prefab Limited, 40% in the case of Shipping Corporation of India and 25 % in the case of Indian Petro Chemical Corporation; 3. Infusion of Rs.1000 as equity in Air India, followed by a strategic sale by way of new share issue to reduce government holding to 60%, and, subsequent offer to sell 20% of government holdings to domestic investors; 4. Discontinuation of operations immediately and sale of assets of companies as in the case of Electronics Trade and Technology Development Corporation."

Indigenous innovation

Dankar also reveals the existence of an indigenous model of privatisation, "It is apparent that capacity building in infrastructure construction is developing in Maharashtra and this is occurring with a particular model of indigenous privatisation put into place in projects such as the Konkan Railway Corporation and those developed by MSRDC." Although the characteristics thereof are not specifically indigenous, this contribution was innovative in applying ordinary means of government budget financing to the speedy financing and development of infrastructure by a public enterprise, as he poses that "The speedy construction between 1991 to 1997 of some 760 Km. of the Konkan railway, by the Konkan Railway Corporation was financed through public bonds and built by selected private firms through competitive tenders."

Conclusion

The theoretical paradigm of privatisation is constituted by orthodox, scenario planning and process approaches. Since orthodox approaches of privatisation have revealed some deficits, scenario planning and process approaches have been introduced to stabilise and consolidate the concept of privatisation.

The two orthodox approaches are “public choice” and “property rights” drawn largely from the old Keynesian public sector economics was founded on notion of market failure towards developed around three distinct trends: new political economy, neoclassical new institutionalism and the neo-Austrian school. Scenario planning approach combines transaction, competition, transfer of ownership and behavioural changes in the framework of visual dialogues. It structures and facilitates strategic thinking in management teams and multi-organizational corporations in uncertain business environment. Process approach focuses on measures and policies aimed at strengthening the role of the private sector in the economy, and it takes into consideration a vast array of government assets, enterprises and operations such as asset transfers, outsourcing and enterprise transfers.

The discursive content in the theoretical paradigm of privatisation has long focused on “Public sector versus private sector” as well as “public versus private interests”. The “Public sector versus private sector” set of topics has two variants supported by dichotomist and institutionalism. While dichotomists focus on principal-agent models, institutionalism centred on the political constitution of the state. Thus, privatisation has also been related to power transfer and decentralisation.

The Public choice theory based on the dichotomisation of public and private interests highlights a strong microeconomic influence as “everybody's business is nobody's business” combined to a "free-riding" and "rent-seeking" behaviours from the part of economic actors including the managers of the "bureaucratic firms" who seek to maximize budgets, and thereby to obtain greater power, larger salaries, and other perquisites. The public choice theory encompasses variance of self interests nurtured by broad types of motivations such as pride in performance, loyalty to a programme, department or government, and a wish to best serve their fellow citizens may also affect a bureaucrat's behaviour, and the level to which self-interest plays a role in decisions is different for each of five bureaucratic personality types that he identifies. However, it is important to point at the Constitutional origins of the public choice theory with economics applied to constitutional structures.

From this perspective, privatisation is an attempt to respond to the need to correct a situation of "No market or market failure in the public domain" in order to enforce the adherence to public choice's emphasis on the benefits of market competition over public monopoly. On a more practical note, voters represent the link between the political sphere and the economical domain, with voters' political choices influenced by their perception of the economic performances of political constituencies; in fact voters identify their interests with the overall performance of the economy, rather than simply voting in line with their private experience; being capable of recognizing a collective interest apart from their own. Another dimension of privatisation as related to public choice is the juxtaposition on one side of "private provision of public goods" and on the other side of the "private benefit of public goods." These two approaches influence the extent and modalities of privatisation, as it helps to correlate objects and subjects of privatisation as well as costs bearers.

Property rights theory prospered through "claim-making" a liberal democratic pursuit, the "reassignment or fine-tuning" of public assets, the discussions on "privatisation versus liberalisation" and "the incentivised property rights".

Claim-making occur mainly in two directions, first, the concept of a public government implies an elaborate structure of rules limiting the exercise of state power, and second, the limits to the power of the democratic state itself. The reassignment versus fine-tuning stances posts either the radical view of privatisation as a reassignment of property rights or the more moderate, or an instrument for fine-tuning the economy. Thus, privatisation and liberalisation have been offered as alternative solutions in the policy making process, with oftentimes property rights being view as a management incentive.

In conclusion, it is important to note that dialogues on privatisation have dually discussed externalities and their corresponding internalities developed in the forms of socioeconomic and participation issues. In this framework, externalities and socioeconomic dialogues used to focus on questioning the regulatory capacity of governments, on questioning users' sensitivity and questioning prerequisites for investors' participation. The corresponding internalities have oftentimes targeted the modalities of restructuring government function towards a system of shared roles, the replication and sustainability of privatisation designs, the adaptation of privatisation models and the integration of indigenous innovation acclaimed by local stakeholders as a means for ensuring the wide acceptance of privatisation, in practice.

Chapter 3: Practice of privatisation

3.1 Introduction

Learning by practice

John R. Anderson (1980) says “There is no essential difference between practice and learning except that the practice experiment takes longer”. Advocacy needs to be combined with information and models of best practice are rare and needed internationally (Oliver Bennett[lxxviii], Dilys Roe[lxxix], Caroline Ashley[lxxx]; 1999)[lxxxi]. They argue for instance that “Limited evidence suggests a range of strategies can be used, but little is being done in practice. So much remains to be done.” They stress that “There are clear limits to the extent that commercial businesses will adjust their business practice to benefit the poor unless it is a useful marketing tool.” They therefore recommend “that strategies and best practice and best practice in pro-poor tourism are identified and shared.” They advise that “A useful starting point would be to assess previous experience in stimulating linkages: if previous efforts have failed, why have they failed, and what examples of good practice exist?”

Experiment of privatisation

In Australia, John Welch[19] (2010) has had to "wonder how many policy failures there need to be before the failed experiment of privatisation is brought to an end”. At that time, there was “a wave of public discontent with the failed experiment of privatisation. It is imperative that the trade union movement and its allies tap in to this, provide a firm critique of privatisation

[19] Secretary of the West Australian Prison Officers’ Union

as an outdated ideology and a financial scam, and above all offer a clear, viable alternative based on popularly accepted notions of social justice and necessary state provision."

In Britain, the British left-wing Labour MP, John McDonnell[20] echoes Mark Serwotka's call for broader progressive coalitions to make the case for properly funded public services and to demolish the failed experiment of privatisation. Privatisation is being theorised and it is still being practiced and experienced. Various research institutes, pro-privatisation groups as well as anti-privatisation networks have immensely contributed into the experiment and practice of privatisation.

The free dictionary defines the term "experiment" first as "a test under controlled conditions that is made to demonstrate a known truth, examine the validity of a hypothesis, or determine the efficacy of something previously untried", and second as "the process of conducting such a test; and thirdly as "an innovative act or procedure". For instance, as illustrated by William Ralph Inge[lxxxii] "Democracy is only an experiment in government".

These organisations include the Public Services Privatisation Research Unit (PSPRU), the International Centre for Economic Growth, Asia-Pacific Economic Cooperation (APEC), Asia-Pacific Economic Cooperation (APEC) (ECO)[lxxxiii], Privatisation Network, African Privatisation Network (APN), UNECA, Central & Eastern Europe Privatisation Network (CEEPN), OECD Privatisation Network, Asia-Pacific Privatisation Network (APN), South African Anti-Privatisation Network, etc.

According to David Parker (2004), "the UK's privatisation experiment began from the late 1970s". And according to him, there are "wider lessons that might be learned from the UK's

[20] Chair of the PCS-Public and Commercial Service Union - parliamentary group and convenor of the RMT parliamentary group

privatisation experiment, including the importance of developing competitive markets and, in their absence, effective regulations. However, “The East German experiment of privatisation in a transformation process was historically unique because never before has such a huge economic transformation been undertaken in so short a time, less than five years.”

3.2 Privatisation as a political instrument

Evolving best practices

The Business Dictionary defines “Best practices” as “Methods and techniques that have consistently shown results superior than those achieved with other means, and which are used as benchmarks to strive for. There is, however, no practice that is best for everyone or in every situation, and no best practice remains best for very long as people keep on finding better ways of doing things.”

According to Wikipedia "best practice benchmarking" or "process benchmarking" is a process used in management and particularly strategic management, in which organizations evaluate various aspects of their processes in relation to best practice companies' processes, usually within a peer group defined for the purposes of comparison. This then allows organizations to develop plans on how to make improvements or adapt specific best practices, usually with the aim of increasing some aspect of performance. Benchmarking may be a one-off event, but is often treated as a continuous process in which organizations continually seek to improve their practices.”

Contextual tool

As regards privatisation, “The real test for the privatisation professionals is to take account of both international best practice and local cultural and economic conditions (Price Water House Cooper).” Nonetheless, for many governments privatisation has been a tool targeted at economic growth, market reform and infrastructural development.” In fact, Vito Tanzi (2008)[lxxxiv] reaffirms that “At different periods and in different countries, nationalisation or privatisation policies have been used as instruments to promote government objectives. For many countries, the years after World War II were periods of nationalisation. The 1980s and especially the 1990s, when the so-called Washington Consensus became popular, became periods of privatisation.”

3.2.1 Privatisation and economic growth

Positive impact

Brian Joffe (2007)[lxxxv] is of the view that “Hopefully, our strategic situation will encourage government to give privatisation much greater priority. If sustained economic growth is the cornerstone of official policy then locally focused privatisation is a tool that cannot be ignored.”

“In recent years, there have also been a few attempts to measure the direct impact of privatisation on economic growth in a cross-country context (Plane 1997; Barnett, 2000). These studies have concluded that privatisation has had a sizeable positive effect on economic growth”, says Paul Cook et al. (2001)[lxxxvi].

Microeconomic reform or privatisation

However, Margaret McKenzie[lxxxvii] notes that "Privatisation has been taking place over more than two decades in Australia as it has globally. The macroeconomic consequences of privatisation remain surprisingly under-examined relative to partial or microeconomic aspects." She further notices that "By contrast with a large body of work..., it is not assumed here that the impact of privatisation arises specifically in relation to the role of infrastructure in the economy." She was intending to "distinguish the effects of privatisation from other measures associated with microeconomic reform and from other factors in growth", as "In the case of Australia the rate of privatisations was accelerated with the implementation of the raft of policy measures known as 'microeconomic reform' through the 1990s."

In Australia, microeconomic reforms constituted the bulk of the privatisation policy, in view to "expose to competition those parts of the economy which had been shielded from it, thereby realizing what are assumed to be hitherto unexploited efficiencies." In this perspective, privatisation was assumed to mean "all which includes any measures that directly act to reduce the level of public assets in the economy, whether it be by sale or transfer to private sector, or by reducing public investment." And microeconomic reform was to mean "the deregulation of the financial and labour markets and trade, as well as the development of a 'pro competitive' regulatory framework." She arrives to the conclusion as "The Otto and Voss findings of a positive contribution of public capital to growth" under privatisation programme.

Fight against corruption or privatisation

As regards Nigeria, Abiodun Elijah Obayelu (2007)[lxxxviii] gives "an overview of the Nigeria's recent experience on corruption in the context of economic reform programme." He notes that "corruption stifled economic growth, reduced economic efficiency and development despite the enormous resources in the country. World Bank studies put corruption at over 1 trillion per year, accounting for more than 12% of the GDP of nations like Nigeria, Kenya and Venezuela (Nwabuzor, 2005).

Especially, the major aim of reforms programs in Nigeria is to provide a conducive environment for private investment (African Economic outlook, 2006). He stress that this reform programme has the following key pillars: improved macroeconomic management, reform of the financial sector, institutional reform, privatisation and deregulation, and improvement in the infrastructures (Abiodun, 2007).

Partnership or privatisation

The WTO[lxxxix] reported that "The goal of Qatar's economic policy is to achieve sustainable economic growth in partnership with the private sector. The main objectives of Qatar economic policy are: promote economic growth, increase the economy's resilience and competitiveness, diversify the economy, create the right investment climate, strengthen the private sector and increase its role in the economy."

3.2.2 Privatisation and market reform

Privatisation as driver

Ernest Ndukwe[xc] (2005) poses that "It is often said that countries that are successful – in the telecoms sector - are those that have employed the economic model of market reforms in the telecoms market, it is recognised that the quality and density of the telecom network and the intensity of the use of its services are major indicators of social and economic development. But in most countries, telecoms were established as a monopoly." Nevertheless, he points out two drivers of market reform: Firstly, privatisation with the introduction of private capital and management into telecoms either by sale of the state company, award of new licences to private operators or mobile operators, and secondly, regulation with the establishment of an agency to implement government policies towards promoting and managing competitive markets, as well as protecting consumer interests.

Effects of sequencing

However, Ndukwe advances that "The sequencing of the reform process has not followed any universal definition, as many countries began with privatisation followed by liberalisation (competition) and regulation, while others started with liberalisation, even though in some instances, the sequence and/or starting point has not been by deliberate choice, but rather as a result of peculiar circumstances, e.g. Nigeria." He argued that "C. Fink, et al found that "both privatisation and competition lead to significant improvements in performance, but a comprehensive reform program, involving both policies and the support of an independent regulator produces the largest gains." [xci]

However, S. Wallsten[xcii] (2002) "found that countries that established regulatory authorities prior to privatisation saw increased telecom investment & telephone penetration compared to countries that did not, and that investors paid more for telecom firms in countries that established a regulator prior to privatisation."

On the sequencing of the process, Ndukwe argues that "In our view, since the ultimate goal of market reform is not in dispute, then the peculiarities of each economic environment should dictate the sequencing of the reform process. In Nigeria, for instance, while the unintended delay in privatising the incumbent might have had some negative effects on the outcome of our reform exercise, there has been significant improvement in the telecom sector due largely to fair, firm and forthright regulatory environment."

Environment as a fundamental prerequisite

Ultimately, according to Ndukwe "Perhaps a significant driving force behind the Nigerian success story can be located in a statement by the Nigerian President, Olusegun Obasanjo who said: "We cannot be talking about creating a conducive environment for foreign investments if the performance of our transport, telecommunications and energy sectors remain dismal and epileptic" (July 1999).

3.2.3 Privatisation as a tool for infrastructural development (physical and market)

Social versus physical infrastructures

Ebi (2002)[xciii] asserted that social infrastructure, such as health and education drive the economy, while physical infrastructures, which include telecommunications, power, transport (roads, railways, seaports and airports) and water supply, facilitate economic activities; while lamenting "the decay of infrastructural services in the country, particularly in the rural areas.

He, however, noted with glee the tremendous improvement witnessed in the telecommunications sub-sector; but he stated that a significant supply-gap exists in areas such as electricity, road network and water supply. According to him, poor infrastructure is a major disincentive to foreign direct investment flow in Nigeria."

Vicious circle

It is recalled that in the context of globalisation, the flow of foreign direct investment is the major objective of privatisation policy. Thus, as regards privatisation in connection with the private sector, M. O. Yusuf (2002)[xciv] states that 'infrastructural development' is the starting point of a vicious circle.

According to Yusuf, poor infrastructure is a major disincentive to foreign direct investment flow in Nigeria. He advances the view that "private sector initiatives and infrastructural development in Nigeria are perhaps the single most significant factor impeding the growth of the Nigerian private sector, especially the real sector of the economy."

Infrastructural problem has also constrained the international competitiveness of the Nigerian private sector, having regard to the increasing significance of globalization. Yusuf argues that "these days, competition and competitiveness should no longer be situated in a domestic context, but in a global context."[xcv]

3.3 Instruments of privatisation policy

A privatisation policy requires the implementation of various and multidisciplinary instruments which call for different areas of expertises. These instruments comprise process, legal, fiscal and monetary instruments.

3.3.1 Process instruments

The Board of the Privatisation Commission decides as to what kind of process will be followed. The following are the major steps: Identification, Hiring of a Financial Advisor, Due Diligence, Enacting any Needed Regulatory and Sectoral Reforms, Valuation of Property, Pre-bid and Bid Process, Post-bid Matters. We describe as follows the table process of the privatisation exercise.

Figure 1: A Privatisation Process Flow

Identification	The first step is the identification of the entity or list of entities to be privatised. In a typical transaction, the Privatisation Commission, in consultation with the relevant ministry, submits a Summary of the proposed transaction to its Board. The Summary justifies the need for privatising the property, outlines the likely mode of privatisation, and sometimes seeks guidance on issues relating to such matters as pricing, restructuring, legal considerations, and the regulatory framework. Once endorsed by the Board, it is submitted to the Cabinet or its subcommittee, the Cabinet Committee on Privatisation, for approval.
Hiring of a Financial Advisor	In major transactions, the process to hire a financial advisor is carried out by the transaction manager with the approval of the Board. Terms of reference for the FA are finalised, expressions of interest from prospective FAs are solicited, an evaluation team is constituted, and short listed firms are invited to submit technical and financial proposals in a common format. The evaluation team scores the technical proposals and the highest ranked firm based on both technical and financial scores is invited for contract negotiations and signing. In November 2001, the Board approved regulations for hiring a financial advisor in order to make more transparent the procedures that were largely being followed over the last decade Hiring of Financial Advisor Regulations 2001

Due Diligence	The next step is to carry out the legal, technical, and financial due diligence. This is aimed at identifying any legal encumbrances, evaluating the condition of the assets, and examining the accounts of the company in order to place a value on the company. For most industrial units and some small transactions, this is done using in-house transaction managers and staff, or by sub-contracting out part of the work to a domestic legal, technical, or accounting firm. However, for major privatisations in banking, infrastructure, or utilities, the FA carries out this function. Following due diligence, the FA finalises the privatisation plan. This may include recommendations on any needed restructuring, in addition to specifying the amount of shares or assets to be privatised. For major privatisations or when the proposed privatisation mode is different from the initial plan, the plan is then submitted to the Board, the CCOP, or the full Cabinet for approval.
Enacting any Needed Regulatory and Sectoral Reforms	For many major transactions, the ability to privatise and the amount of proceeds realisable depend critically on the level of regulated prices for the public enterprise's inputs or outputs and other sectoral or regulatory policies. For many monopolies or quasi-monopolies, the "rules of the game" specifying the competition framework post-privatisation, the manner and type of regulation, and the institutions regulating them are key to investor interest. In addition to rules determining prices or tariffs, there may be rules determining standards, penalties for non-compliance, the extent, form and timing of any proposed deregulation, and the evolving structure of the market following liberalisation. Clarification of these rules and passage of needed laws and regulations will often be necessary before taking the transaction to market
Valuation of Property	In order to obtain an independent assessment of the value of the property being privatised, the Commission relies primarily on external firms. The Financial Advisor, where there is one, carries out the valuation to obtain a "reference price" for the property. In other cases, the Commission contracts with an external valuation firm or accounting firm as specified in the rules on the valuation of property, which can be obtained from the PC website. The methods used for the valuation vary with the type of business and often more than one method is used in determining the value. These include the discounted cash flow method, asset valuation at book or market value, and stock market valuation. Despite using scientific methods, valuation remains more an art than a science. The true value is dependent on many difficult to quantify variables such as country risk, corporate psychology and strategy, and perceptions of future macroeconomic performance. Only the market can determine the true value. Therefore it is important to focus on designing appropriate transaction structures, on advertising in relevant media, in choosing and implementing appropriate pre-qualification criteria for bidders, and in following an appropriate bidding process to obtain a fair price for the privatisation.
Pre-bid and Bid Process	Expressions of Interest (EOI) are invited by advertising in the relevant media. The PC Ordinance 2000 spells out some of the advertising procedures. Depending on the kind of transaction, the EOI describes the broad qualifications that potential bidders must possess. Those submitting an EOI and meeting the broad qualifications are provided with the Request for Proposals (RFP) package containing the detailed pre-qualification criteria, instructions to bidders, draft sale agreement, and other relevant documents. Interested parties then submit a Statement of Qualifications (SOQ), which is evaluated to determine whether an interested party meets the requisite qualifications. Pre-qualified bidders are then given a specified period to conduct their own due diligence, following which they are invited to a pre-bid conference where their questions and concerns can be addressed. The meeting is useful in determining the bidding procedure to be followed (for example, open auction, sealed bids, or some combination) and could even determine the proportion of shares that the Government may want to offload. The bidding itself is done openly, with all bidders and media invited.

Post-bid Matters	Following bidding and identification of the highest bidder, the Board of the PC makes a recommendation to the CCOP as to whether or not to accept the bid. The reference price is a major determinant in the recommendation, although the Board may recommend the sale even if the offer price is below the reference price. Once the bid price and bidder are approved, the PC issues a letter of acceptance or a letter of intent to the successful bidder, indicating the terms and conditions of the sale. Following negotiations with the bidder, the PC then finalises the sale purchase agreement, collects the sale proceeds, and transfers the property. Under PC's current policy, privatisation proceeds are required to be paid upfront rather than over time, as had been the case for many earlier transactions. Within 30 days of the sale, the PC is required to publish the summary details of the transaction in the official gazette. Three transactions, namely LPG business of SSGC, LPG business of SNGPL and divestment of shares of MCB, were published in the gazette in 2001.

Source: Privatisation Commission, Pakistan, Annual Report 2006

The privatisation process, which is aimed at selling government property in an open and transparent way with a view to obtaining the best possible price, varies somewhat depending on the nature of the asset being privatised, on the proportion of shares being offered for privatisation, and on whether a transfer of management is involved.

Government contracting

In Belgium, as exposed by EIRO (European Industrial Relations Observatory), "The system of management contracts for former public enterprises has been in force since the law of 21 March 1991, which replaced the former, strongly paternalistic law of 16 March 1954 regarding state guardianship. The autonomous public enterprises are now managed by a management committee and a board of directors and no longer, as was previously the case in fact, by the Minister responsible for that function, via delegation in practice to a senior civil servant."

In Angola, the Angolan Privatisation Agency (2008) reported as follows that "The 2nd stage of this process was based on the privatisations program, indicative for 2001-2005 approved by the act n° 74/01 of 12th October, to be carried out under the act n° 10/94 – Privatisations law. The balance obtained from this quinquenium was the following: a) 17 companies were privatized and they are under management contract and /or exploration cession 12 of 88 companies established for this program, b) From the privatisation program for 2001.2005 the Angolan state made an amount of 22,8 million dollars and had 150-200 million dollars as additional investment."

Kate Bayliss[xcvi] (2002) notes that "In most water supply contracts in Sub-Saharan Africa, the government retains responsibility for ownership and capital investment while the investor is responsible for operation and management of the water supply." The following table gives an account of water sector privatisations in sub-Saharan Africa in 2002.

Figure 2: Water Sector Privatisation in SSA between 1960 and 2002

Date	Country	Contract duration and type	Lead Company
2002	Congo (Brazzaville)	Contract awarded but details not known	Biwater
2002	Uganda	2 year management contract	Suez – Ondeo
2001	Burkina Faso	5 year management contract	Vivendi
2001	Niger	10 year renewable contract for water and electricity supply	Vivendi
2001	South Africa	5 year management contract	Suez
2000	Chad	30 year concession (management contract initially)	Vivendi
2000	Mali	20 year lease	Saur
1999	Cape Verde	50 year lease	Aguas de Portugal / EdP
1999	Mozambique	Maputo and Motola; 15 years; Other 3 cities: 5 years	Aguas de Portugal
1999	South Africa (Nelspruit)	30 year lease	Biwater / NUON
1999	South Africa (Dolphin Coast)	30 year lease	Saur
1997	Gabon	20 year concession	Vivendi
1996	Senegal	10 year lease	Saur
1993	South Africa (Stutterheim)	10 year lease	Suez
1992	South Africa (Queenstown)	25 year lease	Suez
1991	Central African Republic	15 year lease contract	Saur
1989	Guinea	10 year lease	Saur
1960	Cote d'Ivoire	Contract started in 1960. In 1987 was renegotiated for 20 years	Saur

Source: Public Services International Research Unit (PSIRU)

Kate comments this table and advances that there were "some 18 ongoing water contracts in SSA towards the end of 2002 ... Of these, three are management contracts ranging from two to five years. These were all awarded in the past two years. The longer term concession contracts run for up to 50 years. Twelve of the contracts were awarded in the past five years suggesting that the pace of privatisation is increasing. ... Guinea is the only contract which has actually run its course. Other contracts have been terminated as we will see later but the Guinea contract was for 10 years and so ran out in 1999. Although it has been renewed on an annual basis, the government is reluctant to award the concessionaire, Saur, a new long term lease. So-called Francophone countries have been privatising more than the rest of SSA – possibly because of links with France where most of the world's private water operators originate."

On the content of utility management contracts, Dr. Hans Dieter Hermes (2005)[xcvii] says that "The major objective of the five years Management contract for the Rwandan Water and Electric Power Utility ELECTROGAZ is to achieve on the long run, significant reduction in technical and commercial losses, Extensive improvements in operational efficiency, Increase access of the population to water and power services, Financial self-sufficiency of ELECTROGAZ." He adjudges that the tasks under this management contract focus on "Operational Improvement Plan, Commercial Improvement Plan, Tariff Policy Development Plan, Technical Improvement (Power, Water), Training Program and Staff Development, Financial Improvement Plan.

On the goal and sequencing of management contract, Syed Anwar-ul-Hasan Bokhari[xcviii] (1998) explains that "The nationalisation policy of the early 70s increased the size of the public sector to an unmanageable extent. The nationalisation process also failed to deliver what was expected from it. In July 1977, the new government introduced the policies of denationalisation, disinvestment and decentralisation to restore the confidence of private investors. As a part of these policies, the government announced denationalisation of around 2000 Agro-based industries, in September, 1977. Apart from that, the government offered a number of SOEs on Management Contract and introduced performance signalling system, in order to improve their performance and bring efficiency in operation and management."

However, due to uncertainty factors, management contracts are risky. In this regards, Charles Kazooba (2009) poses that in Uganda for instance, "In the course of implementing the joint venture agreement between Tahar and Kampala, a disagreement arose between the board of directors of Nile Hotel International/ Privatisation Unit and the new management, which resulted into the termination of the management contract in April 1997 and the joint venture agreement in May 1997."

Mass participation schemes

Neil MacDermott[xcix] declares that "Apart from the need for economic efficiency, widespread privatisation is important because the concept of private ownership is consistent with a democratic state." He adds that "The literature outlines the various routes towards privatisation: (a) public share issues, (b) mass privatisation through a voucher scheme, and (c) employee buy-outs." He further explains that "The lack of such clarity with respect to large state-owned enterprises, coupled with the insiders' veto, and the large scale restructuring that is necessary, has stymied the process. In response, the government has established a voucher-based mass privatisation programme for medium and large enterprises"

However, the OECD[c] Advisory Group on Privatisation concludes in its submission for the thirteenth plenary session said that "The non-traditional approaches, such as mass privatisation schemes did not yield the expected results in terms of market development. Privatisation funds and other market intermediaries did not develop to become effective players in an emerging primary market."

Prof. Radoslav TZONCHEV (1998)[ci], emphasises this view and says that "the practice established on the Bulgarian capital market is a reflection of the acting laws and regulations being characterised with a number of imperfections and incompleteness just like the accepted model of mass privatisation at the initial stage of the emerging and the functioning of the regulated capital market in Bulgaria." He reaffirms this position when he says that "Something specific of the Bulgarian privatisation model which combines the cash and mass privatisation, is also its implementation under complete economic ruin and financial collapse, which have given rise to the exceptional mistrust and restraint on the side of the potential investors."

Share floatation

David Parker[cii] (1998) writes that as regards privatisation in the UK, a wide range of methods of sale have been used, "the most important have been, share flotation, direct sale, management buy-outs and management buy outs. Principally two methods of share flotation have been used in the UK, and sometimes combinations of both approaches have been undertaken." UNCTAD (1995) reports that "Public share offerings have been specifically used to sell profitable, large scale enterprises. Often the share offer is used as a means to raise additional capital, as well as transferring ownership of the enterprise."

According to Thomas O'Malley (1998)[ciii], "In the UK, a lot of things have gone right – falling prices have been secured alongside a transformation of public service culture. Losses have been turned into profits and share ownership has been widely extended." Furthermore, "The number of shareholders had risen from 3 million in 1979 to 10 million by the end of 1996 - almost one in four adults – with some flotation many times over-subscribed. Privatisation has delivered lower prices for utility customers, and British Telecom's call charges are down by 59 per cent in real terms; the real cost of domestic gas has fallen by at least 32 per cent; and domestic electricity charges have been cut by 18 per cent in real terms."

On the rationale of share flotation, Thomas reveals that "A key objective of privatisation in the UK was to spread ownership of the nation's once great industries in a truly meaningful fashion. In almost all cases, great importance was attached to giving employees the opportunity to hold a stake in their own company. With the larger privatisations, mass popular ownership was achieved through the public flotation of shares in the companies. With smaller companies, management and employee buy-out schemes were usually favoured." And, "The first large increases in the number of shareholders were achieved through heavily promoted flotation of shares in utility and other nationalised companies."

Martin Ricketts[civ] (2003) compares 'share flotation' and 'mass privatisation'; to that effect, he says "If assets are publicly owned, it might reasonably be asked why privatisation should necessarily proceed by share flotation or private sale. Since the people already implicitly own the assets in an efficient collective form, all that is acquired, it might be argued, is to make their rights tradable." He adds that "in mixed economies, a number of considerations seem to have prevented the use of vouchers" as it could be argued that, "where assets had not been confiscated in a revolution, but acquired by the public sector and the owners compensated, the public debt issues at the time should be redeemed when the process is reversed at privatisation."

Dick Welch and Olivier Frémond[21] (1998) advise that "measures to broaden share ownership-including targeting groups of investors, selling in both domestic and foreign markets, and

[21] See World Bank Technical paper no. 403: The case-by-case approach to privatisation, Techniques and examples, 1998

offering shares in small denominations (so that more people can afford them)—can increase market capitalization, and thus ensure adequate prices for share offers. Governments should also consider whether they want their public share flotation to be under-written that is, whether to have the sales agents assume the risk of sale. Underwritten sales are more expensive but are less risky for government." They argue that "The $4.8 billion share flotation offered domestically and abroad, was nearly nine times oversubscribed. Up to 10 percent of the offered shares (301 million) were reserved for British Telecom employees and pensioners. The government allowed 2,000 U.K. institutional investors to apply for 2.6 billion shares on a priority basis together with the general public. The remaining 415 million shares were allocated to buyers in Canada, Japan, and the United States." They add that "Public offerings offer an opportunity for managers and employees to buy stock in their enterprise. An employee share ownership plan can provide shares and often share financing for employees. A recent analysis of European flotations found that these plans account for 3-5 percent of the shares sold in initial public offerings."

They further warn that "Pricing and distribution are two of the hardest issues to manage in a share flotation. The government may want to maximize price; brokers may want a lower price to make the issue easier to sell. Moreover, the government may want a wide retail distribution of shares for policy and political reasons; brokers may find it more efficient to sell to institutional investors. The government and its brokers should agree early in the sales process on how pricing will be managed. Because pricing is usually set late in the sale—after book building or other sales processes have been completed and the sale of shares is about to begin—officials must be able to react quickly and obtain senior approval. Meanwhile, the financial advisers or sales agents must be able to provide the government with the trade-off costs of changes to the sales structure (for example, if the government wants to increase the share of retail shares or sell more shares domestically)."

Management and/or employees Buy-Outs and/or Buy-Ins

According to G. Ganesh[cv] (1999), “over 400 management/employees buy-outs have been completed in the UK. In 1982, 8 privatisations transactions out of 127 were buy-outs of this kind. This amounted to 4.1% in number but 18.5% in value. In 1991, 10 out of 444 privatisations were management buy-outs 2.3% by number and 7% by value. These exclude buy-ins and buy-outs of overseas subsidiaries of UK companies.”

He explains that “A worker buy out occurs when an established firm (or facility of an established firm) is sold to the employees for the specific purpose of maintaining the jobs of those employees. The strategy is appropriate to the cases in which the community threat is the potential closure of a firm or facility. Two types of structures can be used for a worker buy-out. One is the employee stock ownership plan, by which workers may buy different amounts of the company shares; and the other is the general format of the worker cooperative in which each worker buys equal shares (Tools and Techniques).”

Steve Martins[22] explains that “there are two important definitions for buy-in in the business sense. One related to the personal aspects of commitment and the other financial. Personal buy-in is the acceptance of and commitment to a specific concept or course of action.”He notes that “We hear the term used often in the context of people agreeing to accept something and provide their support. Trying to get something done through or with others without their "buy-in" can be very difficult. Good leaders and managers know how to obtain buy-in from their stakeholders. A financial buy-in is a payment made to join a business such as a partnership. A new partner makes a buy-in payment as a contribution of capital to the

[22] Author of Instant Profits: Making Your Business Pay

business to achieve parity with other partners of equal status. A management buy-in is a variation of the management buy-out. In this case the management are coming from the outside and buying in."

On a practical note, as Jeffrey B. Sansweet ,Esq (2002) would put it "Structuring the buy-in is usually the most important part of the partnership arrangement. Most practices still require a buy-in that includes "goodwill." In order to minimize the tax burden on the junior partner, the stock price is typically tied to the value of the tangible assets (equipment, furniture, fixtures) less practice debt. The tangible assets may be appraised to derive a fair market value, but more often, a modified book value approach is used. This means valuing the assets using straight-line depreciation over 10 or 15 years, perhaps with a floor of 10-20 percent of cost. Pure book value may result in little or no value if a lot of the assets are more than five years old."

As regards Nigeria, Etukubo[23] (2000) asserts that "While it is the declared policy of government to encourage employee ownership of enterprises, only one enterprise so far has been privatized through management and employee buy-out -- the purchase of the National Cargo Handling Company Limited by the managers and employees. However, there is a precedent of such a buy-out in the private sector, this time by the managers only. The company is Lintas Nigeria, an advertising company. "

In Russia, according to Prof. Ram Kumar Mishra[24], "Three main models of privatisation have been adopted in Russia in line with practices existing in transitional economies: Mass Privatisation (MP), Insider's Model (MEBO – Management and Employees Buy Out), and

[23] ILO-Interdepartmental Action Programme on Privatisation, Restructuring and Economic Democracy Working Paper IPPRED-5
[24] Centro Argentino de Estudios Internacionales

Initial Majority Shareholdings (IMS).” He however, noted that “The most common method of small scale privatisation in commerce and public catering was a lease with a buy out right.”

Nevertheless, according to Mike Wright et al.[25] “there has been in Russia a growing debate about the ethics of management buy-outs (MBOs). One possible criticism of the MBO is that it serves the interests of incumbent management at the expense of shareholders.” They intended to “develop the general arguments concerning the ethical aspects of the MBO to include other forms of buy-out beyond going private, and apply their analysis to MBOs as a mode of privatisation in Central and Eastern Europe (CEE).”They explain that MBOs are justified in the context of postperestroika as a means of incentivising economic activity by giving managers an ownership stake in former state enterprises. The actual mode of privatisation, though, raises issues of social justice and the criticism that MBOs are at the expense of the broader social good. The ethical problem for the Central and Eastern Europe is to balance the economic gains of a move to markets with the ethical risks to the agents of these markets.”

3.3.2 Legal instruments

Qafirarnault[cvi] refer to the experiences in Albania and states that “The legal framework that served as the basis for creating, issuing, printing, distributing and using privatisation vouchers has undergone several modifications and reformations in time so as to adapt to the privatisation needs and outcomes of particular periods.”

[25] School of Management and Finance, The University of Nottingham, NG7 2RD University Park, Nottingham, United Kingdom

Legal clustering

He explains that "In 1998, the Albanian legislator enacted two laws that formed the new legal basis for the privatisation strategy: (i) law 8306, dated March 14 1998, on the strategy for the privatisation of the strategic sector, later amended; and (ii) law 8334, dated April 23 1998, on the strategy for the privatisation of a subject operating in the non-strategic sector, later amended."

Legal tendering

However, as a demonstration of the fact that privatisation requires the need for an adequate legal framework, Qafirarnault advances that " none of these laws set out in a clear and definitive way the actual use of privatisation vouchers... This legal gap has resulted in a fractional use of the vouchers in succeeding privatisations."

Regulatory power

More especially, Yotopoulos (1989) stresses on the relevancy of a sound legal framework to assert that "(privatisation) is not sufficient because privatisation in and of itself, in the absence of an adequate regulatory and legal framework, can cause loss of welfare, as the Chilean privatisation experience in the 1970s painfully demonstrated".

Corporate power

Jose Alfredo Sabatino, on his part, is of the opinion that "no matter what the degree of deregulation introduced is, the most important issue is the adoption of a legal framework that permits a port to behave as a really commercial entity”, arguing that “the adoption of flexible legislation and the revision of the legal rules having incidence on the port activity, are the most immediate way leading to the effective commercialization of ports.”

Labour law

In support to these views, Dr. Susana Corradetti (1999)[cvii] explains that “One of the legal instruments which determined the unions' position in the face of the privatisation of the public enterprises was the regulating standard respecting the constitutional right to strike, specifically in the public services. This standard, invoking the need to protect service users, severely restricts the available means of direct action. Workers found themselves obliged to maintain minimum services as well as facing other constraints which, in the event of non-compliance, could lead to dismissal.”

Rule of law

Karla Hoff[cviii] (2002) declares that “While it is of course true that some legal framework will follow mass privatisation, we argue that the framework is not necessarily the rule of law.” She insists that the rule of law shall be determined by “The manner how privatisation influences the constituency for a beneficial legal regime.”

3.3.3 Fiscal instruments

ESCAP[cix] reports that “recent empirical research on the impact of privatisation as regards financial and operating performance, labour, fiscal balances and distributional equity largely confirms the view that privatisation can be beneficial for firms operating in a competitive market structure in middle-income countries." But, the report further argues that "while it is difficult to quantify the fiscal and distributional impact of privatisation, the evidence points to increased efficiency with only modest reductions in labour. But there are important caveats."

Taxes, interests

Jacek Tomkiewicz (2004)[cx] acknowledges that "the propensity of enterprises to invest and their preferences for specific types of investment can be shaped using the following fiscal instruments: income tax rates; indirect tax rates; public finance deficit level and its impact on market interest rates; investment benefits and incentives; regulations concerning depreciation allowances; subsidized interest payments on investment loans; co-financing of investments from public funds."

Public aid, pension systems

He insists that "All these instruments must be used in ways that respect the principles of equal treatment of economic entities. Caution is especially indicated in cases involving public aid, that is, the use of public funds to support private entities."

Vito even explains that "Large pension liabilities (or hidden pension debts) have been the main reasons why, in recent years, several countries around the world introduced some version of the pension model first introduced in Chile in 1981 that privatises all or part of the pension systems."

3.3.4 Monetary instruments

Special privatisation accounts and export earnings stabilisation funds

Dubravko Mihaljek[cxi] asserts that "experience has shown that the privatisation-related inflows and large swings in export earnings are different due to their relative size and their political economy implications. Because of these features, standard monetary tools to deal with capital inflows may have to be supplemented by unconventional policy tools such as special privatisation accounts and export earnings stabilisation funds."

He argues that "In the early and mid-1990s, privatisation proceeds for a group of 20 large emerging market economies were on average 1¾% of GDP a year during the active privatisation period (which on average lasted five years), and the standard deviation of the ratio of privatisation proceeds to GDP was on average half a percentage point.3 This is considerably higher than in the case of privatisation in industrial economies such as the United Kingdom and France. Moreover, about 40% of privatisation receipts in the emerging economies between 1990 and 1998 were paid in foreign exchange. This proportion has increased significantly in the period since 1998, as many commercial banks and non-bank financial institutions in emerging markets have been acquired by strategic foreign investors."

Foreign exchange

He also asserts that "The macroeconomic consequences of foreign exchange inflows are in many ways similar to those of other capital inflows: inflationary pressures, real exchange rate appreciation and possibly widening current account deficits.

Interest rates and inflationary pressures

Jirí Böhm[cxii] et al. Affirms that "Transition economies which have achieved macroeconomic stability, and liberalised capital flows and financial markets, have usually faced increased inflows of FDI (as they transform from extensive state ownership to private ownership), and to a lesser extent debt capital (as their nominal interest rates are higher than in the advanced economies)."

These inflows pose a dilemma as he further explains that "On the one hand, they enable faster development and integration with the advanced economies. On the other hand, they lead to strong appreciation pressures which, while contributing to disinflation pressures in the short run, may lead to a loss of competitiveness, growing external imbalance and, ultimately, depreciation and higher inflation."

Conclusion

Through practice, the learning of privatisation takes place by experiments which account for cases of failures and also for examples of best practices. In these experiments, privatisation plays different roles as political instrument but also as a policy on itself.

As a political instrument, best practices of privatisation are not static and they do evolve and compel privatisation professionals to take account of both international best practice and changing local cultural and economic conditions. Although, some positive impacts on economic growth are deemed attributable to privatisation under some experiments, there is still the need to clarify whether this positive assessment of privatisation does not owe to concomitantly implemented microeconomic reform, fight against corruption or public private partnership arrangements.

In addition, privatisation is acknowledged to be a driver of market reform. Nevertheless, the outcomes of such reforms depend on the business environment, but also on the sequencing of the reform process which is not bound to any universal definition. Whether targeted at social or physical infrastructures privatisation might not record the same impact on economic growth because of the physical infrastructures have more positive impact on the business environment which in return stimulates the social sector.

As a specific policy, privatisation has its own dedicated instruments. These are indeed: process, legal, fiscal and monetary instruments.

Process instruments include management contracts, mass privatisation schemes, share flotation plans, management and/or employees buy-outs and/or buy-in plans. The legal instruments applicable in the frame of a privatisation programme involve legal clustering and legal tendering instruments, the definition of regulatory and corporate powers in conformity with existing constitutional provisions, as well as an adequate labour law to engage unions in accordance with the rule of law.

The identified fiscal instruments of privatisation relate to tax systems, interest rates' governing guidelines, the pensions schemes and policies, the applicable regulations regarding foreign debt and foreign investment flows. Specific monetary instruments of privatisation may include special privatisation accounts and export earning stabilisation funds, a foreign exchange policy as well as an inflation management framework.

Chapter 4: Empirical studies and theories of privatisation

4.1 Introduction

Fran M. Collyer[cxiii] (2003) observes that "In the last two decades of the twentieth century many governments across the world have displayed an unprecedented attraction toward policies which encourage and allow the marketisation of the public sector and the privatisation of public assets and services."

He notes that "While the financial and social impact of this policy shift has been empirically documented, theoretical development regarding possible underlying causal processes remains in its infancy." In the section 4.1 of this fourth chapter of our dissertation we shall examine some available empirical studies and in section 4.2 we shall present some theoretical works on privatisation. In section 4.3, we shall dwell on the case study of the Nigerian privatisation programme.

4.2 Empirical studies

William L. Megginson[cxiv] and Jeffry M. Netter[cxv] surveyed a set of empirical studies which they presented in their book titled "From State to Market: A Survey of Empirical Studies on Privatisation" published in 2001 in the Journal of economic Literature. Their work which was supported by the SBF Bourse de Paris and the New York Stock Exchange is a masterpiece towards answering key questions pertaining to the domain of privatisation.

This section 4.1 dealing empirical studies is made of four sub sections treating of empirical studies "on ownership structure", "comparing pre and post-privatisation stages", "privatisation in transitional economies" and "privatisation in non transitional economies".

4.2.1 Empirical studies on ownership structure, intervention modalities

Various studies were undertaken in relation with this heading by Boardman and Vining (1989), Vining and Boardman (1992), Pinto, Belka and Krajewski (1993), Ehrlich, Gallais-Hamonno, Liu and Lutter (1994), Majumdar (1996), Kole and Mulherin (1997), Dewenter and Malatesta (2000), LaPorta, Lopez-de-Silanes, Shleifer (2000a), Tian (2000), Karpoff (2000), etc.

Efficiency of private over public and mixed enterprises

Boardman and Vining (1989) examined the economic performance of the five hundred largest non-US firms in 1983. They categorised firms based on their respective ownership structure using the criteria of state-owned, privately owned, or mixed ownership enterprises. They found that "state-owned and mixed ownership firms are significantly less profitable and productive than privately-owned companies. But also, as rhetoric to their conclusion, they found that "mixed ownership firms are no more profitable than pure state-owned companies, thus proclaimed relative efficiency of full private ownership over the two forms of ownership structures".

Under some other circumstances and conjectures, governments have faced the dilemma of whether to enforce a system of public ownership of banks. As illustrated by LaPorta, Lopez-de-Silanes, Shleifer (2000a), using data from 92 countries in order to examine whether government ownership of banks impacts level of financial system development, rate of economic growth, and growth rate of productivity, they found that government ownership is extensive, especially in poorest countries, that these holdings retard financial system development, and restrict economic growth rates, mostly due to impact on productivity. One of the issues oftentimes debated upon is the effects of competition on long-run productivity.

Public sector responds to efficiency drives

In India, industry-level analysis has been conducted by Majumdar (1996) using industry-level survey data. He evaluated the performance differences between state owned enterprises, mixed enterprises, and privately-owned Indian companies for the period 1973-1989. The state owned and mixed enterprises accounted for 37% of employment and 66% of capital investment in 1989. Privately-owned firms scored an average document efficiency of 0.975 for, which are significantly higher than the average 0.912 for mixed enterprises and 0.638 for state owned enterprises. However, he found that state sector efficiency improves during concerted "efficiency drives" but declines afterwards.

Independent effect of ownership structure and effect of competition

However it is of knowledge that the effect of "ownership structure" alone as the determinant of efficiency has always been questioned in front of arguments pushed forward by advocates of "competition". Therefore by asking whether ownership matters in determining efficiency of SOE, Vining and Boardman (1992) were keen to investigate this issue. They alternatively opposed to ownership "the degree of competition". In order to catch the most relevant answer they use an “estimate performance model using 1986 data from five hundred largest non-financial Canadian companies, including twelve and ninety three mixed enterprises. They came to the conclusion, “after controlling for size, market share and other factors”, that private firms are significantly more profitable and efficient than mixed enterprises and state owned enterprises, “though now find that mixed enterprises out-perform state owned enterprises, thus, concluded that “ownership has an effect separable from competition alone.”

At this juncture, one could have concluded on the fact “Ownership, as an internal corporate determinant and Competition as an external regulatory determinant of privatisation, independently concur to determine firms’ performance. But, the logical question to be as asked now relates to the impact of privatisation itself, as a policy implementation process.

Reforms as alternative to privatisation

In this vein, Pinto, Belka and Krajewski (1993) have tested whether privatisation is required to improve performance of state owned enterprises. They examined “how Polish state sector responded in the three years following the “Big Bang” reforms of January 1990.” During that era, “prices were liberalized, fiscal & monetary policy was tightened and competition was introduced, but privatisation itself was not implemented. They noticed “significant performance improvement due to macroeconomic stabilization package, even without privatisation.” Improvements mostly were due to imposition of hard budget constraints, tight bank lending policies, and enhanced credibility about government’s “no bailout” pledge.” The consequential morale of this experience suggests that privatisation of state owned enterprises, as an arrangement of ownership and competition drives, could find alternatives in government fiscal and monetary policies.

Privatisation boosts performances

In some cases, privatisation as a mode of intervention has been envisaged under various modalities with or without government's shareholding. In China, Tian (2000) has studied the relation between state shareholding and corporate performance of 825 publicly-traded Chinese companies in 1998". The target population was made of 413 with some government ownership, 412 with none. He found performance of "private" enterprises to be significantly superior to that of "mixed" enterprises. He also found that corporate value generally declined with state ownership, but then increases after state share passes 45%.

Efficiency of private funding over public interventionism

Nevertheless, governments have had other direct intervention strategies targeted at state owned enterprises. These strategies experienced in the past include government capital funding initiatives. On the possible outcome of this strategies, Karpoff (2000) has examined thirty five government financed and fifty seven privately funded expeditions to the Arctic from 1819-1909. He actually found that "the private expeditions performed better using several measures of performance; more major discoveries were made by private expeditions, while most tragedies occurred on the government sponsored expeditions. The results are robust in regressions explaining expedition outcomes."

Public take-overs can ensure productivity

Other forms of interventions have occurred in the past, such as government led wars under which various mobilisation strategies were applied with diverse post-war implications. For instance, Kole and Mulherin (1997) tested whether post-war performance of seventeen firms partly owned by US government due to seizure of "enemy" property during WWII differs significantly from performance of private US firms. Interestingly, he found that "Though these firms experienced abnormally high turnover among boards of directors, tenure of managers is stable, and SOE performance is not significantly different from privately-owned firms." What lesson can we draw at this juncture and particularly from this experience? The modality of government intervention is hereby put to question as regard productivity which was the main focus and oftentimes the rationale (rather than profitability) for violent and controversial takeovers and forceful nationalisation in several countries during wars. The finding of Kole and Mulherin (1997) suggests that those governments could have maintained without prejudice a socio-economical "status quo" in terms of ownership in those enterprises.

Public ownership not affected by competition

In this regards, for instance, Ehrlich, Gallais-Hamonno, Liu and Lutter (1994) have examined the impact of state ownership on the long-run rate of productivity growth and/or cost decline for 23 international airlines over the period 1973-1983. The conclude that the "Ownership effects" are not affected by the degree of competition, as they even found that "state ownership can lower the long-run annual rate of productivity growth by 1.6-2.0% and the rate of unit cost decline by 1.7-1.9%, in a competitive sector such as airline industry.

Private firms more profitable and less labour intensive than public firms

As regards profitability, labour intensity, and debt levels of SOEs, Dewenter and Malatesta (2000) "Tested whether profitability, labour intensity, and debt levels of SOEs in the lists of the 500 largest non-US firms during 1975, 1985, and 1995 differs from privately-owned firms in the same lists. "After controlling business cycles," they found that private firms are significantly (often dramatically) more profitable than SOEs, and that "Private firms also have significantly less debt and less labour intensive production processes."

Conclusion

The studies have proved that public ownership is not affected by competition, therefore the enforcement of a competitive environment has to be supported by a change in ownership structure of state owned enterprises in order to boosts their capacity to compete. Also, where efficiency drives such as fiscal and monetary reforms are enforced, public ownership is able to respond favourably to stimulus and become efficient.

In the light of various empirical studies, private ownership proved more efficient than public and mixed ones, with however "mixed ownership firms not more profitable than pure state-owned companies. This result suggests that a full privatisation is preferable to partial privatisation when efficiency is pursued.

On the choice between ownership restructuring and enforcement of competition it is important to note that these two drives bear independent and complementary effects and that fiscal and monetary reforms could stand as alternative to privatisation which irremediably boosts corporate performances.

Nonetheless private funding has proved to be more efficient than public interventions in state owned enterprises, although public take-overs can also ensure productivity in lieu of profitability. However, private firms are more profitable and less labour intensive than public firms.

4.2.2 Empirical studies comparing pre and post-privatisation stages

Case studies pertaining to privatisation process flourish in the literature as highlighted by the works of Galal, Jones, Tandon, and Vogelsang (1994), Martin & Parker (1995), Ramamurti (1996), Boles de Boer and Evans (1996), Petrazzini and Clark (1996), Ramamurti (1997), Eckel, Eckel, and Singal (1997), Newberry and Pollitt (1997), Ros (1999), La Porta and López-de-Silanes (1999), Wallsten (2000a), Laurin and Bozec (2000), Boylaud and Nicoletti (2000), etc. As a process, privatisation processes have been captured and analysed through pre and post-privatisation status of privatised companies. These studies attempt to answer question pertaining the effectiveness of the privatisation process.

Welfare gains and cost reduction effects

Galal, Jones, Tandon, and Vogelsang (1994) have studied the impact of privatisation on staff welfare. They compared the actual post-privatisation performance of twelve large firms (mostly airlines and regulated utilities) in Britain, Chile, Malaysia, and Mexico to their predicted performance under the assumption that these firms had remained state owned enterprises. They computed the net welfare gains in eleven of these cases which equal on average 26% of the firms' pre-divestiture sales. They found that there was no case where workers' welfare was eroded and 3 cases where workers' welfare improved significantly in post–privatisation stage compared to pre-privatisation one.

Efficiency in terms of cost-benefit was analysed by Newberry and Pollitt (1997) who performed a cost-benefit analysis of the 1990 restructuring and privatisation of the Central Electricity Generating Board (CEGB). They compared the actual performance of the privatized firms to a counterfactual assuming CEGB had remained state-owned. The restructuring/privatisation of CEGB was "worth it," in that there is a permanent cost reduction of 5 percent per year. The producers and shareholders capture all this benefit and more while consumers and the government loosed. However, their findings also showed that alternative fuel purchases involve unnecessarily high costs and wealth flows out of the country.

Anticipated effect of privatisation announcement

On their part, Martin & Parker (1995) examined whether 11 British firms privatized during 1981-88 improved performance after divestment. To this effect, they used the Return On Revenue (ROR) on capital employed and annual growth in value-added per employee-hour. They achieved a mixed result highlighting outright performance improvements after privatisation in less than half of firm-measures studied. They rather discovered that a number of these firms improved prior to divestiture, as an indication of internal adjustment effect upon privatisation announcement.

Positive structural factors of privatisation

The same concerns were shared by La Porta and López-de-Silanes (1999) who tested whether performance of 218 SOEs privatized through June 1992 improved after divestment. They did compare performance with industry-matched firms, and splited improvements documented between industry and firm-specific influences. The output of privatized firms increased 54.3%, while employment declined by half (though wages for remaining workers increased). The firms achieved a 24% point increase in operating profitability, eliminating need for subsidies equal to 12.7% of GDP. In this case, higher product prices explain 5% of improvement; transfers from laid-off workers, 31%, and incentive related productivity gains account for remaining 64%.

Market drivers of privatisation impacts

Overtime market deregulation has constituted an alternative to privatisation. Boles de Boer and Evans (1996) have estimated the impact of the 1987 deregulation, and 1990 privatisation, of Telecom New Zealand on the price and quality of telephone services. They also examined whether investors benefited from market deregulation. To this effect, the documented significant declines in price of phone services, due mostly to productivity growth that cut costs at a 5.6% annual rate, and significant improvement in service levels. They concluded on shareholders' significant benefit, highlighting the positive effect of deregulation on market of goods and services with a significant chain effect on the capital market.

Privatisation determines shares market competition

Stock has always been an incentive for privatisation, and thus the evolution of stock prices has remained a key indicator of the success of privatisation. On this basis, Eckel, Eckel, and Singal (1997) have examined the effect of British Airways' privatisation on the stock prices of competitors. They also tested whether fares on competitive routes decline after privatisation with such findings suggesting a more competitive BA resulting from privatisation. And actually, stock prices of US competitors decline on average by 7 percent upon BA's privatisation, and fares on routes served by BA and competitors fall by 14.3 percent after divestiture, and compensation of BA executives increased and became more performance-contingent.

Sectoral deregulation and market structure could outperform privatisation

A further dimension of this positive effect of privatisation on share markets was extended to the "teledensity" by Petrazzini and Clark (1996) who used the International Telecommunications Union (ITU) data through 1994, to test whether deregulation and privatisation impact the level and growth in teledensity (main lines per 100 people), prices, service quality, and employment by telecoms in 26 developing countries. They found that "Deregulation and privatisation both are associated with significant improvements in level and growth in teledensity with no consistent impact on service quality. They concluded on the positive effect of deregulation with lower prices and increased level of employment while privatisation displaying an opposite effect.

Furthermore, Boylaud and Nicoletti (2000) Used factor analysis and a database on market structure and regulation to investigate the effects of liberalization and privatisation on productivity, prices and quality of long-distance and cellular telephony services in 23 OECD countries over the 1991-97 period. They conclude that both prospective and actual competition bring about productivity and quality improvements as well as lower prices—in telecom services, but no clear effect could be found for privatisation.

Ownership structure determines the performance of a privatisation programme

On his part, Ros (1999) used ITU data and panel data regression methodology to examine the effects of privatisation and competition on network expansion and efficiency in 110 countries over the period 1986-1995. He found that countries with at least 50% private ownership of main telecom firm have significantly higher teledensity levels and growth rates. He also found that both privatisation and competition increased efficiency, but only privatisation is positively associated with network expansion. Nevertheless, Wallsten (2000a) performed an econometric analysis of the effects of telecommunications reforms in developing countries. Using a panel dataset of 30 African and Latin American countries from 1984 to 1997, he explored the effects of privatisation, competition and regulation on telecommunications performance. According to him, competition is significantly associated with increases in per capita access and decreased in cost. E concluded on the fact that privatisation alone is not helpful, unless coupled with effective, independent regulation; and that increasing competition the single best reform, competition with privatisation is best, but privatizing a monopoly without regulatory reforms should be avoided.

Sectoral determinant of privatisation performance

A cross sectoral study was initiated by Ramamurti (1996) who surveyed studies of 4 telecom, two airline, and one toll-road privatisation programs in Latin America during period 1987-1991. He also discussed political economic issues, methods used to overcome bureaucratic, ideological opposition to divestiture. He concluded on privatisation being very positive for telecoms, partly due to scope for technology, capital investment, and attractiveness of offer terms, but much less level of productivity improvements was recorded for airlines and roads.

Impact drives of privatisation

Subsequently, Ramamurti (1997) examined restructuring and privatisation of Ferrocarilla Argentinos, the national railroad, in 1990. He tested whether productivity, employment, and need for operating subsidies (equal to 1% of GDP in 1990) changed significantly after divestiture. In this regards, he documented a 370% improvement in labour productivity and a 78.7% decline in employment (from 92,000 to 19,682). However, services were expanded and improved, and delivered at lower cost to consumers and the need for operating subsidies largely eliminated.

Privatisation leads to factors substitution

In this same vein, Laurin and Bozec (2000) compared productivity and profitability of two large Canadian rail carriers, before and after the 1995 privatisation of Canadian National (CN). He compared accounting ratios for entire 17-year period 1981-1997 and for three sub-periods: the fully state-owned era (1981-91), the pre-privatisation period (1992-95), and the post-privatisation era. He also compared stock returns from 1995-98, and created a six-firm comparison group of Canadian privatisations, and computes accounting ratios and stock returns for these firms as well. Total factor productivity of CN much lower than that of privately owned Canadian Pacific (CP) during 1981-91 period, but became just as efficient during pre-privatisation (1992-95) period, then exceeded it after 1995. CN stock price out-performed CP, the transportation industry, and the Canadian market after 1995. Both firms shed workers after 1992, but CN's employment declined by more (34% versus 18%) as average productivity almost doubled (97% increase). CN's capital spending increased significantly, though CP increased more. Six-firm Canadian privatisation comparison group also experienced significant increases in investment spending and productivity, and a significant decline in employment.

Conclusion

The case studies perused have confirmed the welfare gains and cost reduction effects of privatisation which could also be linked to anticipated effect of privatisation announcement.

These positive impacts of privatisation are structurally factored around improved output, declined employment, increased operating profitability, and subsidy elimination. Some market drivers of these impacts have also been identified.

Privatisation has proved to be a strong determinant of shares market competition as shares' of privatised companies gain in value relatively to non privatised competitors' shares. However, as regards some sectors, sectoral deregulation and market structure could outperform privatisation, for instance in the case of telecoms sector.

Impacts of privatisation could vary from one sector to the other. And, ownership structure determines the performance of a privatisation programme. In many cases, privatisation lead factors substitution, for instance between capital spending and labour forces.

4.2.3 Empirical studies on privatisation in Transitional Economies

The empirical studies on privatisation in transitional economies have targeted two groups of countries, firstly the Central and Eastern European countries, and secondly Russia and former Soviet Republics.

The case of Central and Eastern Europe

The studies of privatisation in transition economies, more especially in Central and Eastern Europe bear a great deal of change factor related to privatisation as driver of economic transformation, through change in ownership structure, the impact of foreign investment, and mass participation. The contextual performance of state owned enterprises has also been investigated by a number of authors.

Concentrated versus dispersed ownership

Claessens, Djankov, and Pohl (1997) have examined some determinants of performance improvements for a sample of 706 Czech firms privatized during 1992-95. Using Tobins-Q they tested whether concentrated ownership structure or presence of outside monitor (bank or investment fund) improves Q more than dispersed ownership. They documented that privatized firms do prosper, primarily because of the concentrated ownership structure that results from the process. They found that the more concentrated the post-privatisation ownership structure the higher is the firm's profitability and market valuation. Large stakes owned by bank sponsored funds and strategic investors were found to be particularly value-enhancing.

Performance of restructuring driven privatisation

On their part, Pohl, Anderson, Claessens, and Djankov (1997) compared the extent of restructuring achieved by over 6,300 private and state-owned firms in seven eastern European countries during 1992-95. They employed six measures to examine which restructuring strategies improve performance the most. They arrived at the conclusion that "Privatisation dramatically increases restructuring likelihood & success". A time effect was introduced as they found that a firm privatized for 4 years would increase productivity 3-5 times more than a similar SOE. However there was a little difference in performance based on method of privatisation.

Treuhand's effects

However, restructuring was oftentimes adjoined to privatisation with trans-border corporate actors playing key roles. In this vein, Dyck (1997) developed and tested an adverse selection model to explain the Treuhand's role in restructuring and privatizing eastern Germany's state-owned firms. In less than five years, the Treuhand privatized more than 13,800 firms and parts of firms and, uniquely, had the resources to pay for restructuring itself—but almost never chose to do so. Instead, it emphasized speed and sales to existing western firms over giveaways and sales to capital funds. His paper rationalized Treuhand's approach and documented that privatized eastern German firms were much more likely to have transferred western (usually German) managers into key positions than were companies that remained state-owned. He also found that Treuhand emphasized sales open to all buyers rather than favouring eastern Germans; alerting that privatisation programs must carefully consider when and how to affect managerial replacement in privatized companies. He concluded on the fact that plans which open to western buyers and which allow management change are most likely to improve firm performance.

Added values of foreign ownership and employee ownership

Smith, Cin and Vodopivec (1997) focused on a period of "spontaneous privatisation" in Slovenia (1989-1992), using a sample with 22,735 firm-years of data drawn, and examined the impact of foreign and employee ownership on firm performance. They gathered that a percentage point increase in foreign ownership is associated with a 3.9% increase in value-added, and for employee ownership with a 1.4% increase. They also find that firms with higher revenues, profits, and exports are more likely to exhibit foreign and employee ownership. This later point deserves attention, because of the peculiar situation of Central and Eastern Europe countries in the process of more openness to global economy.

Outside, inside and state driven entrepreneurship

The implications of external control were particularly an issue in Central Europe. On this, Frydman, Hessel and Rapaczynski (2000) set to examine whether privatized Central European firms controlled by outside investors are more entrepreneurial—in terms of ability to increase revenues—than firms controlled by insiders or the state. They made use of various survey data from a sample of 506 manufacturing firms in the Czech Republic, Hungary and Poland. They asserted that "all state and privatized firms engaged in similar types of restructuring, but that product restructuring by firms owned by outside investors was significantly more effective, in terms of revenue generation, than by firms with other types of ownership. Their works concluded on the fact that "entrepreneurial behaviour of outsider-owned firms was due to incentive effects, rather than human capital effects, of privatisation—specifically greater readiness to take risks."

Outside control as determinant of privatisation

Before then they asked an opportunistic question "when does privatisation work?" Frydman, Gray, Hessel and Rapaczynski (1999), in order to answer this deterministic question, compared the performance of privatized and state-owned firms in the transition economies of Central Europe. They got to examine the influence of ownership structure on performance using a sample of 90 state-owned and 128 privatized companies in the Czech Republic, Hungary and Poland. They methodically employed panel data regression methods to isolate ownership effects. They concluded that privatisation "works," but only when firm is controlled by outside owners (other than managers or employees). More importantly, privatisation adds over 18 percentage points to the annual growth rate of a firm sold to a domestic financial company, and 12 percentage points when sold to a foreign buyer.

Meanwhile, privatisation to an outside owner also adds about 9 percentage points to productivity growth. Further, gain does not come at the expense of higher unemployment; insider controlled firms are much less likely to restructure, but outsider-controlled firms grow faster. He shows the importance of entrepreneurship in reviving sales growth. Hence, the limits of MEBO were upheld and argued upon.

Effects of ownership by investment funds

Besides the controversies surrounding the identity of "investors", Weiss and Nikitin (1998) analyzed the effects of ownership by investment funds on the performance of 125 privatized Czech firms during the period 1993- 1995. Hey assessed these effects by measuring the relationship between changes in performance and changes in the composition of ownership at the start of the privatisation period. They used robust estimation techniques, in addition to OLS, since data strongly reject normality. They found that ownership concentration and composition jointly affect performance of privatized firms. The concentration of ownership in the hands of a large shareholder, other than an investment fund or company, is associated with significant performance improvements (for all measures of performance). And, concentrated ownership by funds did not improve firm performance. Even more, preliminary post-1996 data suggested that changes in investment fund legislation may improve their performance.

Effect of management turnover on financial performance

The internal effect of management turnover was also underpinned by Claessens and Djankov (1999a) who studied the effect of management turnover on changes in financial and operating performance of 706 privatized Czech firms over the period 1993-1997.They examined changes in profitability and labor productivity, and found that the appointment of new managers was associated with significant improvements in profit margins and labor productivity, particularly if the managers are selected by private owners. New managers appointed by the National Property Fund also improve performance, though not by as much. This new dimension poses the problem of the relationship between assignees and assigners in the process of privatisation.

Ownership concentration and corporate performance

Furthermore, Claessens and Djankov (1999b) examined the relationship between ownership concentration and corporate performance for the same 706 privatized Czech firms during the period 1992-1997. They used profitability and labour productivity as indicators of corporate performance. They unequivocally discovered that concentrated ownership is associated with higher profitability and labor productivity. Also, they found that foreign strategic owners and nonbank- sponsored investment funds improve performance more than bank sponsored funds.

Effectiveness of hard budget control as compared to privatisation

Besides the change of ownership, government budget was instrumental to change in Eastern Europe. In this perspective, Frydman, Gray, Hessel and Rapaczynski (2000) examined whether the imposition of hard budget constraints was sufficient to improve corporate performance in the Czech Republic, Hungary and Poland. They indeed employed a sample of 216 firms, divided between state-owned (31%), privatized (43%), and private (26%) firms. The found that privatisation alone added nearly 10 percentage points to the revenue growth of a firm sold to outside owners. Most importantly, they found that the threat of hard budget constraints for poorly-performing SOEs falters, since governments are unwilling to allow these firms to fail, the brunt of SOEs' lower creditworthiness falls on state creditors.

Effects of breakups of SOEs

In Czechoslovakia, where firms breakup happened to have been used a means of privatising SOEs, the relationship between master firms and spin offs needed to be investigated. Therefore, Lizal, Singer, Svejnar (2000) examined the performance effects of the wave of break-ups of Czechslovak SOEs on the performance of the master firm and the spin offs. They use a regression of data for 373 firms in 1991 and 262 firms in 1992. They stated that there was an immediate (in 1991) positive effect on the efficiency and profitability of small and medium size firms (both master and spin-offs) and negative for the larger firms. As for 1992, their study showed that although the results thereof were similar they were not statistically significant.

Diverging performances of waves of voucher privatisations

Another far interesting aspect of the Czech privatisation was the financial and operating performances of privatized companies. This actually was examined by Harper (2000) based on the performance of 174 firms privatized in the first—and 380 firms divested in the second—wave of the Czech Republic's voucher privatisations of 1992 and 1994. They compiled and compared results for privatized firms to those which remain state-owned. Employing Megginson, Nash and van Randenborgh methodology and variables and measures, they found that "the first wave of privatisation yielded disappointing results as real sales, profitability, efficiency and employment declined dramatically (and significantly). However, they concluded on the fact that the second wave firms experienced significant increases in efficiency and profitability and their decline in employment—though still significant— was less drastic in terms of changes than what obtained after the first wave (-17% versus -41%).

Conclusion

In Central and Eastern European countries, it was found that concentrated post-privatisation ownership recorded higher profitability that dispersed ownership. The concentration of ownership in the hands of large shareholders other than investment funds displayed significant improvements. Also the performance of restructuring driven privatisations has recorded impacts than restructuring alone.

The transitional impetus of privatisation in Central European Countries has favoured a wide spread of foreign interventionism. It was discovered that foreign ownership outperformed employees' ownership in terms of added value, however both strategies exhibited an improvement revenues, profits and exports. It was found that in the context of a similar privatisation strategy, foreign investors recorded more effectiveness in terms of revenue generation than inside and state entrepreneurship. Also, outside ownership control has been adjudged as a strong determinant of success of privatisation. In addition, foreign strategic owners and nonbank- sponsored investment funds improved performance more than bank sponsored funds.

In the context of the privatisation process, management turnover associated to **n**ewly managers improved corporate performance, though not by as much. Privatisation relieved companies from the strain of governments hard budget control.

Privatisation was oftentimes associated with the breakup of SOES. This resulted into positive effect on the efficiency and profitability of small and medium size firms both master and spin-offs and negative impact on the larger firms. Where waves of vouchers privatisation were implemented, there were divergent performances as both positive and negative impacts were recorded.

The case of Russia and former Soviet Republics

Various empirical studies have been consecrated to Russia and former Soviet Republics in line with restructuring measures adopted by governments and subsequent impact of these measures on performance. Among these studies are: Barberis, Boycko, Shleifer, and Tsukanova (1996), Earle (1998), Earle and Estrin (1998), Djankov (1999a), Djankov (1999b), and Black, Kraakman and Tarassova (2000).

Effect of human capital renewal

Barberis, Boycko, Shleifer, and Tsukanova (1996) surveyed 452 Russian shops sold during the early-1990s to measure the importance of alternative channels through which privatisation promotes restructuring. They arrived at the conclusion that "the presence of new owners and managers raised the likelihood of value-increasing restructuring. They found that "equity incentives did not improve the performance of those shops; instead they pointed to importance of new human capital in economic transformation."

Differential impact of insider, outsider, or state ownership

Owing to paradigm shifts enforced by privatisation, Earle (1998) investigated the impact of ownership structure on the (labor) productivity of Russian industrial firms. Thus, using 1994 survey data, he examine differential impact of insider, outsider, or state ownership on the performance of 430 firms--of which 86 remained 100% state owned, 299 were partially privatized, and 45 were newly-created. He adjusted empirical methods to account for tendency of insiders to claim dominant ownership in the best firms being divested. The regressions showed a positive impact of private (relative to state) share ownership on labor productivity, with this result primarily due to managerial ownership. However, he found that only outsider ownership was significantly associated with productivity improvements; stressing that leaving insiders in control of firms—while politically expedient—had very negative long-term implications for the restructuring of Russian industry.

Privatisation, competition and the hardening of budget constraints

Furthermore, Earle and Estrin (1998), using a sample very similar to that used by Earle (1998) above, examined whether privatisation, competition and the hardening of budget constraints play efficiency-enhancing roles in Russia. The results showed a 10 percent increase in private share ownership raises real sales per employee by 3-5%; while subsidies (soft budget constraints) reduce the pace of restructuring in state-owned firms, with a small and often insignificant effect.

Relation between ownership structure and enterprise restructuring

On his part, Djankov (1999a) investigated the relation between ownership structure and enterprise restructuring for 960 firms privatized in six newly independent states between 1995 and 1997, especially Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia and Ukraine, using survey data collected by the World Bank in late 1997. His analysis showed that foreign ownership is positively associated with enterprise restructuring at high ownership levels (>30%), while managerial ownership is positively related to restructuring at low (<10%) or high levels, but negative at intermediate levels. Employee ownership was rather beneficial to labour productivity at low ownership levels, but otherwise insignificant.

Effects of different privatisation modalities on restructuring process

Proceeding, Djankov (1999b) used the same survey to study effects of different privatisation modalities on restructuring process in Georgia (92 firms) and Moldova (149 firms). Georgia employed voucher privatisation, while the majority of Moldovan firms were acquired by investment funds—and numerous others were sold to managers for cash. His conclusion revealed that "Privatisation through management buy-outs was positively associated with enterprise restructuring, while voucher privatized firms do not restructure more rapidly than still state-owned firms. He implied that managers who gain ownership for free may have less incentive to restructure, as their income is not solely based on the success of the enterprise.

Historical survey of privatisation

In their turn, Black, Kraakman and Tarassova (2000) surveyed the history of privatisation in Russia. While mostly descriptive, several case studies were analyzed. These authors concluded that Russian privatisation has created a "kleptocracy" and has essentially failed.

They further stressed the importance of minimizing incentives for self-dealing in the design of privatisation programs.

Conclusion

In the case of Russia and former soviet republics, human capital renewal has been proved to be booster of economic transformation. The differential impact of insider, outsider, or state ownership was also confirmed.

The limiting effect of subsidies on the restructuring of state owned enterprises has also been proved contrary to the positive effects of private share ownership which boosted real sales per employee.

Foreign ownership has been associated with accelerated trend of restructuring. The review also reaffirmed the positive impact of employee ownership on labour productivity. Different privatisation modalities recorded non concurrent results with investment funds acquisition outperforming voucher privatisation, and restructuring was also constrained by the type of management incentive applied as managers who gained ownership for free have had less incentive to restructure.

However the historical survey of privatisation showed a mixed result due to the peculiarity of the design of the Russian privatisation programme which failed to minimize incentives for self-dealing and shrinking behaviours.

4.2.4 Empirical studies on privatisation in Non-Transitional Economies

Many authors have studied the impact of privatisation in non transitional economies. Among them are Megginson, Nash, and van Randenborgh (1994), Macquieira and Zurita (1996), Boubakri and Cosset (1998), Verbrugge, Megginson and Owens (2000), Boubakri and Cosset (1999), D'Souza and Megginson (2000) and Boardman, Laurin and Vining (2000). Their studies focused on comparing performance changes of privatized firms via public share offerings, pre and post privatisation performance and also on the financial and operating performance of newly-privatized firms as compared to their performance as state-owned enterprises.

Focus on changes in performance

Post-privatisation financial and operating performance ratios

Megginson, Nash, and van Randenborgh (1994) have compared 3-year average post-privatisation financial and operating performance ratios to the 3-year pre-privatisation values for 61 firms from 18 countries and 32 industries from 1961-1989. They tested significance of median changes in post versus pre-privatisation period. They also applied binomial tests for the percentage of firms changing as predicted. They arrived at economically and statistically significant post-privatisation increases in output (real sales), operating efficiency, profitability, capital investment spending, and dividend payments, as well as significant decreases in leverage. However, there was no evidence of employment declines after privatisation, but significant changes in firm directors.

Megginson, Nash, and van Randenborgh. D'Souza and Megginson (1999) studied privatisation of 78 companies from 10 developing and 15 developed countries over the period 1990-94. They compared 3-year average post-privatisation financial and operating performance ratios to the 3-year pre-privatisation values for a subsample of 26 firms with sufficient data. They concluded on economically and statistically significant post-privatisation increases in output (real sales), operating efficiency, and profitability, as well as significant decreases in leverage. Capital investment spending increases--but insignificantly, while employment declines significantly. Nevertheless, in worthy to note that most of the firms privatized in the 1990s are from telecoms and other regulated industries.

Boubakri and Cosset (1998) compared 3-year average post-privatisation financial and operating performance ratios to the 3-year pre-privatisation values for 79 companies from 21 developing countries and 32 industries over the period 1980-1992. They conducted tests for the significance of median changes in ratio values in post versus pre-privatisation period. Here also, binomial tests for percentage of firms changing were applied. They also found economically and statistically significant post-privatisation increases in output (real sales), operating efficiency, profitability, capital investment spending, dividend payments, and employment--as well as significant decreases in leverage. It is reported that "performance improvements are generally even larger than those documented by Megginson, Nash, and van Randenborgh. D'Souza and Megginson (1999)

Pre-privatisation versus post-privatisation performance

Macquieira and Zurita (1996) compared “pre- versus post-privatisation performance of 22 Chilean companies privatized from 1984 to 1989”, using Megginson, Nash and van Randenborgh (MNR) methodology to perform analysis first without adjusting for overall market movements (as in MNR), then with an adjustment for contemporaneous changes. They found that unadjusted results were virtually identical to MNR which implies significant increases in output, profitability, employment, investment, and dividend payments. After adjusting for market movements, however, the changes in output, employment, and liquidity are no longer significant, and leverage increases significantly.

Verbrugge, Megginson and Owens (2000) Studied offering terms and share ownership results for 65 banks fully or partially privatized from 1981 to 1996. They then compared pre and post-privatisation performance changes for 32 banks in OECD countries and 5 in developing countries. They documented moderate performance improvements in OECD countries. They used proxy ratios to analyse profitability, fee income (non-interest income as fraction of total), and capital adequacy which evidenced a significant increase. However, leverage ratio declined significantly as well as large, ongoing state ownership, and significantly positive initial returns to IPO investors. The aspect of firm’s capital spending was also examined by Boubakri and Cosset (1999) who focused on pre- versus post-privatisation performance of 16 African firms privatized through public share offering during the period 1989-1996. They concluded on significant increase in capital spending by privatized firms, but found only insignificant changes in profitability, efficiency, output and leverage.

Pre-privatisation versus post-privatisation performance changes

D’Souza and Megginson (2000) examined pre- versus post-privatisation performance changes. This time they focused on 17 national telecommunications companies privatized through share offerings during 1981-94. They found that profitability, output, operating efficiency, capital spending, number of access lines, and average salary per employee all increased significantly after privatisation, but with significant declines in leverage while employment declined insignificantly. Furthermore, Dewenter and Malatesta (2000) compared pre- versus post-privatisation performance of 63 large, high-information companies divested during 1981-94 over both short-term [(+1 to +3) vs (-3 to -1)] and long-term [(+1 to +5) vs (-10 to -1)] horizons. They particularly examined long-run stock return performance of privatized firms and compared the relative performance of a large sample (1,500 firm-years) of state and privately-owned firms during 1975, 1985, and 1995. They documented significant increases in profitability (using net income) and significant decreases in leverage and labor intensity (employees/sales) over both short and long-term comparison horizons. They concluded that operating profits increased prior to privatisation, but not after; and they documented significant positive long-term (1-5 years) abnormal stock returns, mostly concentrated in Hungary, Poland, and the UK. The results also strongly indicated that private firms out-perform state-owned firms.

Comparing 3-year average post-privatisation financial and operating performance ratios to the 5-year pre-privatisation

Boardman, Laurin and Vining (2000) who compared 3-year average post-privatisation financial and operating performance ratios to the 5-year pre-privatisation values for 9 Canadian firms privatized from 1988 to 1995. They also computed long-run (up to 5 years) stock returns for divested firms. They found that profitability, measured as return on sales or assets, more than doubled after privatisation, while efficiency and sales also increased significantly (though less drastically). They also indicated that leverage and employment declined significantly, while capital spending increased also significantly. They noted that privatized firms also significantly out-perform Canadian stock market over all long-term holding periods.

Conclusion

Performance changes have been examined by many researchers. The emphasis of this review is the constructive meaning of changes, in these studies understood as post-privatisation, pre-privatisation versus post-privatisation, pre-privatisation change versus post-privatisation changes, pre-privatisation average ratio versus post-privatisation average ratio.

The comparison of post-privatisation financial and operating performance ratios of for firms privatized via public share offerings have shown significant post-privatisation increases in output (real sales), operating efficiency, profitability, capital investment spending, and dividend payments, as well as significant decreases in leverage. However, there was no evidence of employment declines after privatisation, but significant changes in firm directors. The same conclusion was reached by other studies with different sets of enterprises privatised at different periods, in various countries.

In Chile, the comparison of pre-privatisation performances to post-privatisation performance have shown more moderate result but leverage increased significantly. The same procedure applied to companies privatised in OECD and African countries showed moderate performance improvements in OECD countries, and significant increase in capital spending by privatized firms but only insignificant changes in profitability, efficiency, output and leverage in African countries.

The study of performance change in pre-privatisation versus post-privatisation stages showed that operating profits increased prior to privatisation, but not after; significant positive long-term (1-5 years) abnormal stock returns were recorded mostly concentrated in Hungary, Poland, and the UK, but the results also strongly indicated that private firms out-perform state-owned firms. As regards Canada, average performance change comparison of *3-year* post-privatisation with 5-year pre-privatisation indicated that profitability, measured as return on sales or assets, more than doubled after privatisation, while efficiency and sales also increased significantly (though less drastically). They also indicated that leverage and employment declined significantly, while capital spending increased also significantly. They noted that privatized firms also significantly out-perform Canadian stock market over all long-term holding periods.

Focus on initial returns to investors in share issue privatisations

A set of academic studies of privatisation have examined the initial (usually first-day) return earned by investors who buy shares in share issue privatisations (SIPs) at the offer price and then sell the shares immediately after trading begins. Some of such studies are attributable to Menyah and Paudyal (1996), Dewenter and Malatesta (1997), Huang and Levich (1998), Paudyal, Saadouni and Briston (1998), Jones, Megginson, Nash and Netter (1999), Su and Fleisher (1999), Jelic and Briston (2000b), Jelic and Briston (2000a), Ausenegg (2000), Choi and Nam (2000), Ljungqvist, Jenkinson and Wilhelm (2000) Analyze both direct and indirect costs (associated with underpricing).

Variation in PIPOs' initial return

Menyah and Paudyal (1996) have examined initial and long-term returns for 40 British privatisation IPOs (PIPOs) and 75 private-sector IPOs on the London Stock Exchange between 1981 and 1991. The PIPOs offered a market-adjusted initial return of 39.6%, compared to private sector IPO initial return of 3.5%. The regression analysis showed up to 64% of variation in PIPO initial returns.

IPOs price versus private sector price

In testing whether privatisation IPOs (PIPOs) are more or less underpriced than private sector own, Dewenter and Malatesta (1997) reviewed IPOs in 8 countries. They compared actual initial returns for 109 companies from Canada, France, Hungary, Japan, Malaysia, Poland, Thailand and the UK with national average initial returns reported in Loughran, Ritter and Rydqvist (1994). They found mixed results, as initial returns to privatisation issues were higher than to private sector IPOs in unregulated industries and in the UK. The privatisation IPOs were lower than private offers in Canada and Malaysia, and they concluded there is not a systematic tendency to underprice PIPOs on the part of all governments.

Offering terms and initial returns

On their part, Huang and Levich (1998) studied underpricing, offering terms and initial returns to investors in 507 privatisation share offerings from 39 countries during 1979-1996, and they tested alternative explanations for the observed underpricing. To this effect they documented average initial returns of 32.2% for PIPOs and 7.17% for seasoned privatisation offerings. They also found that SIPs from non-OECD countries were more underpriced than OECD offers, but concluded that there was no evidence showing that PIPOs were more underpriced than private IPOs.

Political and economic factors influencing initial returns

In this vein, Jones, Megginson, Nash and Netter (1999) examined how political and economic factors influence initial returns, as well as share and control allocation patterns. They studied a sample of 630 SIPs from 59 countries during 1977-1997. They documented that governments deliberately underprice both PIPOs (mean 34.1%, median 12.4%) and seasoned SIPs (9.4& and 3.3%). They equally found that shares and control allocation patterns were best explained by political factors.

Patterns of underpricing

Su and Fleisher (1999) studied the cross-sectional pattern of underpricing of 308 Chinese PIPOs from 1987-1995, underpricing for domestic shares could be explained using a signalling model. To this effect, they documented massive underpricing, with an average initial return of 940% on A shares (issued domestically). They interpreted their findings as consistent with a signalling model, since 91% of all firms subsequently execute seasoned equity offerings. They also found less underpricing for B shares (international).

Initial and long-term returns

On another scale, Paudyal, Saadouni and Briston (1998) examined initial and long-tern returns offered to investors in 18 PIPOs and 77 private sector IPOs in Malaysia from 1984-1995. They also provided details of offering terms and share allocation patterns. In the case of Malaysian PIPOs offer market-adjusted initial returns of 103.5% (median 79.9%), which was significantly greater than the private sector IPO initial returns of 52.5% (29.4%). Nevertheless, it was observed that some political factors might also impact on initial returns.

Jelic and Briston (2000b) examined initial and long-term returns for 25 PIPOs and 24 other IPOs in Hungary during 1990-1998. They found that PIPOs are much larger and have higher market-adjusted initial returns than other IPOs (44% mean and 9% median vs 40% and 5%, respectively), but the return differences are not significant. In a previous study Jelic and Briston (2000a) examined initial and long-term returns for 55 PIPOs and 110 other IPOs in Poland during 1990-1998, using first-day opening prices (not offer prices), they found small, though significantly positive, mean abnormal initial returns (1.16%) for PIPOs and insignificant mean abnormal initial returns (0.22%) for other IPOs, though the difference was insignificant.

On his part, Ausenegg (2000) examined initial and long-term returns for 52 PIPOs and 107 other IPOs in Poland during 1990-1998; this resulted into significantly positive initial abnormal return for PIPOs (60.4% mean, 19.8% median) and for other IPOs (19.8% and 12.9%), though difference is insignificant. Meanwhile, Choi and Nam (2000) compared initial returns of 185 PIPOs from 30 countries during 1981-1997 to those of private sector IPOs from the same countries using mean national initial returns reported in Loughran, Ritter and Rydqvist (1994). They found that there was a general tendency for PIPOs to be more underpriced than private sector IPOs (mean of 31% versus 24.6%), and that the degree of underpricing for PIPOs was positively related to the stake sold and to the degree of uncertainty in ex-ante value of newly-privatized firms.

Direct and indirect costs of IPOs

In addition, the issues of underpricing related costs was examined by Ljungqvist, Jenkinson and Wilhelm (2000) who analyzed both direct and indirect costs (associated with underpricing) of 2,051 IPOs, including 185 PIPOs, in 61 non-US markets during the period 1992-99. They arrived at the conclusion that PIPOs were significantly more underpriced (by about 9 percentage points) than were private-sector IPOs, and the underwriter spreads were a significant 61 basis points lower.

Conclusion

The focus on initial returns to investors in share issue privatisations targeted Variation in PIPOs' initial return, IPOs price versus private sector price, Offering terms and initial returns, Political and economic factors influencing initial returns, Initial and long-term returns, Direct and indirect costs of IPOs.

Experience on the London Stock Exchange between 1981 and 1991 showed market-adjusted initial return of 39.6%, compared to private sector IPO initial return of 3.5%. In the UK and unregulated industries, privatisation IPOs returns were higher than similar private sector IPOs, but the contrary was noticed in Canada and Malaysia, the mix result led to the conclusion that there is not a systematic tendency to underprice PIPOs on the part of all governments.

The study of offering terms and initial returns in connection with shares underpricing showed that SIPs from non-OECD countries were more underpriced than OECD offers, however there was no evidence showing that PIPOs were more underpriced than private IPOs.

The examination of Political and economic factors influencing initial returns displayed that governments deliberately underprice both PIPOs and seasoned SIPs and that shares and control allocation patterns were best explained by political factors. In Malaysia, PIPOs offered market-adjusted initial returns significantly greater than the private sector IPO. It was also observed that some political factors might also impact on initial returns.

In Hungary, the study of initial and long-term returns for PIPOs and other IPOs resulted in the fact that PIPOs are much larger and have higher market-adjusted initial returns than other IPOs. Nonetheless, a previous study in Poland arrived at small, though significantly positive, mean abnormal initial returns for PIPOs and insignificant mean abnormal initial returns for other IPOs, though the difference was insignificant. In thirty other countries, the study led toa general tendency for PIPOs to be more underpriced than private sector IPOs and that the degree of underpricing for PIPOs was positively related to the stake sold and to the degree of uncertainty in ex-ante value of newly-privatized firms.

Focus on long-run returns to investors in share issue privatisations as compared to other assets

In this section, we shall peruse several studies, including : Levis (1993), Aggarwal, Leal and Hernandez (1993), Menyah, Paudyal and Inganyete (1995), Davidson (1998), Foerster and Karolyi (2000), Paudyal, Saadouni and Briston (1998), Boubakri and Cosset (2000), Jelic and Briston (2000), Jelic and Briston (2000b), Ausenegg (2000), Perotti and Oijen (2000), Choi, Nam and Ryu (2000), Megginson, Nash, Netter and Schwartz (2000), Dewenter and Malatesta (2000) and Boardman and Laurin (2000).

Long-run returns of PIPOs versus IPOs

Levis (1993) studied the long-run return to 806 British IPOs from 1980-1988. The sample included 12 PIPOs, accounting for 76% of total IPO value. While private sector IPOs under-performed the market by over 10% over 3 years, PIPOs out-performed the market by over 15%.

Local versus foreign currency

Another contribution came from Megginson, Nash, Netter and Schwartz (2000) who examined long-run (1,3, and 5-year) returns for 158 PIPOs from 33 countries from 1981-1997, taking into account the face-off between foreign versus local currency. They computed local-currency and $ returns, versus national and international indices, and versus matching firms. They drew a conclusion portraying economically and statistically positive holding-period returns in both local currency and $, and versus all market indices. 5-year excess returns exceeding 80% are found for most comparisons.

Factors influencing long-run returns of SIPs

Boardman and Laurin (2000) examined the factors that influence the long-run returns of 99 SIPs from 1980-1995. They tested the effect of relative size, fraction retained (by government), the presence of a golden share, initial return, and timing on 3-year buy-and-hold returns. They equally examined whether UK utility SIPs earned "excessive" returns. They found a significant positive abnormal returns to all SIPs over one (9.2%), two (13.5%) and three-year (37.4%) holding periods. However, British SIPs are higher than non-UK issues, and UK utilities have highest returns (60.6% 3-year excess returns), but 3-year non-UK SIP returns also significant. Meanwhile, excess returns are (significantly) positively related to fraction retained and initial period return, and are negatively related to relative size and presence of a golden share.

Latin American PIPOs versus IPOs

In this same vein, Aggarwal, Leal and Hernandez (1993) examined the long-run (one-year) returns for Latin American IPOs, including 9 Chilean PIPOs from 1982-1990, using returns from offer price, they found significantly negative one-year market-adjusted returns for PIPOs averaging –29.9% (median –32.4%) versus –9.8% (-23.0%) for private sector IPOs.

Initial and long-run returns of PIPOs and IPOs

Along this same line, Menyah, Paudyal and Inganyete (1995) also examined initial and long-term returns for 40 British PIPOs and 75 private sector IPOs executed on the London Stock Exchange between 1981 and 1991. As a result they documented significant positive 33% market-adjusted 400-day (80 week) return for PIPO versus an insignificant 3.5% return for private sector IPOs.

Long run impact of PIPOs in European countries

Studying a longer term impact of SIPs, Davidson (1998) studied 1,3,5, and 10-year market adjusted returns for SIPs from five European countries (Austria, France, Italy, Spain, and the UK) through March 1997. He discovered that after a long period of under-performance, averaging 1-1.5% per year, SIPs out-performed European market averages during previous 12 months.

Long-run returns of non US SIPs on US markets

In addition, Foerster and Karolyi (2000) examined the long-run return for 333 non-US companies that list stock on US markets in the form of ADRs from 1982-1996. To this effect, they compared returns for 77 SIPs (38 IPOs, 39 seasoned offers) with private offers, as a result, he found an insignificantly positive 4.1% 3-year abnormal returns for SIPs compared to (insignificantly) negative returns of –1.7% for full sample.

Initial and long term returns of PIPOs and IPOs in Malaysia

Also, Paudyal, Saadouni and Briston (1998) studied the initial and long-term returns offered to investors in 18 PIPOs and 77 private sector IPOs in Malaysia from 1984-1995. Thus, he also provided details of offering terms and share allocation patterns. He found that both PIPOs and private sector IPOs yielded normal returns (insignificantly different from overall market) over 1,3, and 5-year holding periods.

Initial and long term returns for PIPOs versus IPOs in Hungary

Meanwhile, Jelic and Briston (2000) examined initial and long-term returns for 25 PIPOs and 24 other IPOs in Hungary during 1990-1998 and found PIPOs to yield insignificantly positive market-adjusted returns over 1,2, and 3-year holding periods, reaching a peak of 21.3% in month 15, while private-sector IPOs yield significantly negative returns.

Initial and long term returns for PIPOs and IPOs in Poland

Furthermore, Jelic and Briston (2000b) studied initial and long-term returns for 55 PIPOs and 110 other IPOs in Poland during 1990-1998. PIPO investors earn significantly positive 1,3, and 5-year market adjusted returns, while other IPO investors earn negative returns. The difference is significant for most holding periods.

Ausenegg (2000) Examine initial and long-term returns for 52 PIPOs and 107 other IPOs in Poland during 1990-1999 but found both PIPO and private-sector IPO investors earn negative—often significant—abnormal returns over 1,3, and 5 year holding periods. In support to these findings, Choi, Nam and Ryu (2000) computed buy-and-hold returns of 204 PIPOs from 37 countries during 1977-1997 and found significantly positive market-adjusted returns to SIPs over 1, 3, and 5-year holding periods.

Long-run returns in SIPs from developed and developing countries

Dewenter and Malatesta (2000) studied long-run returns to investors in 102 SIPs from developed and developing countries over 1981-1994. They also examined long-run stock return performance of privatized firms and compared the relative performance of a large sample (1,500 firm-years) of state and privately-owned firms during 1975, 1985, and 1995, and found significantly positive long-term (1-5 years) abnormal stock returns, mostly concentrated in Hungary, Poland, and the UK.

Long term returns in SIPs in developing countries

Boubakri and Cosset (2000) have evaluated the long-term returns to investors in 120 SIPs from 26 developing countries during 1982-1995. They found significant 3-year raw returns (112% mean, 30% median), but insignificant mean (37-46%) and median (-7% to 13%) market-adjusted returns—due to weighting of SIPs in stock market indices. Significant positive long-run returns after adjusting for impact of SIP size on index.

Conclusion

As suggested by the empirical **studies**, in Great Britain, PIPOs outperformed both IPOs and the market in terms of long-run returns. British SIPs were found higher than non-UK issues, and UK utilities have highest returns. In addition, in 33 countries, PIPOs held positive returns in both local currency and dollar. As regards time dynamics, in Britain, PIPOs scored a higher market adjustment over IPOs.

As regards European countries (Austria, France, Italy, Spain, and the UK), after a long period of under-performance, SIPs were able to out-perform European market precedent averages. In America, SIPs recorded an insignificantly positive abnormal return. The abnormality was found in Hungary, Poland. SIPs in some other developed countries scored significant 3-year raw returns, but insignificant mean and median market-adjusted returns—due to weighting of SIPs in stock market indices.

In Malaysia, both PIPOs and private sector IPOs yielded normal returns which proved insignificantly different from overall market. in Hungary, PIPOs yielded insignificantly positive market-adjusted returns while private-sector IPOs yielded significantly negative returns. In Poland, PIPO investors earned significantly positive market adjusted returns, while other IPO investors earn negative returns. In contrary, Latin American PIPOs were outperformed by private IPOs.

4.3 Theories of privatisation

A multidisciplinary concept

Dexter Whitfield[cxvi] (2006) asserted that “economists have sought to analyse privatisation using theories of market failure, public choice, property rights and the principal-agent approach. However, a theory of privatisation cannot be limited by economic theory alone because it has equally important political and social dimensions.”

Collyer (2003) introduced privatisation as a “policy reversal” which in the Australian context “is mounting, with studies documenting the impact on wages, jobs and conditions (Herd, 1998), on citizenship (Salvaris, 1995), on accountability and the provision of information to the consumer (Carter, 1998:17); on the fiscal health of the state (Quiggin, 1996; Walker and Walker, 2000); on welfare (Saunders, 1994; Nevile, 2000); and differentially across the spectrum of social groups (Langmore ,1987).”

Dexter (2006) further stressed that “a theory of privatisation cannot be limited by economic theory alone because it has equally important political and social dimensions” and that “ a focus on privatisation to the exclusion of marketisation is inadequate. Privatisation and marketisation are inseparable, the latter creating the economic and ideological conditions and social relations by which further privatisation is developed.”

He also explained that privatisation occurs when one or more of the following five elements of public services or assets change: ownership of public assets (services, organisations, land, buildings, equipment, information and intellectual knowledge) are sold or transferred to the private or voluntary sector; governance and accountability of public bodies is reduced/diluted by new organisational structures such as the use of company and trust models; finance and investment such as the use of private capital or the introduction of new/increased user charges; operating principles and values are changed to reflect private and commercial interests – this ranges from planning for social needs to the provision of services; management of public organisations is restructured and commercialised as a means of implementing the above changes."

Megginson and Netter (2001) advance the idea that the economic theory of privatisation is a subset of the large literature on the economics of ownership and the role for government ownership (or regulation) of productive resources.

Perspectives of the concept

However, Marek Louzek[cxvii] (2009) explained that since in 1989, in the context of Czech privatisation programme in 1989 there was no economic theory of privatisation "the decision makers in transition economies had to improvise and solve a dilemma: fast or slow privatisation?"

According to Alexander "Sasha" Volokh[cxviii] (2008) "the economic theory has several advantages and disadvantages. On the positive side, it gives us a new and useful way of conceptualizing the benefits and costs of privatisation. On the negative side, it allows us to see certain flaws in the conventional wisdom on privatisation."

Nevrtheless, as asserted by Zoltán Antal-Mokos[cxix] (1998), « the dominant theory on privatisation, particularly concerning its effect on firm's behaviour, has been developed by economist in the principal-agent framework."

4.3.1 The principal-agent theory

H Haller (1999) poses that "why privatisation becomes the subject of principal-agent theory is by no means a coincidence since the major question this theory attempts to address is how to avoid an agent's shirking behaviour.¨

A rational link

However, Haller found a rational link between privatisation and principal-agent theory, since according to him, "That is exactly one of the objectives of privatisation – to promote work incentives in public firms."

He further explains that "the late 1980's have seen an outburst of incentive-theoretical literature, under the rubric of "mechanism design". Other authors also found a befitting relationship between "privatisation" and "principal-agent theory" which they examined from various perspectives including: incentive, risk sharing, information imperfection, contracting, etc.

Contracting

Elliot D. Sclar[cxx] (2000) points out that the characteristics of the principal-agent relationship impact the overall performance of contractor. Elliot emphasizes the fact that "contracts contain many clauses and provisions whose intentional or unintentional impact is to provide an incentive structure that impacts contactor's performance".

He however observes that "unfortunately empirical data on the impact of incentive structures on contractor performance is lacking; and that "consequently the components of an incentive structure that work best are an open question."

Risk sharing

Holmstrom (1979) introduced a contract characterized by the trade-off of risk sharing between a risk neutral principal and a risk-averse agent. In this frame, "in order to motivate an agent who can exert an unobservable effort; it is necessary to expose him to some risk at the expense of the sub-optimal risk sharing among these two parties."

Information imperfection

As reported by Haller (1999), Baron & Myerson (1982), made the first attempt to model information imperfection in a regulatory framework. They modelled a situation whereby a principal regulates an agent who has private (personal) knowledge about its production cost.

Obviously, the interest of their contribution lies in the nature of the said "personal knowledge". They introduced a convergence drive called "audit parameter" which if not implemented can cause the principal to grant a rent to the type of agent leading to a trade-off between efficiency and rent."

Incomplete contract

Haller (1999) subsequently referred to Grossman and Hart's (1986) theory of "incomplete contracts" which connects the discussion of ownership structure and the theory of costly contracting, with ownership of a firm defined as the acquisition of "residual rights of control".

To this effect, Grossman and Hart explain that "when some unanticipated situations occur, only the firm owner has the authority to implement any contingency plan." But "such rights become critical when a contract is not complete in the sense that not all details of a transaction (or specific rights of control) can be itemized and agreed upon by the parties involved."

Ownership structure as regulated by a "right of control" then became a key element of the dialectical relationship between the principal and its agent, and therefore, Haller argues that "the incompleteness of contracts makes the discussion of ownership structures meaningful".

Residual rights

However, quoting Cooter (1987), Haller notes that "the initial allocation of legal entitlements (or specific rights of control) does not matter from an efficiency perspective so long as the transaction costs of exchange are nil." Conversely, he adds that "when contractual costs do exist, the allocation of property rights becomes essential for efficiency considerations."

From thence, Haller modelled public and private firm as two different "ownership structures." He asserts that "government owns the residual right of the former and not of the latter. This new development makes government responsible for any distress that could happen to the public firm but not to the private firm. Government's residual right became the main differentiator between private and public firm.

Government's intervention

However, Sappington and Stiglitz (1987) postulate that "the main difference between private and public firms centres on the ease of government's intervention into firms' production activities. Such an intervention is generally less costly in the public domain since the major barrier to intervention, the legal protection of private property, is absent in this case."

But, "though the government can intervene in the public firm at a lower cost, its inability to commit to non-intervention or at least prudence still creates a harmful distortion of the behaviour of the public firm." This later remarks led Haller to wonder "How can one resist the temptation of being a social planner?"

Ownership structure

Laffont and Tirole (1991) examined privatisation through the prism of ownership structure. Quoted by Haller, "they argued that a change of ownership structure involves a trade-off between two different kinds of cost, namely, the cost of private ownership and the cost of public ownership."

They explained that "the cost of private ownership stems from the fact that the manager needs to report to two different parties - the regulator and the group of shareholders", whereas "the manager does not encounter this problem in the public ownership case".

They arrived at the conclusion that, taken all effects together, it is difficult to tell the relative efficiency of the two ownership structures.

Information asymmetry

Shapiro & Willig (1990) and Schmidt (1996a, 1996b), on their part have attributed a comparative advantage to government, as it has the ability "to collect data about a public firm" and to observe variables about a private firm, although these "cannot be verified by the government."

Shapiro and Willig (1990) developed "two agency models with different layers of hierarchy for the private and public firms." These models were compared. Though the set-up is more complicated, they arrived actually close to Sappington and Stiglitz (1987)." They pose that "the public firm is owned by a public official (called "Minister"), but run by a public manager on behalf of this firm-owner. All information about the public firm is shared between these two parties.

The private firm model includes three players. On top of the hierarchy, an official is regulating a firm which is a private owner's property. The owner supervises private managers who can observe some exclusive private information about the firm.

Allocative versus productive efficiency

Haller introduced the "allocative" versus "productive" efficiency debate as related to government decision to nationalise or privatise. In this regards he poses that "the government is well informed about a public firm but is unable to observe a technological factor and the manager's effort level of a private firm." As result, "Privatisation serves as a kind of commitment device of the government to harden the public firm's soft budget constraint." He adds that "by privatizing the firm, the government is committed not to subsidize the firm again."

Referring to Schmidt's (1996a, 1996b) conclusion that "the government is mainly interested in the cost and benefit of a nationalization/privatisation policy", Haller arrives at the same conclusion which he justifies by the fact that "under nationalisation, allocative efficiency is high but productive efficiency is poor", while "on the other hand, allocative efficiency is lower while productive efficiency is higher under privatisation due to a harder budget constraint."

Common agency through multiple ownership

Haller rhetorically introduced the concept of common agency, by asking whether "the feature of common agency can identify the difference between private and public firms."

To this effect, he pushes forward that "a private firm can have a multitude of owners, hence many principals. Prima facie, the government is the single owner of the public firm." However, as it is well recognized, "one agent with several principals is also common in the public domain." Haller argues that "there exist many different cliques, e.g. ministers, public servants, managers and board of directors trying to influence the operations of state-owned enterprises. These cliques sometimes cooperate but usually compete with each other. So, it is hard to identify one unified persona that manipulates the agent to pursue some well defined interests." But going to the other extreme, Aharoni (1982) describes a state-owned enterprise as an agent without a principal.

Conclusion

The discussions on privatisation in the framework of the principal agent theory have favoured the emergence of topical issues focused on the distinction between public and private firms. Among these issues are: government contracting, risk sharing, incomplete contract, residual rights, ownership structure, government's intervention, Information asymmetry, information imperfection, incentives, transaction cost, allocative versus productive efficiency, and common agency.

There is a rational link between privatisation and the principal-agent theory since one of the goals of privatisation is to resolve the problem highlighted by latter theory. Privatisation is a mechanism and a policy device targeted at transforming state owned enterprises.

Contacting and risk sharing are key elements of privatisation. The discussion has exposed structural concepts including residual rights, information asymmetry, allocative and productive efficiency, cost of public ownership and cost of private ownership, and common agency. Privatisation exacerbates discursive issues such as incomplete contract and government intervention under government regulation.

4.3.2 Contract theory of government

Contractual void

In 2009, Fred E. Foldvary[cxxi] presented a paper titled "The Private Provision of Public Goods: The History and Future of Communal Liberalism" at the international colloquium "Liberalism and Communal Self-Administration", organized by the Liberal Institute of the Friedrich Naumann Foundation for Freedom. In his paper, he defines government as "governance imposed by force, without the explicit agreement of all the competent parties." He adds that "a "state" is a government with territorial jurisdiction. In contrast, a club has voluntary governance."

Imposed and voluntary governance

Foldvary poses that the term governance has two distinctive elements: First is rules. Second is the power to enforce the rules. However, Foldvary reports that some scholars have claimed that there is no clear distinction between imposed and voluntary governance." He emphasises that their main argument is that "if one lives in a city or other governmental jurisdiction, one implicitly agrees to the rules; that this presumes an implicit contract." But in his analysis, he argues that "agreement has to be real. A person needs to think and feel that he agrees. How can I agree if I don't agree that I agree?"

Market as an analogy of state

However, refusing to agree with contract theory of government, Foldvary admits that in certain contexts likened to markets, there are implicit agreement passed between sellers and buyers, as "there are of course implicit agreements in the market. It is understood that when I enter a shop, I need to pay for the things I take out. The shopper knows this and, if he is not a thief agrees with this."

Non rival and not excludable goods

Discussing the legitimacy of such agreements, Foldvary introduces a definition of “public goods” by noting that “some economists define a public good as both non-rival[26] and non-excludable[27].” But quoting Paul Samuelson, he resolved to define public goods as only non-rival. He thence retained that “Private Provision of Public Goods” means the provision of collective goods by the private sector.

Community chart

Nevertheless, besides strictly “Private Provision of Public Goods” Foldvary introduces community as vehicle to resolve “public goods” problems. He asserts that one “can trace self-government to medieval Europe, where lords of the land organized free communities. The inhabitants received protection and services in exchange for the payment of rent. Each member of a "sworn commune" took a public oath to obey the city charter in the form of “agreements” which are the root of the covenants of modern times.” He further notes that while “The charters of some medieval towns established liberties and self governance; the city charter was a social contract, and such contracts were historical sources of the contract theory of government.”

Constitution, community and contracts

Holding a different view, Timothy O. Lenz (2005)[cxxii]advances that “according to the contract theory, government is created when individuals agree to live together under a system of laws. Individuals give government certain powers, but they keep certain rights. For example, individuals give up their right to prosecute or punish criminal acts in exchange for the government assuming responsibility for providing public safety. But citizens acting

[26] Non-rival means that the use by one person does not reduce the use by another.
[27] Excludable means that it is physically possible to prevent a person from using the good. Very few produced collective goods are excludable.

individually or collectively have the right to take the law back into their own hands when the government is unwilling or unable to provide public order, safety, or justice." The debate on "contract theory of government "does not deny the possibility of neither individual or collective agreements, but rather borders on the order of precedence between government constitution, community freedom and individual contracts.

Also, in his paper titled "The machinery of freedom, Guide to a radical capitalism", David Friedman reports Lysander Spooner's[28] attacks against the contract theory of government, asking "precisely when did he signed the social contract (specifically, the Constitution), whether, indeed, anyone signed it, and if so, whether the signers had his power of attorney, and, if not, on what basis he can be held bound to it."

Public versus private property, value and cost

On the definition of public property, David Friedman asserts that "Under public property, the values of the public as a whole are imposed on the individuals who require the use of that property to accomplish their ends." But "Under private property, each individual can seek his own ends, provided that he is willing to bear the cost. Our broadcast media are dull; our printed media, diverse." The philosophical interest in David Friedman's contribution dwells on the new distinction between "collective and individual property": **value** and **cost**.

Convertibility of collective property

In a closer connection with our topic of privatisation, David Freidman asks a critical question which relates to the possibility to convert "collective property" into "individual property". For

[28] Founder of the American Letter Mail Company, and a nineteenth-century libertarian anarchist and author of an anarchist tract entitled 'No Treason: The Constitution of No Authority'.

instance, He asks how possible can government “Convert the airwaves to private property”. At this juncture, he therefore introduced the idea of right as defined by government. In this respect, he advances that “Let the government auction off the right to broadcast at a particular frequency, frequency by frequency, until the entire broadcast band is privately owned.”

Having said that, Friedman raise the usual concern attached to privatisation which consists in the attempt to balance value and cost: “Would this mean control of the airwaves by the rich?” He answers unequivocally that “private properties in newsprint does not mean newspapers are printed only for the rich.” He argues that “the marketplace is not a battlefield, where the person with the most money wins the battle and takes the whole prize; if it were, Detroit would spend all its resources designing gold Cadillacs for Howard Hughes, Jean Paul Getty, and their ilk.”

Conclusion

The theory of government defines the state as a contractual void because government’s rules and power are enforced without the explicit agreement as opposed to voluntary governance. However, in certain context government can be likened to market whereby implicit and contextual agreements are passed between parties. Such agreements are facilitated because of two characteristics of the goods involved are public in the sense that they are “Non rival” and “non excludable”. Thus, these types of goods constitute the kernel of state towards which everyone convergences.

In connection with privatisation, the two operational notions of goods and the private provision of goods are introduced to crystallise the functioning of the state, with the community the unit where social contract are formed and enforced. These collective and/or individual agreements represent the basis of any social contract that gradually strengthens constitutional powers and communities. A distinction arises as regards the definition of public versus private property as respectively determined by value and cost.

Some collective properties are deemed convertible into individual property by the mystical and mythical substance represented by the right attached to such property acknowledged by the government. From this perspective, privatisation is viewed as a balance between value and cost as moderated by the definition and transferability of property rights.

4.3.3 Property rights / Transaction cost

Privatisation and transaction cost school

Maja Drakić[cxxiii] (2007) asserts that "Feasible theories of privatisation in modern economic history originate from institutional theory of firm, introduced by Coase, and later developed by Demsetz." He emphasizes that "Coase has also dealt with issue of privatisation within theory of transaction costs (social costs)."

Function of transaction cost

And, according to Shubha Ghosh[cxxiv] and David M. Driesen[cxxv] (2003)[cxxvi], "transaction costs perform useful functions. They frequently enable those engaging in transactions to obtain information needed to correct for information asymmetries or inadequate information. They facilitate efficient transactions, allow the avoidance of bad transactions, and serve important equitable goals."

Coase theorem

According to Maja Drakić[cxxvii] (2007) "Despite the fact that property rights are the keystone of an economic system and provide the basis for trade and a market economy, until 1960s there almost was no theoretical work on the central role they play in economic development." Maja further opines that "until Coase, Demsetz, and Alchian began writing, economists were taking property rights as given and their economic analysis lied on the assumption that the western-style rules and norms regarding the use and allocation of property were present. This assumption is usually valid in developed capitalistic world, but not in the areas where those institution are absent."

More broadly, Coase theorem states that when trade in an externality is possible and there are no transaction costs, bargaining will lead to an efficient outcome regardless of the initial allocation of property rights. Explicitly defined, "A transaction cost is a cost incurred in making an economic exchange (restated: the cost of participating in a market). For example, most people, when buying or selling a stock, must pay a commission to their broker; that commission is a transaction cost of doing the stock deal. Or consider buying a banana from a store; to purchase the banana, your costs will be not only the price of the banana itself, but also the energy and effort it requires to find out which of the various banana products you prefer, where to get them and at what price, the cost of travelling from your house to the store and back, the time waiting in line, and the effort of the paying itself; the costs above and beyond the cost of the banana are the transaction costs. When rationally evaluating a potential transaction, it is important to consider transaction costs that might prove significant." (wikipedia). If transaction is assumed to be the vehicle, what is the driver?

Dimensions of property rights

Steve Pejovich[cxxviii] emphasizes two important dimensions of property rights. As put by Steve, "First, it would be wrong to separate property rights from other human rights. The rights of an individual to write or talk are property rights of that individual, because they regulate the relations between that individual and other people. Thus, property rights always refer to relation between people. Second dimension of property rights originate from the first: property rights are always related to individuals."

Otherwise put by Maja, "If I own the car, my possession of the car doesn't regulate the relation between me and the car, but the relation between me and all other individuals in the society with regard to the right to use the car. This confirms the notion of property rights as an institution regulates norms of behaviour with regard to scarce economic resources. Theory of transaction costs, the theory of firm and property rights theory give a clear picture what mass privatisation will give as a result at the end. But, none of them deals too much with the features of the path how to get there."

Efficient allocation of resources versus original allocation of property rights

Analysing Coase's theorem, Maja advances that "The Coase's theorem says: Efficient allocation of resources doesn't depend on original allocation of property rights over resources, if 1) there are no transaction costs and 2) property rights are clearly defined." He sustains the idea that "The transaction costs are costs of exchange of property rights. They include direct costs of exchange (seeking opportunities for exchange, collecting information, negotiation costs, fees economic agents must pay in order to complete exchange transaction) and costs of maintaining institutional structure needed for any kind of economic activity to take place (judiciary, police, infrastructure). Clearly defined property rights means that the property rights are protected and that owners can freely exercise property rights and use their property according to their free will. The protection of property rights means that the state guarantees inviolability of private property and strong commitment that the state won't usurp private property through high taxes."

Conclusion

Issue related to the transaction cost integrate the practical concerns imposed on practitioners of privatisation. Transaction costs, as a cost of participation in a market, enables those engaging in transaction to correct the asymmetric information raised by the principal-agent school, to be as well informed as government as regards the public firm. They facilitate equitable informational completeness among bidders.

Transaction cost insures equity of participation and induces efforts from bidders in the process of the transfer of property rights. Coase theorem introduced bargain as an alternative to transaction cost based market competition. This review allows the definition of property right as a normative regulator of social relations in connection with usable and transferable properties.

Transaction cost include direct costs of exchange (seeking opportunities for exchange, collecting information, negotiation costs, fees economic agents must pay in order to complete exchange transaction) and costs of maintaining institutional structure needed for any kind of economic activity to take place (judiciary, police, infrastructure).

4.3.4 Partial privatisation and incomplete contract theory

Rationale of transaction costs

According to Jean Tirole[cxxix] (1999) "In the literature, incomplete contract models are usually preceded by an invocation of transaction costs, namely on the occasion of one or several of the following three ingredients: **Unforeseen contingencies** (Parties cannot define ex ante the contingencies that may occur or actions that may be feasible later on. So, they must content themselves with signing a contract such as an authority or ownership relation-ship that does not explicitly mention those contingencies, or with signing no contract at all.); **Cost of writing contracts** ("Even if one could foresee all contingencies, they might be so numerous that it would be too costly to describe them in a contract."); and **Cost of enforcing contracts** (Courts must understand the terms of the contract and verify the contracted upon contingencies and actions in order to enforce the contract.).

Importance of incomplete contract

He adds that "incomplete contract is the key to a good understanding of a number of economic issues" and, prompts that "Consider the patent system. It has long been recognized that patents are an inefficient method for providing incentives for innovation since they confer monopoly power on their holders." So, otherwise expressed by Walden[cxxx] (2000) "The basic idea of incomplete contract theory is that property rights should be assigned to the firm whose investment is most important in generating return of that asset." Walden argues that "This is because a firm will under-invest in an asset for which it must share the value generated by such investment. That is to say if a firm does not wholly own an asset then it must share any value generated by that asset with the other owner(s) of the asset." He further argues that "A firm will invest in that asset only up to the point where marginal cost of investment equals the fraction of the marginal return on investment the firm can expect to recover. Thus, the firm under-invests relative to the globally optimal level." This last view holds that economic agents arbitrate between on one side "property right" and on the other "the return on investment".

Application to privatisation

As regards privatisation, Rim Kaâniche Mestiri (2010) asserts that "Privatisation results in an incomplete contract between the private leaders and owners ... He argues that "It arises that the public property is less powerful than that private since in the first, the residual rights are distributed or allocated to several holders. Thus, privatisation would be capable to mitigate these anomalies. Indeed, the incomplete contracts suppose the existence of efficient mechanisms of control. Those do not exist in the public firm, considering the thinner effect previously analyzed." In this sense privatisation is introduced as a solution model to the incomplete contract problem. Privatisation is therefore a solution to problems inherited from principal-agency theory and the contract theory of government.

Grossman–Hart–Moore model

In this regards, Grossman Hart Moore introduced a model of property rights approach of incomplete contract theory to address the issues of "How the boundaries of the firms determined (Make or Buy) ?"; "Why do we see different ownership structures of the firm?"; "What does the change of ownership structures change?". In this model, Grossman assumes and concludes as follows:

- There are two assets: A and B.
- There are two agents: buyer (b) and seller (s) (e.g., final goods manufacturer and intermediate goods supplier). They trade with each other at most one indivisible good.

- Property Right: The party who owns an asset can use it without permission by the other party as long as doing so do not violate the laws.

- Specific Investments: $e_n \in [0,\infty)$ (n = b, s). Agent n incurs the cost e_n.

- R(eb): revenue of the buyer who obtain by a trade between him and seller. R' > 0 and R" < 0.
- C(es): production cost of the seller. C' < 0 and C" > 0.
- An (n = b, s): set of the assets owned by agent n. An = {A, B}, An = {A}, An = {B}, An = $\varnothing$.
- V n(en;An): outside payoff of agent n when he does not trade with agent j (j _= n).

We assume

$R'(eb) > V_b^1 (eb; \{A,B\}) > V_b^1 (eb; \{A\}) = V_b^1 (eb; \{B\}) > V_b^1 (eb; \varnothing) > 0$

- $C'(es) > V_s^1 (es; \{A,B\}) > V_s^1 (es; \{A\}) = V_s^1 (es; \{B\}) = V_s^1 (es; \varnothing)$.

- $R(eb) - C(es) \geq V^b(eb;A^b) + V^s(es; A^s)$: The buyer and seller should trade with each other rather than trading with other parties and obtaining their outside payoffs.

Timing
Date 0 Allocation of ownership for the assets is determined.
Date 1 Both buyer and seller simultaneously choose their investment levels e_b and e_s.
Date 2 The investment levels are observed to both parties. Then negotiation occurs for whether or not to trade and how much the buyer pays to the seller.

Complete Contracting
- Suppose that both e_s and e_b are contractible.
- The first best investments (e^*_b, e^*_s): $(e^*_b, e^*_s) = \arg\max R(e_b) - C(e_s) - e_b - e_s$.

Incomplete Contracting
- Suppose that e_s and e_b are not contractible at all. Also suppose that the realized values of R and C are not contractible. No contracts are assumed to be signed ex ante and only ownership structure is determined at date 0. However we assume that at date 2 the parties can contract on whether or not to trade and how much the buyer pays to the seller.
- Date 2: Nash Bargaining Solution determines the ex post payoff of the seller:

$U_s \equiv ½ \{R(e_b) - C(e_s) - V^b(e_b;A^b) - V^s(e_s;A^s)\} + V^s(e_s;A^s)$, and the buyer
$U_b \equiv ½ \{R(e_b) - C(e_s) - V b(e_b;A^b) - V^s(e_s;A^s)\} + V b(e_b;A^b)$.

NOTE here that by assumption the buyer and seller decides to trade with each other at date 2 (rather than obtaining the outside payoffs).
• Date 2: The buyer (seller) chooses the investment e_b (e_s) to maximize $U_b - e_b$ ($U_s - e_s$).
$\hat{e}_b$: $½ \{R'(\hat{e}_b) + V^b_1 (\hat{e}_b; A^b)\} = 1$,
$\hat{e}_{s:}$ $½ \{-C'(\hat{e}_s) + V^s_1 (\hat{e}_s;A^s)\} = 1$.

• "Holdup Problem" (Underinvestment): $\hat{e}_n < e^*_n$ for n = b, s.

How should the parties allocate the assets among them to maximize their ex ante total payoffs?

Results

(1) Suppose that both assets are complementary in the sense that

$V^n_1(e_n; \{A,B\}) > V^n_1(e_n; \{A\}) = V^n_1(e_n; \{B\}) = V^n_1(e_n; \emptyset) = 0$.

Then two assets should be allocated to one party: Suppose that each asset was allocated to separate agent. Then, since $V^n_1(e_n; \{A\}) = V^n_1(e_n; \{B\}) = V^n_1(e_n; \emptyset) = 0$, if both assets were allocated to one party, his investment incentive could be increased while keeping the other party's incentive unchanged.

(2) Suppose that two assets are independent in the sense that

$V^n_1(e_n; \{A,B\}) = V^n_1(e_n; \{A\}) = V^n_1(e_n; \{B\}) > V^n_1(e_n; \emptyset)$.

Then each asset should be allocated to separate agent: Suppose that two assets are allocated to one party. Then, if each were allocated to separate agent, the investment level of the party who owned both could not be reduced while the party who is allocated one asset has higher investment incentive.

(3) Suppose that agent n is indispensable for asset A in the sense that for $j \neq n$:

$V^j_1(e_j; \{A,B\}) = V^j_1(e_j; \{A\}) = V^j_1(e_j; \emptyset) = 0$.

Then asset A should be allocated to agent n: If asset A is allocated to agent n, his investment incentive is increased while agent j's incentive is not changed.

Source: Grossman–Hart–Moore (GHM) model of property rights approach

Nevertheless, critiques to GHM model say that GHM model assumes unconditional property rights in the sense that: 1. Allocation of assets is determined ex ante before parties make specific investments, and hence, 2. it is never changed at all ex post after investments are made. It is argued that if one allows the parties to write option contracts which make asset ownership contingent on ex post state, then they may be able to improve their welfare. Among these are Maskin and Tirole (1999 RES) and Noldeke and Schmidt (1998 RAND).

However, Timothy Besley and Maitreesh Ghatak[cxxxi] (2001) assert that "from the seminal work of Grossman and Hart (1986) and Hart and Moore (1990) (henceforth, GHM), it is now appreciated that incomplete contracting provides a useful foundation for understanding the importance of ownership of firms."

They provide that "There has been a dramatic change in the division of responsibility between the state and the private sector for the delivery of public goods and services in recent years with an increasing trend toward contracting out to the private sector and "public-private partnerships."

They adjudge that "if contracts are incomplete then the ownership of a public good should lie with a party that values the benefits generated by it relatively more." They argue that "This is true regardless of whether this party is also the key investor or other aspects of the technology". Their basic argument is illustrated in the box below:

Suppose that a government agency (henceforth, the government) is deciding how much to invest in improving the quality of a school. There are two possible levels of investment, high and low, with costs 2 and 0, respectively. The payoffs to the government from these two investment levels are 1 and 0. Assume that an educational NGO is active in the community and, because it values the well-being of the children very highly, has payoffs from these investments of 5 and 0. We also assume that the NGO has cash, but lacks a technology for investing in school quality. Hence, it has to rely on government as an investor. Finally, we suppose that the parties cannot contract on the level of investment or realized quality.

Joint government-NGO surplus is highest when the high level of investment is chosen. However, since the level of investment is not contractible, this cannot be guaranteed by an up-front payment from the NGO to the government. Similarly, since the quality of the school is not contractible, a promise by the NGO to make a transfer to the government if the quality of the school improves will not be kept.

Following the incomplete contracting literature, assume that the parties bargain over the surplus after the investment is sunk, and the choice of investment depends upon the share of the surplus received by the investing party.

Ownership affects the disagreement payoffs of the parties, hence their share of the surplus and investment incentives. If the government owns the school and chooses the high investment level, then in the event of disagreement, the government will continue with the project (since its ex post payoff is 1 . 0), and the NGO will receive a payoff of 5. Hence, the NGO cannot be induced to contribute anything to the project ex post, and ex ante the government will prefer the low level of investment.

If the NGO owns the school, both parties receive disagreement payoffs of zero since the investment needs the government's continued participation to generate any surplus. Bargaining therefore results in each receiving half of the surplus from the project.6 The government will now choose the higher level of investment as this will generate a net ex ante payoff of 3 2 2 5 1 compared with zero under the low investment. Hence, NGO ownership yields the joint surplus maximizing level of investment in this example. Thus, investment incentives are better when ownership of the school is granted to the more caring party (the NGO) rather than the party with the investment technology (the government).

Source: Timothy Besley and Maitreesh Ghatak (2001)

Timothy Besley and Maitreesh Ghatak, summarise their model as follows: "There is a single time period in which a public project can be carried out. Two players, g and n, can undertake human capital investments that will increase the benefits generated by the project (e.g., through improved quality). These investments can be interpreted as knowledge or project-specific skills that are not fully transferable to others in the absence of the investor. The project is “public” in the sense that the benefits that it generates (as distinct from the nonhuman assets associated with the project, or the investments themselves) are non-rival and non-excludable to g and n.”

Their results conclude on the fact that “ownership does not necessarily improve investment incentives” as in the GHM setting, i.e., regarding the ownership of private firms.” They compared the results thereof with a set papers, “such as Chiu [1998], De Meza and Lockwood (1998), and Segal and Whinston (1998), which consider the implications of “outside option bargaining.” They pose that ”Whether the (second-best) joint surplus maximizing arrangement chosen by the government and NGO under incomplete contracting will be good for social welfare is not clear-cut. One important issue is whether the government is likely to be maximizing social welfare in the first place.”They argue that “It is well-known that the median voter’s preference for public goods need not maximize social welfare. To the extent that welfare is not maximized by the government, it is unclear whether NGO involvement moves public good provision toward the social welfare maximizing outcome.” They emphasize that “The case for NGO raising social welfare will be most compelling when there are reasons to suppose that the government undervalues the benefits of the public good compared with social welfare. This is consistent with the arguments often advanced to justify the role of NGOs in developing countries.” They observe that “These are the apathy or inefficiency of most governments or the presence of “neglected” groups in the population who are not represented in the political calculus. On the other hand, if the government’s objective function is not too different from the social welfare function, involvement of “overzealous” NGOs may reduce welfare by inducing overprovision, as is sometimes alleged by critics of NGOs who view them as lobbies for some particular causes.”

Conclusion

The rationale of transaction costs give meaning to incomplete contract models through the need to manage unforeseen contingencies, cost of writing contracts and cost of enforcing contracts which are external to the government contract that justifies privatisation. The concept of incomplete contract is preferable patent system which generates economic monopolies.

Grossman–Hart–Moore model of property rights approach of incomplete contract theory addresses decision-based issues facing ownership. Critiques of this model point at the determination ex-ante of assets and the ex-post fixity of investment as the weaknesses of this approach.

However, its supporters see it as a useful foundation for understanding the importance of ownership of firms and a basis for more a refined approach to privatisation as they poses that if contracts are incomplete then the ownership of a public good should lie with a party that values the benefits generated by it relatively more. This last view tends to substitute the concept of key investor with the one of maximizer that would thence allow a greater eligibility of NGO in the privatisation process.

4.3.5 Privatisation optimisation models

Nandini Gupta, John C. Ham, and Jan Svejnar in a paper[cxxxii] titled "Priorities and Sequencing in Privatisation" reviewed a number of privatisation models which constitute major theoretical works in line with governments' privatisation objectives: maximising privatisation revenues, maximising public goodwill, maximising static Pareto[29] efficiency, maximising efficiency through informal gains of privatisation, increasing allocative efficiency in a bargaining model, minimising political cost of privatisation.

Maximising privatisation revenues

Nandini Gupta, John C. Ham, and Jan Svejnar (2000) developed "a model of the maximization of privatisation revenues based on asymmetric information between the government and buyers" under the assumption that "government knows the true value or profitability of the firm, but buyers (i.e. external investors) do not. Under the conditions of this model they find that there exists a unique pure strategy equilibrium in which the government sells the more profitable firm first. Their model "predicts that the probability of being privatized will be an increasing function of the profitability of the firm." The model is presented as follows:

Figure 3: Model of maximization of privatisation revenues

We use a two-period setting with two firms A and B, many buyers and one seller.

The firms' profit is given by $\theta_{A,B} \in \{\underline{\theta}, \cancel{\theta}\}$, where θ can take on either of the two values with $\underline{\theta} > \cancel{\theta}$.

The two firms can be of the same type or of different types, where the type of the firm is denoted by its profit.

While the government observes the profitability of the firms, the buyers do not. The government's objective is to maximize privatisation revenues. We assume that all buyers have the same information about the distribution of types of the firms. To simplify issues we assume that different groups of buyers bid in each period, although second period buyers observe the quality of the first period firm. Since there is uncertainty about firm type, the value of the firm to all buyers is given by the expected profits from the firm. Hence, the government is able to extract all the rents from the informational asymmetry, and
obtain a price from the sale that is equal to the expected value of the firm.

The timing of the game is as follows: the types (profits) of the firms are assigned, θ_A, θ_B where θ_i

[29] Pareto Efficiency: Named after Italian sociologist and economist Vilfredo Pareto (1848-1923), Pareto efficiency is defined as the efficiency of a market which is unable to produce more from the same level of inputs without reducing the output of another product. V Pareto, Manuale d'economia politico (Milan, 1906)

$\in \{\underline{\theta}, \bar{\theta}\}$, i = A, B; the government observes the types and picks firm A or firm B to be sold in the first period, and the firm is sold at a price equal to its expected value; in the second period, buyers observe the type of the first firm and then bid for the second firm.

Let A be the firm being sold first and B the firm sold in the second period. We specify the following probability distribution for the firms' profits:

$p(\theta_A = \bar{\theta}, \theta_B = \bar{\theta}) = p(\theta_A = \underline{\theta}, \theta_B = \underline{\theta}) = \alpha$, and

$p(\theta_A = \bar{\theta}, \theta_B = \underline{\theta}) = p(\theta_A = \underline{\theta}, \theta_B = \bar{\theta}) = \beta$ where $\alpha, \beta \in (0,1)$.

Next, we calculate the prices offered for each firm under the two sets of beliefs of the buyers regarding the sequence in which the firms will be sold by the government.

(a) Buyers believe that the government will sell the better firm first.

The first period price (price offered for the firm sold in the first period) is the expected value of the firm given buyers' beliefs and is equal to :

$$E(\theta_A \mid \theta_A \geq \theta_B) = p_1 = [\bar{\theta}(\alpha + 2\beta) + \underline{\theta}\,\alpha] / [2(\alpha + \beta)] \qquad (2.1.1)$$

In the second period buyers will observe the quality of the first firm. Correspondingly, the second period price (the price for the second firm) conditional on the value of the first firm A, is given by

$$p_2 = (\bar{\theta}\alpha + 2\beta\underline{\theta}) / (\alpha + 2\beta) \quad \text{if the buyer observes } \theta_A = \bar{\theta}$$
$$p_2 = \underline{\theta} \quad \text{if the buyer observes } \theta_A = \underline{\theta} \qquad (2.1.2)$$

We use these prices to check whether it is an equilibrium strategy for the government to sell the better firm first under these buyer beliefs.

Under these buyer beliefs, the respective payoffs in present value over both periods to the government from i) selling the better firm first or ii) deviating and selling the worse firm first, are given by

$$V^s = p_1 + \delta((\bar{\theta}\alpha + 2\beta\underline{\theta}) / (\alpha + 2\beta)) \quad \text{if it follows and sells the good firm first}$$
$$V^s = p_1 + \delta\,\underline{\theta} \quad \text{if it deviates and sells the bad firm first,} \qquad (2.1.3)$$

Where $\delta \leq 1$ is the discount rate.

As can be seen from the above expression, the payoff from selling the good firm first is greater than the payoff from deviating; hence the optimal strategy for the government, given that the buyers believe that it will sell the best firm first, is to follow. To see the intuition behind this result suppose that the buyers believe that the government will lead with the better firm, and the government deviates and sells the worse firm first instead. Given their beliefs, the buyers in the second period will then observe the low quality of the first firm and conclude that the second firm is of equal or lower quality. As a result, the second period price will be lower than if the government had kept to the strategy of selling the better firm first. Thus, when the buyers believe that the better firm will be sold first, it is an equilibrium strategy for the government to lead with the best firm. Next we show that this argument does not extend to the case where buyers believe that the government will sell the worst firm first.

(b) Buyers believe that the government will sell the worse firm first.

As in the previous case, the first period price is the expected value of the firm given buyers' beliefs and is equal to

$$E(\theta_A \mid \theta_A \leq \theta_B) = p_1 = (\bar{\theta}\,\alpha + (\alpha + 2\beta)\,\underline{\theta}) / (2(\alpha + \beta)) \quad (2.1.4)$$

The second period price depends on the realization of A θ (the observed value of the first period firm) and is given by

$$p_2 = \bar{\theta} \quad \text{if the bidder observes } \theta_A = \bar{\theta}$$
$$p_2 = (2\beta\,\bar{\theta} + \alpha\,\underline{\theta}) / (\alpha + 2\beta) \quad \text{if the bidder observes } \theta_A = \underline{\theta} \quad (2.1.5)$$

If the buyers believe the government will sell the worse firm first, then the respective payoffs to the government from the two strategies are given by

$$V^s = p_1 + \delta((2\beta\,\bar{\theta} + \alpha\,\underline{\theta}) / (\alpha + 2\beta)) \quad \text{if it follows and sells the bad firm first}$$
$$V^s = p_1 + \delta\,\bar{\theta} \quad \text{if it deviates and sells the good firm first,} \quad (2.1.6)$$

As can be seen from equation (2.1.6), the payoff from deviating is higher than the payoff from following and the government will always choose to deviate when the buyers believe that it will sell the worst firm first. Hence, it cannot be equilibrium for the buyers to believe that the government will sell the best firm last. The intuition behind this result is similar to that of the previous case. Suppose that buyers believe that the government will lead with the worst firm, and instead the government deviates and sells the better firm first. In the second period, buyers observe the quality of the first firm and conclude that the second firm is of even higher quality. Second period buyers pay a higher price than they would if the government had sold the worse firm first; hence, under these buyer beliefs it is always better for the government to deviate. Thus the pure strategy equilibrium in this model is for the government to lead with the more profitable firm.

Source: Nandini Gupta, John C. Ham, and Jan Svejnar (2000), William Davidson Institute Working Paper Number 123

Privatisation and Pareto-efficiency

Arieh Avishur[cxxxiii] (2000) presented "a theory that explains the prevalence of different models of privatisation across countries and across industries". In his paper titled "A positive theory of privatisation", Avishur intended to "First, establish the analytical framework for determining the impact of privatisation on the value of a privatised firm, on aggregate social welfare, and on the relevant interest groups: taxpayers, consumers, employees, and private investor". Merging both the income distribution and the production efficiency aspects of the process, Avishur identified the government's principal decision variables, and presented the political tradeoffs faced by the government when carrying out privatisation. He elaborates on the "interaction between productivity and Pareto efficiency by introducing two fundamental laws of privatisation which specifies the necessary and sufficient conditions for privatisation to generate a Pareto[30] dominating allocation."

Avishur found a direct positive relationship between privatisation and productivity and its effect on aggregate welfare. The features of his one-period model[31] provides for a zero

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[30] Pareto Efficiency: Named after Italian sociologist and economist Vilfredo Pareto (1848-1923), Pareto efficiency is defined as the efficiency of a market which is unable to produce more from the same level of inputs without reducing the output of another product. (V Pareto, Manuale d'economia politico, Milan,1906). A central concept in economics is Pareto efficiency.

A situation is said to be Pareto efficient if there is no way to rearrange things to make at least one person better off without making anyone worse off. What makes Pareto efficiency important is that almost everyone would agree that society should avoid situations that are not Pareto efficient. That is, when something could be done to make at least one person better off without hurting anyone, most people would agree we should do it. Economists often describe inefficient situations (those that fail the Pareto test) as "leaving money on the ground." To see why, imagine that someone walking along a deserted beach finds a $20 bill on the sand. If she picks it up, she's better off and no one else is worse off. Leaving the bill on the sand to wash out to sea would be silly. You might be tempted to reply "Wait, isn't the original owner of the bill worse off?" The answer is "No" because it's important to distinguish between two different events: (1) the original owner losing the bill, and (2) the other person finding it. The original owner definitely became worse off when he lost the bill. However, once the bill is gone, he'll be the same whether someone picks it up or it washes out to sea. Pareto efficiency is important because it provides a weak but widely accepted standard for comparing economic outcomes. It's a weak standard because there may be many efficient situations and the Pareto test doesn't tell us how to choose between them. Imagine that two people are walking together along the beach when they find the bill. All of the following are efficient: one person picks it up and keeps it; the other person picks it up and keeps it; one person picks it up and gives $10 to the other; and so on. Who gains from finding the bill is quite different in those scenarios but they all avoid the inefficiency of leaving it sitting on the beach. Much of economics is concerned with identifying inefficient situations and designing policies and institutions that will promote efficiency and reduce inefficiency. A policy or action that makes at least one person better off without hurting anyone is called a Pareto improvement. (http://wilcoxen.maxwell.insightworks.com/pages/225.html)

Pareto efficiency is something you may sometimes hear mentioned in relation to economic theory. It is named after an Italian economist named Vilfredo Pareto. The idea of a Pareto efficiency is not related to equity because something can be meet the requirements of Pareto efficiency but be very inequitable indeed. The idea of Pareto efficiency is of interest to economists and it is particular importance for game theory. The reason why Pareto efficiency is not related to equity is quite easy to understand. If one individual had a million apples and everybody else only had one apple then it would still be Pareto efficient so long as there is no way for the individual to get a million and one apples without it making everyone else poorer. If he could get a million and one apples without it making other people less well off then it could be described as Pareto efficient. The idea of Pareto efficiency is often used in the real world. It provides justification for increasing the resources given to one group if doing so does not lower the resources of other groups. All though Pareto efficiency is not concerned with equity there are many who would see it as fair. When applying the concept to the real world there is often the idea of compensation; if a change causes a loss to one group they receive compensation so that there is no real loss. (Yang Yang)

Given a set of alternative allocations of goods or outcomes for a set of individuals, a change from one allocation to another that makes at least one individual better off without making any other individual worse off is called a "Pareto improvement" or a "Pareto-optimal move". An allocation is defined as "Pareto efficient" or "Pareto optimal" when no further Pareto improvements can be made. Such an allocation is called a "strong Pareto optimum (SPO)" by way of setting it apart from mere "weak Pareto optima" as defined below. (http://en.wikipedia.org/wiki/Pareto_efficiency)
Formally, a (strong/weak) Pareto optimum is a maximal element for the partial order relation of Pareto improvement/strict Pareto improvement: it is an allocation such that no other allocation is "better" in the sense of the order relation.

[31] The one-period mathematical model has two times to be concerned with. There is t = 0 (the present) and t = T (some future time) in which we don't know what will occur. This mathematical theory relies heavily on the concept that there is a finite number of possible future states of the world. Some examples of possible future states of the world are the occurrence of a

corporate tax rate, and a single good version of the model[32] with an industry level analysis, constant returns to scale and a unique cost of size c; with demand negatively related to price:

$$Q = Q\,(P) \text{ with } Q'\,(P) < 0$$

He assumes a situation in which state and private ownerships are admitted as the only two possible modes of operation represented by a variable (**m**) which can therefore obtain only to values ($\mathbf{m_1}$ for public ownership and $\mathbf{m_2}$ for private ownership). In this model 'private ownership' is defined as any distribution of shareholding in which more than 50% of the voting power and consequently the control over the decision process is held by the private sector.

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flood, or the election of a new president, both of which could have some positive or negative impact on the financial market of the world.
The important idea here is that we make investment decisions now (at t = 0), which will, in general, lead to uncertain outcomes in the future (at t = T), depending on which future states of the world actually do occur. In a one-period model, a market is a list of security $d_{1,\ \ldots,}\ d_N$ and can be represented by it's N x M pay-out matrix D which has N securities and M future possible states of the world.

$$D = \begin{pmatrix} d_1(1) & \ldots & d_1(M) \\ \vdots & \cdots & \vdots \\ d_N(1) & \ldots & d_N(M) \end{pmatrix}$$

This pay-out matrix gives the amount each security pays in each state of the world. The prices of the securities are given by the N-vector, where P_j is the money you have to invest to acquire one unit of security j.

$$P = \begin{pmatrix} P_1 \\ \vdots \\ P_N \end{pmatrix}$$

In a one-period model, you can calculate the current price of a derivative by using the Risk Neutral pricing Formula if you assume a few things. The following should be true: there are only two possible future states of the world; you have a three-asset market consisting of a stock, a bond, and a derivative which has just been introduced into the market.
The one-period model easily extends to a multi-period model. Assumptions for simplicity: The interval from t = 0 to t = T is divided into N sub-intervals; Our market only consists of a single stock and a bond. (Nathan Fiedler, Joel Kulenkamp, Steven Koch Ryan Watkins and Brian Sikora, "The Black-Scholes Equation in Finance")

[32] The framework best describes situations in which a single public provider, protected by legal barriers to entry, operates in the industry before privatisation occurs. These circumstances are most common in public utilities ... However the framework also applies to SOEs operating in such industries such as airlines, coal-mining, public transportation, or even steel or car manufacturing.

He also assumes that changing the mode of operation can affect both ‘price and costs’ with a twofold potential effect on costs: (1) it may affect efficiency in production, and (2) it may affect the price of inputs (primarily wages):

$P^{33} = P\ (m)$

$c^{34} = c\ (m, w(m))$ with w denoting wages,

He equally assumes that there is ‘specialisation’ in ownership with a clear separation of ownership and control over the decision making process, leading to a reduction in agency cost, and thus the following assumption:

$c\ (m_2, w(m_1)) < c\ (m_1, w(m_1)$

Privatisation and the value of the privatised firm

According to Avishur, ‘the aggregate value of the firms in the privatised industry can be modelled as a function of the mode of operation by:

$V\ (m) = Q\ (P\ (m))\ [P\ (m) - c\ (m, w\ (m))]$

The first order effects of privatisation on variables with respect to ‘m’ on the value of aggregate firms can be expressed as ‘the total differential of V evaluated at m_1’, as follows:

$dV|_{m1} = dP\ [P - c]\ (\partial Q/\partial P) + Q\ [dP - (dc|_{w(m1)} + dw\ (\partial c/\partial w)]$

[33] Under state ownership Government set prices consistent with its policy goals. Under private ownership government possesses effective means of price control as well (see Beesley and Littelechild, 1983)

[34] Privatisation is expected to improve efficiency and reduce the component of workers’ rent in wages.

Borrowing from Shepard's Lemma[35] on the partially passive cost function, he comes at three distinguished effects of privatisation as how the changing of the mode of operation can affect the value of aggregate firm:

$$dV = \underline{\{dQ\,[P - c] + dP\,Q\}}\ \underline{\{-\,dc|_{w(m1)}\,Q\}}\ \underline{\{-\,L\,dw\}}$$

These effects are: the price effect, the productivity effect and the wage effect.

4.3.6 Cross theoretical issues

The free market and the transferability of government property rights

The free-market theory poses that "within the ideal free market, property rights are voluntarily exchanged at a price arranged solely by the mutual consent of sellers and buyers. By definition, buyers and sellers do not coerce each other, in the sense that they obtain each

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[35] Edward R. Morey, February 20, 2002

Suppose g (x, a) where a is a parameter. Choose x to max the function. In general x* = x (a). Therefore g (x (a) , a) is the maximum value of g (.) given a. Call this a value function: M (a) = g (x (a), a). The profit function $\pi \equiv (p, w) = p\, f(x(p, w) - w'\, x(p, w))$ is an example. Returning to the general form : M (a) = g (x (a), a).

Differentiate both sides of this identity with reference to a

$d\,M(a)/da = [\partial\, g(x(a), a) / \partial x]\ [\partial\, x(a) / \partial a] + [\partial\, g(x(a), a) / \partial a]$, but :

$[\partial\, g(x(a), a) / \partial x] = 0$ because g (x, a) is maximized when x = x (a). Therefore

$d\,M(a)/da = [\partial\, g(x(a), a) / \partial a]$ (This is the Envelope Theorem)

Return to the example value function $\pi = (p, w)$. By the envelope theorem

$\partial\, \pi(p, w) / \partial p = \partial\, [p\, f(x(p, w) - w'\, x(p, w))] / \partial p = \partial\, [p\, f(x) - w'\, x] / \partial p \quad x = f(p, w)$

$\partial\, \pi(p, w) / \partial p = f(x(p, w)) = y^s$ (This is Hotelling's Lemma)

Now we consider cost function c = c (y, w) which identifies the minimum cost of producing y given w. Note that c = c (y, w) = w' x (y, w) ; where x (y, w) is a conditional input, demand function. So, c = c (y, w) is a value function (minimum not maximum). For simplicity assume x is a scalar (only 1 input). If the envelope theorem applies: $\partial\, c(y, w) / \partial\, w_i = \partial\, [w'\, x(y, w)] / \partial\, w_i = \partial\, [w'\, x] / \partial\, w_i$

Which is the conditional input demand function for input i. (This is Shephard's Lemma). We have just used the Envelope theorem to prove Shephard's Lemma and Hotelling's Lemma. Both are special cases of the Envelope theorem.

other's property rights without the use of physical force, threat of physical force, or fraud, nor are they coerced by a third party (such as by government) and they engage in trade simply because they both consent and believe that what they are getting is worth more than or as much as what they give up.

Price is the result of buying and selling decisions en masse as described by the theory of supply and demand.” In line with the ideology of free-market, Efange (1987) defined public enterprises or parastatal as institutions or organizations which are owned by the state or in which the state holds a majority interest, whose activities are of a business in nature and which provide services or produce goods and have their own distinct management. The transfer of state ownership in public enterprises in a context of free market and transparency forms part of the process of privatisation seen as the transfer of government’s property rights to private interests. But the underlined problem is that of the “rapport de force” between the people and the elites as regards their respective private interest.

The populism school of "the people" against "the elites"

The populism school “defined either as an ideology (more rarely and uncommonly), a political philosophy or a type of discourse, is a type of political-social thought which juxtaposes "the people" against "the elites", and urges social and political system changes. It can also be defined as a rhetorical style deployed by members of political or social movements. It is defined by the Cambridge dictionary as "political ideas and activities that are intended to represent ordinary people's needs and wishes".

Transfer of cost accountability

In line with this advocacy, Adeyemo (2008) views privatisation as a means to prompt a change in the social and political system, as he postulates that privatisation only entails detaching the enterprises from government departments and ministries and make them to be a cost accountability centers as done in the private sector. Such a change is intended to relieve Government from the release of subvention to the enterprises. The thought his full of sense since cost accountability is at the root of government subsidies, and forms an inherent part of government accountability to the people. Privatisation can therefore be achieved through the transfer of cost accountability and such other form of accountability from political elites to the people. Indeed, in the context of free market, people's access to public goods and services is constrained by the cost of such goods and services.

The performance of state owned enterprises; the public-choice school

The public-choice school studies the behaviour of politicians and government officials and defines them as self-interested agents. As such, their interactions in the social system lead to issues of constrained utility maximization, game theory, or decision theory. Public choice analysis has roots in positive analysis ("what is") but is often used for normative purposes ("what ought to be"), to identify a problem or suggest how a system could be improved by changes in constitutional rules (Tullock, 1987).

Bureaucrats versus business owner

This approach "depicts the top bureaucrats as being chosen by the chief executive and legislature, depending on whether the democratic system is presidential or parliamentary. The typical image of a bureau chief is a person on a fixed salary who is concerned with pleasing those who appointed him. The latter have the power to hire and fire him more or less at will (Weber). The bulk of the bureaucrats, however, are civil servants whose jobs and pay are protected by a civil service system against major changes by their appointed bureau chiefs.

This image is often compared with that of a business owner whose profit varies with the success of production and sales, who aims to maximize profit, and who can hire and fire employees at will.

As relates to "Rent-Seeking" this school postulates that when both a market economy and government are present, government agents are a source of numerous special market privileges (Krueger, 1974). Both the government agents and self-interested market participants seek these privileges in order to partake in the monopoly rent that they provide. When such privileges are granted, they reduce the efficiency of the economic system. In addition, the rent-seekers use resources that could otherwise be used to produce goods that are valued by consumers. One of the major issues discussed by this school relates to "political market failure" (Isani, 1982).

The pragmatist theory

On its part, the pragmatist theory postulates that the meaning (or understanding) of any policy is determined by its application. Pragmatism is a philosophical movement that includes those who claim that an ideology is true if it works satisfactorily, that the meaning of a proposition is to be found in the practical consequences of accepting it, and that unpractical ideas are to be rejected. As regards the concept of privatisation, the question is whether it works or not.

In this veine Obadan (2000), Obadan & Ayodele (1998) underpinned the essence of state owned enterprises by defining them as organizations whose primary functions is the production and sale of goods and/or services and in which government or other government controlled agencies have no ownership stake that is sufficient to ensure their control over the enterprises regardless of how actively that control is exercised.

However, according to Nwoye (2008), privatisation in Nigeria has not been a popular reform. Privatisation is not inherently good or bad, but the poor performance or effectiveness depends on implementation (Nightingale and Pindus, 1997)." This thought opened some perspectives for the public choice theory which postulates that "The behaviour of public-sector bureaucrats is at the heart of public-choice theory. While they are supposed to work in the public interest, putting into practice the policies of government as efficiently and effectively as possible, this theory emphasizes the importance of the bureaucrat's disposition to policy implementation. At one extreme, bureaucrats are self-interested utility maximizers, motivated by patronage, power, prerequisites of the office, public reputation, salary, and the ease of managing the bureau; at the other, they are characterized by pride in performance, loyalty to a programme, department, or government, and a wish to best serve their fellow".

Diagnosis of public enterprises' privatisation in Nigeria

In Nigeria, Zayyad reported on a Study Group on Public Enterprises to reveal that they were infested with problems such as:·misuse of monopoly powers; defective capital structure, resulting in heavy dependence on the Government Treasury; bureaucratic red tape in their relations with supervising ministries; mismanagement, corruption and nepotism.

Adeyemo (2008) quoted Laleye (1985) saying the bewildering number and types of the organizations called ‘public enterprises’ as well as their different contents and the rationale for which they are set up accounts for lack of authoritative and generally acceptable definition of public enterprises.

Furthermore, Ayodele (2000) explicates that trade liberalization and privatisation was accepted in principle. But, the reason behind privatisation came into question as Ugorji (2005) later stated that the reason behind the privatisation in Nigeria was the “deepening economic crisis and pressure from its international creditors” which led the Babangida administration in 1987 to introduce economic reform measures that included privatisation and commercialization of public enterprises.

More light was shed ono the process of privatisation in Nigeria as Sanusi (2008) ascertained that the privatisation policy involved giving away assets to incompetent private companies, with very marginal participation by Nigerians. According to Ozobia (1999), “the essence of a company is not profit alone. The cost element is the soul of any nation or company ... But Nigerians that own the oil are missing the 80% participation. They are waiting for their 20% profit.” This assertion introduces the rhetorical implications of privatisation in Nigeria.

Jerome (2008) quoted as follows: “privatisation of state-owned enterprises has become a key component of the structural reform process and globalization strategy in many economies. Several developing and transition economies have embarked on extensive privatisation programmes in the last one and a half decades or so, as a means of fostering economic growth, attaining macroeconomic stability, and reducing public sector borrowing requirements arising from corruption, subsidies and subventions to unprofitable SOEs (White and Bhatia, 1998). The scale of corruption in the Nigerian case, however, was unprecedented.

Furthermore, political expediency rather than economic viability govern key project parameters such as plant location, capacity planning, implementation timeframe, employment and product/service pricing (Jerome, 2008). The result was that Nigeria under-achieved its growth potential as a result of a huge public enterprise sector weighed down by inefficiency and massive corruption. As matter of fact, Nigerian public enterprises have long been criticized for their inefficiency, politicization, corruption and poor output.

Conclusion

The free-market theory upholds the voluntary transferability of property rights through mutual consent exchange without any coercive action prices are determined by forces of supply and demand alone. In the light of government's majority interest in stated owned interest, the application to the fee-market position to the privatisation of public enterprises becomes trivially problematic. Thus, the transparent transfer of state ownership in public enterprises in a context of free market and transparency can only be assured through an ad hoc process.

The question is whether this ad hoc process while require the extent of political change sought by the populist school, and whether the privatisation mechanism will yield to a either a concentrated or a wide spread ownership, since transaction cost might be involved. Thence, the debate of whether emphasis should be laid on Transfer of cost accountability, public accountability or transfer of ownership poses a serious dilemma on privatisation agencies and governments.

There is also the need to clarify the fact that, in most developing countries, state failure needs more attention than the emphasis of the public-choice school on the self-interest of government officials seen as rent-seeking agent, or issues surrounding the monopolistic management of key sectors of the economy. Another question relates to the pragmatic fact that in most case state owned enterprises at targeted at public goods and services relevant to the performance of government's public accountability as regards the provision of utilities.

Albeit, the situation of public enterprises is not reluctant as their diagnosis refers to cases of misuse of monopoly powers; defective capital structure, resulting in heavy dependence on the government treasury; bureaucratic red tape in their relations with supervising ministries; mismanagement, corruption and nepotism. All the preceding issues make a case for privatisation as a specific and multidimensional practice and exercise which need to be suitably tailored. However, as an innovative driver of changes and socio-economical stability, privatisation has served as political instrument for socio-economic change with the objectives thereof external to the process itself.

Our ultimate advocacy is that before the adoption on any privatisation policy one should clearly define the overall approach to the state affairs, which could be based either on a top-to-down or down-to-top system approach, as both approaches are known to practice different methods and techniques of governance, different standard of corporate governance and different participation drives.

One needs to bear in mind that the major engine-process of privatisation was highly influenced by restrictive and/or crystallised constituency processes such as the Washington Consensus and the Council of Lisbon which have derived a great deal of advantages from the end of the cold war without dealing properly with major global issues pertaining to a global and balanced development. As an engine of change privatisation has achieved preset objectives, and we believe that it could help achieve reset objectives in the context of current global, regional and national development issues such as global warning, human capital development, etc.

4.4 Nigeria case study: from Political Economy to Privatisation

In Nigeria, Adeyemo (2008) identifies "four distinctive schools of thought" as regards privatisation; firstly, the free-market ideology (property right), secondly the public-choice theory (public sector bureaucrat), thirdly the populism (ordinary people's wishes and needs), and fourthly pragmatism (end result). Privatisation and in some cases commercialization have grown in popularity and acceptability (Adeyemo, 2008). These four schools of thoughts, form two courts of debates, firstly the debate between fee-market and the populism schools on the transferability of government assets, and secondly the interlocution between the public-choice theory and the pragmatism ideology on that performance of state owned enterprises.

4.4.1 Political economy and the Nigerian federalism

Background of the Nigerian statehood

Olowu[cxxxiv] (1991) acknowledges the fact that "There is a large body of literature on federalism in Nigeria covering such major issues as the origins of Nigerian federalism, requisites of federalism, federalism versus other forms of association, the number of state units in the federal system, fiscal issues, political parties, distributional issues, and intergovernmental relations."

"The federal system adopted in 1954 comprised a national government and three regional governments: Eastern, Northern and Western. The Eastern and Western regions became self-governing in 1957, followed by the Northern region in 1959. National independence was won in 1960. A federal system of government was maintained in the independence constitution of 1960, which replaced the 1954 constitution, as well as in the subsequent constitutions: the Republican constitution of 1963, the Presidential constitution of 1979, and the revised presidential constitution of 1989" (Ladipo Adamonlekun, 1991)[cxxxv]. Nonetheless, "in 1967 the regions were abrogated and twelve states created in their place. The number of states increased to nineteen in 1976, and to twenty-one in 1987. In addition, in 1990 there were 449 local government areas that had functioned as a third tier of government since the late 1980s (Martin P. Mathews, 2002)[cxxxvi]."

"In 1990 the Federal Military Government (FMG) included the President, the Federal Executive Council, the civil service, and a federal judiciary made up of federal high courts, courts of appeal, and the Supreme Court. The locus of power was the president and the AFRC, which possessed all law-making powers that could not normally be challenged in any court of law. The Federal Executive Council was an enlarged instrument of the president. The federal judiciary had appellate jurisdiction in appeals emanating from the state judiciaries. It did not have much independence because the government was directly involved in the appointment of judges and in the finances of the federal Judicial Service Commission. The integrity of the judiciary was constantly weakened by the setting up of special tribunals. Some of these tribunals were responsible for conducting trials of politicians of the Second Republic, while a few tried "miscellaneous" cases involving drug, smuggling, or foreign exchange offenses (The Library of Congress Country Studies)."

However, "National leaders in Nigeria, most of who have come from the military, have exhibited various leadership styles. These styles both affect and are affected by Nigeria's federal system of government (Jonas Isawa Elaigwu, 1991)[cxxxvii]."

Nonetheless, as Martins would put it “The allocation of federal revenues was a problematic aspect of fiscal federalism because the states were unequally endowed and were virtually dependent on allocations from the federal government. Several revenue allocation commissions were set up, among them the National Revenue Mobilization, Allocation, and Fiscal Commission established during the 1980s. The major problem arose from disagreements over the criteria that should be used in allocations--derivation, population, need, equality, or minimum government responsibility.” He further indicates that “The federal-character principle emerged as a balancing formula in the 1979 constitution to forestall the domination of the government or any of its agencies or resources by persons from one or a few states, ethnic groups, or §s. The uneven rate of development among the states and §s was largely responsible for the tension and controversy associated with the application of this principle, complicated by the pattern of distribution of the major ethnic groups.”

Izevbuwa Osayimwese and Sunday Iyare[cxxxviii] (1991) highlight the fact that “Nigeria's economic difficulties are due primarily to public-sector mismanagement exacerbated by the dynamics of federalism and state creation and by the growth in centralized federal power. Monetary policy has been inadequate, fiscal policy has rewarded state governments but not brought their spending policies in line with their own resources and with national economic objectives, and resources have been consistently misallocated, largely because of the principle of "federal character."

4.4.2 SOEs and the doctrine of Federal Character

Emergence of state owned enterprises

“The participation of the State in enterprises in Nigeria dates back to the colonial era. The task of providing infrastructural facilities such as railway, road, bridges, water, electricity and port facilities fell on the colonial government due to the absence of indigenous companies with the required capital as well as the inability or unwillingness of foreign trading companies to embark on these capital-intensive projects” (Iheme, 1997).

This involvement was expended and consolidated by the colonial welfare development plan (1946-56) that was formulated when the labour party came to power in the United Kingdom. This trend continued after independence such that by 1999, it was estimated that “successive Nigeria Governments have invested up to 800 billion Nairas into state owned enterprises” (Obasanjo,1999).

The doctrine of federal character

“The Nigerian doctrine of federal character emerged from the 1979 constitution, and it calls for the distribution of federal appointments to reflect equitably the different dimensions of the nation’s ethnic, regional and religious heterogeneity, in order to promote a sense of belonging and loyalty among the diverse people of Nigeria” (Eke and Osaghae, 1989).

In fact, according to Adeyemo (2008), “Many government undertakings are used to provide jobs for constituents, political allies, and friends. The location of public enterprises and the distribution of government employment have further been defended on the need to maintain “federal character” and promote national integration.” In addition, according to Adeyemo “Public enterprises in Nigeria were established to propel socio-economic development and to guard against the control of the economy from foreign domination and exploitation.” He argues that “a larger proportion of the national budget has been voted for the creation and sustenance of public enterprises. In spite of this, the performance of public enterprises has been replete with varying contradictions."

Lack of standard definition of state owned enterprises

This is emphasized by the fact that "The United Nations (1974: 2) summarized in their report that there does not appear to be any agreement among experts as to the precise definition of public enterprises. Sosna (1983: 27) opined that there are many reasons why in developed capitalist countries, there is no single standard definition of public enterprises. Public enterprises were established at different periods, and each epoch naturally brought forth the types of public enterprises most clearly matching its conditions."

Accelerating factors

Adeyemo (2005) opined that "among other factors that accelerated the growth of Nigeria's public sector was the indigenization policy of 1972 as enacted by the (Nigerian Enterprises Promotion Decree). It was designed to control the commanding heights of the economy. The policy further provided the much needed legal basis for extensive government participation in the ownership and control of significant sectors of the economy. It also reinforced the increasing dominant of the public sector in the economy. In 1989, the Technical Committee on Privatisation and Commercialization remarked that as at 1980, there were 70 non-commercial and 110 commercial federal enterprises and parastatals, many of which depended on government support to cover their operational losses (TCPC, 1989: 9)."

Conclusion

In Nigeria, the emergence of state owned enterprises dates back to the colonial era and was further reinforced after independence by successive indigenous regimes. The doctrine of federal character shaped the management of state owned enterprises, as well as the scope of operations with low attention paid to economic efficiency and corporate governance.

Also, many public enterprises in Nigeria were established to propel socio-economic development and to guard against the control of the economy from foreign domination and exploitation. Various factors including past indigenization policy contributed to the growth of public enterprises in number and size, as this policy was designed to control the commanding heights of the economy.

The policy further levelled the ground for extensive government participation in the ownership and control of significant sectors of the economy. However, the move was sanctioned by important operational losses covered by government's budget.

4.4.3 Evolution of Government's entrepreneurial policy

Oil as a turning point

M. N. Ogbonna[cxxxix] (1976) opined that "until the discovery of oil in commercial quantities, Nigeria derived the bulk of her foreign exchange earnings from her primary products such as palm produce, cocoa, groundnut and cotton. Like other developing agricultural countries her foreign exchange earning have been subject to constant fluctuations due to the instability of the prices of her internationally traded commodities. This price instability is caused by world cyclical movements and inter-country shifts in supply availability and produces adverse effects on the country payment position."

Import substitution

Ogbonna notes that "In his budget speech to the federal house after independence, the then finance minister in stating the policy objectives of government said: The structure of our tariffs is directed primarily at consumer good both perishable and durable and at other goods which by any reasonable standard can be classed as non-essentials. There can be no doubt that the substantial increase in duty now will curb the growth of imports and provide greater invcentive for the expansion of the Nigerian industry to meet the growing demand for these goods as the level of living rises ... As a policy action, encouragement should be given to the growth of consumer industries in Nigeria by providing protection in the form of increased duties on comparable imported goods."

In this vein, in 1961, Nigeria adopted an import substitution strategy focused at reducing trade imbalances. The theoretical thought behind this policy is that import substitution policy would lead to the reduction of imports. This policy was widely accepted as a means to create a virtuous circle which would concomitantly lead to an increase in exports.

Oil financed investments

Tunde Kazeem[cxl] (2009) for instance asserts that "after independence and during the oil boom of the 1970s, Nigeria invested in seven cement plants as part of an import substitution, industrialisation policy designed to increase local value-added production capacity and to reduce an over-reliance on imported products.

According to Prof Simbo Banjoko[cxli], “Our first plunge at industrialization was via the import substitution strategy. Our colonial masters made us to believe, though erroneously, that it was a worthwhile strategy for "beginners" like us to pursue. The attraction of the import substitution strategy according to Hirschman (1968) lies in its potentials as a strategic tool for the replacement of industrial imports with domestic production. It also has enormous potentials not only for correcting the balance of payment disequilibrium but also for boosting employment in the real sector.” He argues that “The idea was for the local industries to gradually and over time, substitute imported products with local inputs (Adebayo, 1979). Thus, setting up local industries in Nigeria to produce goods that were formerly imported, necessitated a different approach.”

Foreign exchange market (FEM)

The Central Bank of Nigeria contextualises the current foreign exchange market as follows: “Before the establishment of the Central Bank of Nigeria (CBN) in 1958 and the enactment of the Exchange Control Act of 1962, foreign exchange was earned by the private sector and held in balances abroad by commercial banks which acted as agents for local exporters. During this period, agricultural exports contributed the bulk of foreign exchange receipts. The fact that the Nigerian pound was tied to the British pound sterling at par, with easy convertibility, delayed the development of an active foreign exchange market. However, with the establishment of the CBN and the subsequent centralisation of foreign exchange authority in the Bank, the need to develop a local foreign exchange market became paramount.” (http://www.cenbank.org/intops/fxmarket.asp).

Non residents versus resident investors

Jacques S. Boedels[cxlii] (1982) explains that "Exchange Control Act (1962) sets out the rules for investing non-resident capital in Nigerian businesses; and defines methods of transfer of foreign interests to non-residents and residents." However, "Exchange control was discarded on September 26, 1986 in order to evolve an exchange rate mechanism that would better reflect the underlining macroeconomic realities." (CBN)

Influence of SAP

In line with the principles of the Structural Adjustment Programme (SAP) which emphasise the market-oriented approach to price determination, "The Second-tier Foreign Exchange Market (SFEM) came into being on September 26, 1986 when the determination of the Naira exchange rate was made to reflect market forces. The modalities for the management of the Foreign Exchange Market have changed substantially since the introduction of SFEM." Furthermore, according to CBN, "A transitory dual exchange rate system (first and second-tier) was adopted in September, 1986. On 2nd July 1987, the first and second-tier markets were merged into an enlarged Foreign Exchange Market (FEM). Various pricing methods, such as marginal, weighted average and Dutch system, were adopted."

State intervention in the private sector

Chibuzo Ogbuagu[cxliii] (1983) reports that "Nigerian policy-makers have argued that the State intervened in the private sector in order to prevent undesirable and continued foreign monopoly of the commanding heights or the vital productive sectors of the country's economy." He further reports that "The objective of the policy was therefore to set a stage for the greater participation by Nigerian nationals in the ownership, management and control of the productive enterprises in the country." He argues that "The policy was also conceived as a method of enhancing the industrial development of the nation by encouraging foreign investment in intermediate and capital goods production as against foreign concentration in the consumer non-durable goods production."

Bamidele Ojo[cxliv] (1998) affirms that "The decree classified all enterprises in Nigeria into three schedules: Schedule 1 (enterprises which should 100% owned and managed exclusively by Nigerians); Schedule 2 (are enterprises were Nigerians should acquire up to 60% equity participation); Schedule 3 (consists of enterprises with 40% equity participation by Nigerians). The decree then stipulated that appropriate equities of those enterprises were to be sold or transferred to Nigerians not later than December 31st 1978 or June 30th 1977 for some types of businesses."

Charles Jarmon (1988) in his book titled "Nigeria: reorganization and development since the mid-twentieth century" explains that the indigenization policy of 1972 was furthered by the Nigerian Enterprise Promotion Act of 1977, but with a more liberal policy for the participation of foreign investors.

Capital market

However, on the readiness of the capital market, Ologunde et al. (2006) explained that "The Nigerian Stock Exchange is a far cry from this characterization and is under-developed. Not only is the market lacking in depth, there is little trading and new public issues by private enterprises, beyond those necessitated by the enterprises promotion act of 1977, are few and far between and substantially insignificant."

Ifuero Osad Osamwonyi[cxlv] (2005) provides that "In 1977, the name of the Lagos Stock exchange was changed to the Nigerian stock exchange by the indigenization decree of 1977 following the recommendations of the industrial enterprises panel (Adeosun panel) of 1975 that branch exchanges should be established."

Ogbutobo Chuks (2007) observes that "The Nigerian stock exchange (NSE) was established in 1960 as an organ of the Nigerian capital market. Originally known as the Lagos Stock Exchange at inception, it was reconstituted into the Nigerian Stock Exchange in 1977. Presently, it has eight exchange offices outside Lagos in Abuja, Kaduna, Port Harcourt, Kano , Onitsha , Ibadan , Yola and Benin." And in order "to ensure fairness in the dealings on the floor of the exchange, a supervisory body known as the Securities & Exchange Commission (SEC) was established in 1979. Some of its functions among other things include: Maintaining surveillance over the securities market to ensure orderly, fair and equitable dealings, Determining the amount of securities of a company to be sold to the public through offers for sale, subscription or otherwise, and Clearing and settlement. But key to the operations of the NSE and SEC is the "Central Securities And Clearing System (CSCS) set up in 1997 "To aid effectiveness in transactions on the trading floor of the Nigerian Stock Exchange, the Central Securities And Clearing System (CSCS), also known as the Central Securities Depository (CSD)." Subsequently, "The settlement cycle reduced with effect t from march 200, from T+5 to T+3.(T+5 i.e. transaction day plus 5 working days, T+3 i.e. transaction day plus 3 working days)".

Architecture of the Nigerian capital market

The architecture of the Nigerian capital market involves some "settlement banks to the CSCS which include GT Bank Plc, Intercontinental Bank Plc, Sterling Bank Plc, Oceanic Bank Plc, Zenith Bank Plc, Access Bank Plc, Union Bank Plc, Spring Bank Plc, unity bank plc, Diamond Bank Plc, UBA Plc, Fidelity Bank Plc and Afribank Plc."

According to Ogbutobo Chucks (2007) "The Nigerian stock market has performed exceptionally well in recent years. Many investors link this to the successful recapitalization of the Nigerian banks in 2005, which was initiated by the Central Bank Of Nigeria. The exchange now experience cross border listings and transactions, high influx of foreign investments and investors and is adjudged to be one of or possibly the fastest growing exchange in the world. It boasts of over 10 million shareholders/ investors."

Savings, Market liquidity and miscellaneous issues

Tokunbo Simbowale Osinubi[cxlvi] advances that "Stock market contributes to economic growth through the specific services it performs either directly or indirectly. Notable among the functions of the stock market, are mobilisation of savings, creation of liquidity, risk diversification, improved dissemination and acquisition of information, and enhanced incentive for corporate control." He argues that "Liquid equity market makes available savings for profitable investment that requires long-term commitment of capital. Hitherto, investors are often reluctant to relinquish control of their savings for long periods. As asserted by Bencivenga, Smith and Starr (1996), without liquid capital market there would be no industrial revolution."

In addition, "Stock markets can affect economic growth when they are internationally integrated. This enables greater economic risk sharing. Because high return projects also tend to be comparatively risky, stock markets that facilitate risk diversification encourage a shift to higher-return projects (Obstfeld, 1994)."

Nevertheless, in 2009 the Nigerian Stock Market have been crippled have emerged as a result of lack of liquidity on the market.

Conclusion

Before oil operation, Nigeria's economic policy was focused on agricultural commodities which stood as the major source of foreign currencies. But price instability has compelled the government to adopt an import substitution policy in order to consolidate the nation's current account balance. This import substitution policy was contextually supported by oil foreign revenues which were directly towards a wide spread of Oil financed investments in state owned enterprises. Exchange control led to the a monetary political discrimination between non residents and resident investors. This policy was exacerbated by the adoption of the SAP which emphasised the market-oriented approach to price determination to the determination of the Naira exchange rate to reflect market forces.

The state fist intervened in the private sector to prevent undesirable and continued foreign monopoly and to allow the greater participation by Nigerian nationals in the ownership, management and control of the productive enterprises in the country. To this effect, government classified all enterprises in Nigeria into three schedules: Schedule 1 (enterprises which should 100% owned and managed exclusively by Nigerians); Schedule 2 (are enterprises were Nigerians should acquire up to 60% equity participation); Schedule 3 (consists of enterprises with 40% equity participation by Nigerians) while the equities of those enterprises to be sold or transferred to Nigerians were stipulated; in the context of an underdeveloped capital market characterised by a lack of in depth capacities, with investors traditionally reluctant to relinquish control of their savings for long periods.

4.4.4 The role of CBN in Government's intervention framework

Recent developments

In an article published in Daily Champion on December 2009, Paul Ogbuokiri states that a "Nigerian Financial Crisis exploded on August 14, 2009, when the Central Bank of Nigeria (CBN) intervened in the banking sector after a joint CBN/NDIC audit report revealed serious illiquidity and poor state of the capital of five out of the 11 banks that were initially audited. The other 14 were later audited and their results released on October 16, and another four banks found to be in the same dangerous state like the first five." He added that "Analysts are expressing worry over the recovery of the financial sector from this self-inflicted woe which they said was worsened by the shake- up in the banking sector. They argued that the application of the reform measures was outrageous, adding that it created panic in the financial sector and nipped in the bud the recovery process of the economy from the global economic meltdown."

Shortage of government currency supply

However, before the crisis, excess liquidity and the perspective thereof worried the CBN it would rule that "Banks have been advised not to rely on public sector funds for their portfolio management as the CBN will only give two weeks' notice before withdrawing such funds if and when the need arises. The CBN has been complaining of the Federal Government's continued borrowing from it through Ways and Means to run the affairs of the state –a development which, it said, makes its duty of macroeconomic management difficult."

Ways and Means Advances

The then CBN Governor Prof Charles Soludo, stated that "The challenge of monetary policy management, he therefore noted, will be "to devise and implement a robust mix of monetary policy instruments necessary to sustain macroeconomic stability, despite the fiscal policy stance". One of such "robust mix of monetary policy instrument" is that "Ways and Means Advances to Government strictly set to Zero. In the extreme, if any accommodation is to be made, it should not exceed 5 per cent of previous year's actual revenue but to be cleared to zero at the end of each quarter".

Troubles in the capital market

As the financial crisis erupted, Jerry Uwah[cxlvii] observed that "The Nigerian capital market is in deep trouble. Share prices have been tumbling freely and relentlessly in the last two weeks," adding that "However, this is not an isolated case. The global financial market is in turmoil and may be heading for harder times. Oil prices are heading south just as share prices in most of the markets. The only difference between share price movements in the developed economies and that of the Nigerian Stock Exchange (NSE) is that the prices move in both directions in the former. In the developed markets, there may be gains in the morning and losses in the afternoon. Prices in the NSE, on the other hand, move in one direction." Jerry opined that "That, in my opinion, is a clear sign of dearth of investor-confidence in the market, not just liquidity squeeze. If there is liquidity squeeze, it is sector-induced. The liquidity squeeze in the capital market is not a true reflection of the macro-economic cash-flow situation."

Margin facilities

Meanwhile, as Tonia Osundolire[cxlviii] (2008) would describe it "Capital market stakeholders have agreed to restructure all margin facilities owed to banks and turn them into debt securities, the Director General of the Nigerian Stock Exchange (NSE)", and that "Under the plan, bad debts arising from margin trading would be restructured into debt securities to be bought by the CBN, which would give cash to the banks involved."

Asset Management Company

Nevertheless, it was recently reported on June 11th 2010 that "CBN has set up a technical team in order to value bad bank loans to be purchased by the new Asset Management Company (AMC) which will come on stream this month. CBN and finance ministry have finalised plans for the take-off of the asset management firm which will buy up non-performing loans in exchange for government bonds in order to free up banks' balance sheets." (The Tide, June 11th 2010). The article adds that "In fact, analysts have posited that the impact on liquidity might spur the Central Bank of Nigeria (CBN) into embarking on excess liquidity mop up or a likely hike in Monetary Policy Rate (MPR) in its July Monetary Policy Committee (MPC) meeting."

Conclusion

`The Central Bank of Nigeria has been at a centre stage of the privatisation process. Recent developments have marked by shake-up in the banking sector in the recovery process from the global economic meltdown, in the context of a shortage of government currency supply.

Before then, the Central Bank of Nigeria has been constrained by the Federal Government's continued borrowing through Ways and Means to run the affairs of the state.

In the same time, the capital witnessed serious troubles with share prices experiencing considerable depreciation like the global financial market. Just as share prices, oil prices have also experienced a falling trend. Recent practices banking practices in line with margin facilities have been underpinned as the main reasons behind the crisis.

However, in addition to regulatory and other corrective measures adopted by the Central Bank to sanitise the banking sector, the Capital market stakeholders have agreed to restructure all margin facilities owed to banks and turn them into debt securities to be bought by the Central Bank of Nigeria through the newly constituted Asset Management Company.

4.4.5 The emergence of the privatisation polity framework

The Structural adjustment programme

According to the National Centre for Economic Management & Administration (NCEMA)[cxlix], the Structural adjustment Programme was introduced in Nigeria, in 1986, by the then military government as a result of "The collapse of world oil prices and the sharp decline in petroleum output, the latter resulting from a lowering of Nigeria's OPEC quota in the early 1980s, brought to the forefront the precarious nature of the country's economic and financial positions."

The NCEMA argues that "Rising and ill-directed government spending during the 1970s, neglect of the agricultural sector, and inward-looking industrial policies left Nigeria vulnerable to profound changes in the external environment in the following decade." The NCEMA emphasises that "the dramatic fall in oil export revenues entailed a sharp deterioration in the country's public finances and balance of payments. This led to recession and economic deterioration as manifested by fiscal crisis, foreign exchange shortage, balance of payments and debt crisis, high rate of unemployment, negative economic growth, to mention a few."

Negative trends in economic growth

It insists on the fact that "... beginning from 1982, and through 1984, the country had become saddled with negative trends in economic growth as indicated by the decline in the gross domestic product (GDP) (0.35% in 1982; -5.37% in 1983; and –5.18% in 1984), persistent current account and budget deficits, a huge backlog of uncompleted projects, especially in the public sector, factory closures, large-scale retrenchment, acute shortages of essential commodities and galloping inflation."

Lagos Plan of Action

Mojubaolu Olufunke Okome[cl] et al. (2005) recalls that « In December, 1980, the Organization of African Unity (OAU), concluded its Economic Summit held in Lagos, Nigeria, with the adoption of the 'Lagos Plan of Action.' This was a blueprint for the socio-economic development of the African continent and comprised of an agenda based on self-reliance and reduced dependency on the West.

Breton Woods' institutions' reply to the Lagos Plan of Action

“In 1981, a World Bank report authored by Elliot Berg, who was also associated with the IMF, responded to the 'Lagos Plan of Action' by blaming African countries for their problems, and positing that the IMF and the World Bank were the only agencies with sufficient resources to help African countries, provided they agreed to follow certain guidelines or conditionality. The Lagos Plan of Action and the various reports that have been sponsored by the multilaterals have provided the conceptual rationale for radically different worldviews on the management of an economy undergoing severe crisis. Taken together, they represent the intellectual component of a hegemonic and counter-hegemonic struggle.” ibid

Balance of payments deficits

“In 1983, when the Nigerian government, under the Shagari administration, faced with high balance of payments deficits, approached the IMF for balance of payments support, it was going down a road well-travelled by most African countries. However, unlike majority of African nations, the government's decision to reach agreement with the IMF was not a foregone conclusion. By June 27, 1986, when President Ibrahim Babangida with World Bank support, instituted an orthodox Structural Adjustment Program, (SAP) for which the approval of the IMF was sought and received, Nigeria had undergone three years of balance of payments difficulties, stalemated negotiations with the International Monetary Fund (IMF), and two military coups d’état. In return for balance of payments financing, the state was asked to voluntarily renounce its post-independence strategy of state-led development and to adopt market reforms by a coalition of the IMF, World Bank and its external creditors.” ibid

Rationale of the SAP

“The supporters of SAP argue that an economy in crisis will thrive with the introduction of incentives that encourage efficiency while its opponents argue that these incentives cause lop-sided development. Instead, opponents of SAP advocate state-led development. Through associational groups and individual efforts, the opponents of SAP in Nigeria contested the rationality of an IMF-type SAP. They demanded political liberalization and an active state role in the economy. These demands highlighted the cleavages within state and society between economic nationalists and internationalists. The demands also exacerbated the conflict between state and society and contributed in no small measure to the deadlocked negotiations between the state, multilateral organizations (the IMF and World Bank) and external creditors (the Paris and London Clubs).” ibid

Content of SAP and IMF conditionality

Okeme explains that “The IMF's prescription to indebted states is that they stabilize their economies by fulfilling conditionality such as adopting policies of fiscal and budgetary austerity; exchange rate devaluation; "getting the prices right", stimulating investment instead of consumption; cuts in real wages; cuts in public expenditure; prioritizing external debt service; currency devaluation; high real interest rates; and import liberalization. Indebted states are required to comply with these guidelines in return for balance of payments assistance. The World Bank, and creditor clubs also collaborate with the IMF and jointly insist on the fulfilment of conditionalities and the receipt of an IMF seal of approval before concluding any meaningful agreements.” Ibid

Okeme reports that “there was willingness on the part of Nigeria to fulfil majority of the conditionality required by the World Bank and IMF, however, the state became involved in deadlocked negotiations with the multilaterals for three years over its refusal to comply with some key conditionality, which are : Removal of the Petroleum Subsidy, Privatisation, Trade Liberalization, Devaluation.” This conditionality were aimed at reducing government interference in market processes. ibid

Implementation of the IMF conditionality

NCEMA advances that “The process of the implementation of the IMF conditionality through the Structural Adjustment Program (SAP) can be traced through the methods utilized by the three successive administrations which were involved up to 1993. These were the civilian administration of President Alhaji Shehu Shagari (September 1979 - December 1983); and the military regimes of General Muhammadu Buhari (December 1983 - August 1985); and General Ibrahim Babangida (August 1985 - August 1993).

It is argued that “There was a significant difference in approach in that both Shagari and Buhari, while attempting to incorporate the IMF framework in their economic policies, refrained from implementing the crucial conditionalities: namely devaluation, subsidy removal, trade liberalization and privatisation. On the other hand, the Babangida administration made the implementation of these conditionalities, its raison d’être, and indeed was the author of the Structural Adjustment Program (SAP). A comparison of their respective attitudes to conditionalities such as trade liberalization and privatisation, for example, illustrates this observation.” ibid

Privatisation component

As regards privatisation, “In 1981, before the Shagari administration approached the IMF for balance of payments support, it appointed a Presidential Commission to review 34 major parastatals and recommend necessary reforms. In its report of October 1981, the Commission recommended increased participation by the private sector in non-strategic parastatals and the injection of financial discipline and managerial accountability in these parastatals. However, the administration's efforts were limited to an announcement that it would forgo its ownership in some parastatals to private interests in principle. Nothing more concrete was done before the Buhari coup. On its part, the Buhari regime appointed the Ali Al-Hakim Study Group on Statutory Corporations to deliberate on the issue of privatisation and suggest suitable policy options. The study group recommended the privatisation of some enterprises and the commercialization of others. The regime itself decided to commercialize rather than privatize." ibid

"The Babangida regime on the other hand, repeatedly expressed its commitment to privatisation and commercialization. It set up the Technical Committee on Privatisation and Commercialization (TCPC) to facilitate the achievement of this goal. It also created the Industrial Development Coordination Committee (IDCC), to expedite the application process for foreign investors. Towards this end, amendments were made to the Nigerian Enterprises Promotion Decree (NEPD) of 1972 and its 1977 amendment. Thus, by 1989, foreigners were allowed to own 100 percent of manufacturing companies instead of 40 percent as formerly permitted by the NEPD. They were also allowed to invest in areas previously reserved for indigenes, including small-scale manufacturing, the commercial and service sectors." ibid

The gradual advent of privatisation

O A Odiase-Alegimenlen[cli] notes that "There have been various attempts to privatise state-owned enterprises (SOEs) / public enterprises (Pes) in Nigeria. The earlier, Privatisation and Commercialisation Act of 1988 had established a Technical Committee on Privatisation and

Commercialisation (TCPC). This body handled the early privatisation process initiated during the regime of military President Ibrahim Babangida." He adds that a new legal instrument was introduced as the "Public Enterprises (Privatisation and Commercialisation) Law of 1998" which operations "have been adjusted twice with the advent of the democratic government."

Odiase explains that "An initial shift to adequately reflect the government's resolve to privatise SOEs, saw the placement of the process via the National Council on Privatisation (NCP) directly under the office of the vice-president. It has subsequently been moved to the office of the President in 2003, after the inauguration of President Obasanjo for a second term (2003-2007) in office. The law signifies the intention of the Federal government to conduct an effective privatisation of SOEs by divesting from the ownership of these enterprises."

Babalakin & Co[clii] noted that although "The privatisation exercise in Nigeria is being presently pursued under Public Enterprises (Privatisation and Commercialization) Act 1999. It (the privatisation programme) actually commenced under the Privatisation and Commercialization Decree 1988. There are remarkable differences between these two laws."
(http://www.babalakinandco.com/resources/articles.html)

They argue that "Under the 1988 Decree, State owned enterprises were listed for partial privatisation and 67 for full privatisation. A Technical Committee (TCPC) was set up to implement the programme. The policy objective of that Decree included raising capital; removing bureaucratic control; encouraging Nigerian shareholders and encouraging employees. Shares of the listed companies for privatisation were to be sold by Public Issue in the Nigerian Capital Market, (or by private placement where the TCPC so recommended to Government)." (http://www.babalakinandco.com/resources/articles.html).

They acknowledge that under the 1988 Decree “In determining the sale of shares of listed State owned enterprises, the TCPC relied on the Securities and Exchange Commission. Significantly, TCPC was not autonomous as the President; Commander in Chief exercised a lot of control over it. For instance, the President could add, remove or alter the list of State owned enterprises to be privatized. Instructively, the Committee required the prior approval of the Federal Government before shares could be sold. Evidently, the privatisation exercise under this Decree was not very transparent. There was no mechanism for the valuation of shares to be offered for sale.” But “The law expressly reserved between 10% – 20% of the shares of State owned enterprises to be privatized for associations and interest groups (i.e. trade unions), while a maximum of 10% was reserved for the staff of such State owned enterprises.”

Bureau for Public Enterprises

Subsequently, “the Decree was replaced by the Bureau of Public Enterprises Decree No. 78, 1993 ... Under the new law, the Bureau for Public Enterprises was established to take over the implementation of the privatisation programme, hitherto performed by the TCPC. Under this law, shares could be sold either by public issue through the capital market or private placement where the Bureau recommends to the Federal Government.” And, “The Decree maintained the 10 – 20% shareholding reservation for unions and associations, and 10% for Staff. It also stipulated a maximum of 1% shareholding for any individual. The Bureau, like the TCPC, acted at the Federal Government’s direction, and the wide powers of the President of Nigeria under the previous Decree were left intact. The new law created a Public Enterprises Arbitration Panel for effecting settlement of disputes between an enterprise and the supervisory Ministry.” In the midterm “some 1000 State owned enterprises existed in Nigeria and successive Nigerian Governments were said to have invested an estimate of N800 billion in these companies. For this heavy investment the aggregate returns to the Government was less than 10% of the amount invested."Ibid

As admitted by the firm, the Nigerian government has staged a major policy shift with the Public Enterprises (Privatisation and Commercialization) Act was promulgated in 1999 which "is remarkably different from the previous privatisation laws. Unlike the previous privatisation laws where the Federal Government had express direct control over the TCPC and the Bureau, the Bureau under the present law is answerable to the National Council on Privatisation, a body under the chairmanship of the Vice President of Nigeria whose membership includes the Ministers of Finance and Industry, the Attorney General of the Federation, the Secretary to the Government of the Federation, the Governor of Central Bank of Nigeria, etc. Among other things, this body approves prices of shares for sale; the mode of selling the shares, (that is; whether by public or private issue, or otherwise) as well as the time of sale. Its function also includes approving the legal and statutory framework for State owned enterprises to be privatized." Ibid

Among the new functional objectives and powers of the bureau, were "restructuring and rationalizing the public sector in order to reduce dominance of unproductive investments in the sector; re-orienting State owned enterprises listed for privatisation for performance and efficiency; raising funds for financing socio-economic developments in areas as health, education, and infrastructure; ensuring positive returns on public sector investment through efficient management; avoiding dependence on treasury for funding and encouraging the use of the Nigerian capital market to meet such funding requirements; creating jobs, acquiring knowledge and technology, and exposing the country to international competition. Unlike the objectives of the previous regime, the policy was silent on the Nigerian shareholder. The emphasis of privatisation changed from transferring assets to Nigerians to transferring the assets to any person who could enhance the business.

However, Barrister Onjefu Adoga[cliii] of Brooke Chambers (2008)[cliv] opined that “Strict compliance of both regulators and participants to the rules and time frames of the 1999 Privatisation and Commercialization Act and customary international privatisation practices would had ensured the evolution and development of a near perfect policy and the economic reformation and restructuring of Nigeria’s political economy. The expected trajectory of the entire privatisation exercise immediately took a dangerous derailment after the first five years of implementation, especially under the Directorship of a former and now exiled Minister, renowned for drumming World Bank consultancy standards while always failing to keep these same standards. The final balkanization and contamination of the exercise was cemented by key players in the entire privatisation process of the last civilian administration.”

Barrister Onjefu Adoga supports his assertion by saying that “a plethora of discontentment on the Privatisation exercise had reached fever pitch. A panoply will include NITEL, MTEL, NEPA, oil sector reforms, power sector reforms, ports reforms, sale of Ajaokuta and Delta Steel, Daily Times, A.P, ALSCON, NAFCON, constant labour disputes, the concession of Unity Schools, concession of Trade Fair Complex, the draconian sale of Federal Government properties in Lagos and Abuja etc ....” Ibid

Conclusion

Privatisation was part of the Structural adjustment programme introduced in Nigeria as a result of “The collapse of world oil prices and the sharp decline in petroleum output, the latter resulting from a lowering of Nigeria's OPEC quota in the early 1980s. Nigeria was then experiencing a trend of negative economic growth.

In this context, Nigeria played a key role in the adoption of the Lagos Plan of Action held in Lagos under the auspicious of the Organization of African Unity (OAU). The Breton Woods' institutions were unfavourable to the Lagos Plan of Action. The balance of payments deficits experienced by Nigeria constituted the rationale of the acceptance of the Structural adjustment programme.

The content of the structural adjustment programme which tailored after IMF conditionality, compelled indebted states to stabilize their economies by fulfilling fiscal and budgetary austerity; exchange rate devaluation; "getting the prices right", stimulating investment instead of consumption; cuts in real wages; cuts in public expenditure; prioritizing external debt service; currency devaluation; high real interest rates; and import liberalization. Indebted states are required to comply with these guidelines in return for balance of payments assistance.

The World Bank and creditor clubs also collaborate with the IMF and jointly insist on the fulfilment of conditionality and the receipt of an IMF seal of approval before concluding any meaningful agreements.

The implementation of the IMF conditionality was differently embraced by hree successive administrations which were involved up to 1993. Both Shagari and Buhari administrations refrained from implementing devaluation, subsidy removal, trade liberalization and privatisation, while Babangida administration made the implementation of these policy thrust its raison d'être, and indeed was the author of the Structural Adjustment Program (SAP).

As regards privatisation, the Shagari appointed a Presidential Commission to review 34 major parastatals and recommend necessary reforms. On its part, the Buhari regime appointed the a Study Group on Statutory Corporations which recommended the privatisation of some enterprises and the commercialization of others; but the regime itself decided to commercialize rather than privatize. Whereas, the Babangida regime on the other hand expressed its commitment to privatisation and commercialization and set up the Technical Committee on Privatisation and Commercialization (TCPC), and created the Industrial Development Coordination Committee (IDCC), and made amendments to the Nigerian Enterprises Promotion Decree (NEPD) and latter the Bureau of Public Enterprises (BPE) to take over the implementation of the privatisation programme, hitherto performed by the TCPC.

However, the impetus to privatise became a major government policy with the promulgation of Public Enterprises (Privatisation and Commercialization) Act in 1999, with important changes in the policy framework highlighted by the constitution of the National Council on Privatisation under the chairmanship of the Vice President of Nigeria and the membership of the Ministers of Finance and Industry, the Attorney General of the Federation, the Secretary to the Government of the Federation, the Governor of Central Bank of Nigeria, etc.

4.4.6 Impacts of privatisation

Market activities

Flotation of shares of privatised enterprises have greatly stimulated the rapid growth of the Nigerian Capital Market and helped to deepen and broaden it. As stated earlier, market capitalisation has grown from N8.9 billion in 1987 to over 65 .5 billion by 1994 and N428.9 billion as at August 2000 (Anya O. Anya).

Broadening and deepening the capital market

Muhammad Tanko asserts that privatisation has broadened and deepened the capital market resulting from increased listings and market size, improved liquidity and regulatory infrastructure, improved awareness and enlarged investor base. Privatisation has massively expanded personal share ownership in Nigeria. Over 800,000 shareholders were created, almost twice as many as there were in 1988 when the exercise started. The programme has also intensified the operations of the Capital Market, created new awareness in the virtues of shareholding as a form of savings rather than an elitist pastime, which it was thought to be.

According to Professor Anya O. Anya[36] "Privatisation has massively expanded personal share ownership in Nigeria. Over 800,000 shareholders were created, almost twice as many as there were in 1988 when the exercise started. The program has also intensified the operations of the Capital Market, created new awareness in the virtues of shareholding as a form of savings rather than an elitist pastime, which it was thought to be. This is a good development which enhances capital formation and economic growth."

Increases in profitability, operating efficiency, capital investment spending, output and dividends

This is a good development which enhances capital formation and economic growth (Anya O. Anya). The results, albeit mixed, show significant increases in profitability, operating

[36] Comments by Professor Anya O. Anya, Chief Executive, The Nigerian Economic Summit at the Netherlands Congress Center (NCC), The Hague as part of the Independence Day Celebration by The Nigerian Embassy at The Hague

efficiency, capital investment spending, output (adjusted for inflation), and dividends (Jerome, 2008).

Privatisation proceeds

Also, the sale of shares and assets realised over N3.7 billion as gross privatisation proceeds from the privatisation of 55 enterprises whose total original investment according to the records of the Ministry of Finance Incorporated (MOFI) was N652 million. This represents less than 2% of the total value of the Federal Government's investments as at 30th November 1990 which stood at N36 billion (Anya O. Anya). Equally, the capital market has been beneficial to the privatized companies. Evidences shows that, overall, employment losses have been modest for example in UBA and Unipetrol, while Ashaka in fact recorded large increases in employment after privatisation (Jerome, 2008), but it is important to note that the companies themselves have not fared much better because high transaction (or floatation) costs make it expensive to raise money from the market and the shallowness of the market limits the amount of money that can be raised there, even by companies with the best financial records (Tanko).

Issues

Some practical issues surrounding the search for core investors in the companies being privatised by government include: Challenge of selecting the appropriate core investor, Harmonising policy statements with practical realities, It is yet to be seen if the core investors in partially privatised enterprises with 40% (same as the govt holding) will have the free hand to effectively manage and restructure the enterprises without the interference of the supervising ministry.

New operational autonomy of SOEs

The new operational autonomy of these enterprises and their liberation from political interference in day to day management has improved the internal efficiency of these enterprises allowing them to liberalise their purchasing as well as rationalise labour practices. This has increased massively their profitability. The negative perception of public enterprises in the minds of the general public as nobody's business has also changed (Anya O. Anya). Ocholi (2000) affirms that generally, it can be observed that while the exchange(s) handle the wider redistribution of that part of the ownership of the enterprise earmarked for public participation, the Core investors negotiate directly with the National Council on Privatisation through their various advisers with a view to owning that level of stake that makes them principally responsible for the future direction of the enterprise.

In addition, Prof. Anya further explains that "The new operational autonomy of these enterprises and their liberation from political interference in day to day management has improved the internal efficiency of these enterprises allowing them to liberalize their purchasing as well as rationalize labour practices. This has increased massively their profitability. The negative perception of public enterprises in the minds of the general public as nobody's business has also changed."

Risk diversification

Equally, privatisation has provided opportunity for risk diversification, enhanced professionalism and increased government attention (Tanko) as ascertained by Jerome (2008) that the results also provide empirical support for the view that privatisation is associated with improved technical efficiency. Performance of the privatised enterprises so far has led to a considerable increase in the volume of corporate taxes accruing to the national treasury. Thus not only has the drain on public finances been halted, it has become a positive bonus, with subsidy soaking deficits – being replaced by tax-yielding profits (Anya O. Anya).

Indeed, the implementation of the first and second round privatisation has resulted in a tremendous boost to the total equity market capitalization, number of listed equities and the all - share price index (Tanko) as well as ownership seems to be important. Indeed, privatisation brings with it private owners who place greater emphasis on profit goals and also carry out new investments that lead to increased output and employment (Jerome, 2008). Privatisation has allowed the management of privatised enterprises full freedom to realise their optimum potentials. This has led to more productive employment and economic growth in general terms (Anya O. Anya). Besides, the market capitalization, profit before tax and cash dividend of most of the affected enterprises had improved considerably as these companies offered over 1.3 billion shares for sale to the public and were purchased by over 800,000 shareholders, many of whom were first timers in the market (Tanko).

Price volatility and the existence of a large informal market in quoted securities cast a pall on the efficiency of the capital market as a framework for resource allocation and mobilization. In spite of the identified shortcomings, the privatisation programme has enhanced the development of the Nigerian capital market (Tanko).

Stakeholders' concerns

Before and during privatisation concerns were raised by various stakeholders. Government leaders and their representatives Threats include possible loss of political on boards of the state owned companies, as well patronage and income. On the other hand, as bureaucrats in the line ministries privatisation reduces the fiscal burden and sends positive signals to the donor community (Jerome, 2008); while parastatal managers and employees Risk of loss of employment and income during privatisation and post-privatisation restructuring (Jerome, 2008). The programme of privatisation has greatly minimised the scope of political patronage in the form of Board appointments and jobs for the boys. Under the Phase-I of the programme, the Federal Government relinquished about 280 Directorship positions in the privatised enterprises. The operational autonomy enjoyed by these enterprises has put a stop to their use as dumping grounds for political appointees at management and board levels (Anya O. Anya). Influential domestic groups including claimed unequal distribution of privatisation political parties, religious leaders, labour benefits as well as "foreignization" are unions, parliamentarians, academics, etc. seen as threats by a large number of this group ex ante. Still, an expanding private sector soon begets its own support groups and views change rapidly ex post (Jerome, 2008)

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Donors and multilateral agencies

Only donors and multilateral agencies see no threats in privatisation, only benefits. To them privatisation signals commitment on the part of national policy makers to economic reform and to efficiency in government (Jerome, 2008) for Nigerian public enterprises have long been criticized for their inefficiency, politicization, corruption and poor output (Jerome, 2008); As for investors, they buy into the enterprises, not to make money from the market movements in the prices of those enterprises. Rather they buy in order to add value and earn their returns from dividends and other management fees. They are therefore more concerned about the real and underlying value of the enterprise that the market value which could be subject to other extraneous factors such as supply and demand for those stocks Ocholi (2000).

Efficiency

It was discovered that public enterprises in Nigeria are inefficient primarily as a result of government's deliberate policy of transferring resources to cronies and supporters and not just because managers have weak incentives (Jerome, 2008).

At the end, by reducing the reliance of public enterprises on the government for finance, the programme of privatisation has encouraged new investments in the enterprises concerned. The cold hands of Treasury Control have been replaced by the warm hands of the Capital Market which are as stimulating as they are invisible. Many of them have discovered that it is easier to raise funds through the capital market than it is to do so from the treasury, once the necessary investor confidence has been developed (Anya O. Anya). The reduction of politically motivated resource allocation has unquestionably been the principal benefit of privatisation in Nigeria (Jerome, 2008). Past political and military leaders have used these enterprises to favour their supporters through excessive employment, regionally targeted investments and deliberate underpricing of products or overpricing of inputs from politically connected suppliers (Jerome, 2008).

In perspective, "it is possible to envision the emergence of Nigeria as one of the attractive depots for foreign investment given the present Governments' determination to create the necessary enabling environment to attract investors through the privatisation programme, the direct fight against corruption and the other sources of hidden costs for operators in the economy, and the stated commitment to make the private sector the engine of growth as a strategic option. Given the efforts to address social flash-points such as the Niger Delta, there is a basis for cautious optimism that the Nigerian economy may yet, despite incipient worries, become the first African Leopard (Anya O. Anya)”.

Socio-environmental issues versus economic profitability

Ben E. Aigbokhan and M. I. Ailemen (2006) pose that “In all we argue that it is necessary to have framework that is useful in comparing welfare changes and its distribution among major groups in the society applicable for both pre and post–privatisation performance evaluation, since the ultimate goal of privatisation is improved social welfare level.” They argued that “The real policy challenges are how to integrate environmental concerns in commercialisation and privatisation policy. Nigeria embraced commercialisation and privatisation as a development strategy in the mid–1980s, this period has also witnessed heightened concerns about the environment.” They attempt to demonstrate “that there is cause for concern about environment consequences of public enterprises reform because of the divergence between private and public costs and benefit with regard to the environment.” They also showed “that environmental issues did not form a part of public enterprises reform programme in Nigeria until very recently.”

Theoretical issues

Ben et al. underlined some theoretical issues as they noted that “though its use should be encouraged, the fact remains that “profitability is a most imperfect guide to PE performance” (Nellis, 1986:51). This is because many markets, especially in Africa, are not competitive, and prices may not sufficiently incorporate environmental concerns, especially if profitability is based on maximum benefit – minimum costs calculations. In other words, publicly relevant profit is quite different from privately relevant profit because publicly relevant prices differ from privately relevant prices (Jones, 1991)."

Environmental issues

They argued that "Clearly, ownership is not a safeguard for environmental concerns, and as such there is the need for deliberate effort to take environmental concerns into account when designing, implementing and evaluating PE reform programmes This is particularly so as it is generally recognised that private markets provide little or no incentive for curbing pollution, and that it is often the poorest who suffer most from the consequences of pollution and environmental degradation (World Bank, 1992 b)."

Poverty

Ariyo et al[clv]. (2004) introduce "a consultative study with the poor in Nigeria (Okumadewa, et. al, 2002) which associates poverty with lack of dignity, status, security and hope."They amplify the concept of poverty by writing that "In addition to material deprivation characterized by poor insecure housing, food insecurity and limited access to utilities and services, From a policy perspective, it is important to understand and make a distinction between the real causes of poverty as distinct from the effects and indicators of poverty." They attested that "There are various ways in which utility privatisation can affect the poor. These are normally assessed in terms of its macroeconomic and microeconomic linkages."

Figure 4: Macroeconomic Linkages between Utility Reform and Poverty

Category	Benefits	Potential Loss	Risks/Ameliorating factors
Economic Growth	More private participation in provision of infrastructure may help growth, and	Relative price changes for infrastructure services can influence consumption baskets especially where no	If economic growth benefits mostly the non-poor, poverty may not be reduced

	thereby poverty reduction, by increasing productivity, and easing access	safety nets are in place to address the specific needs of the poor.	and inequality may increase, with a possible reduction in social welfare. Privatisation of Infrastructure can contribute broadly to growth in the economy.
Employment	If infrastructure reform generates economic growth, there should ultimately be some employment creation, but it may take time.	Reforms may generate layoffs and reductions in wages, at least during the transition period.	The negative impact of layoffs on poverty can be mitigated through severance packages and other policies.
Public expenditures	Revenues from reforms (for example, privatisation) and the phasing out of subsidies generate fiscal space for other public programs that may be better targeted and more pro-poor.	The poor may be hurt by the reduction or removal of public subsidies for infrastructure services (there may be cuts in the subsidies for both connections and consumption)	"Privatisation revenue earmarking and better targeting may ease financing of the needs of the real poor.

Source: Ademola Ariyo and Afeikhena Jerome (2004) as adapted from Estache, Gomez-Lobo and Leipzinger (2001)

Figure 5: Microeconomic Linkages between Utility Reform and Poverty.

Features	Risks	Benefits and mitigating factors
Access issues		
Increase in connection fees	The fee for obtaining a connection to the infrastructure service is likely to increase substantially when privatized firms reflect actual costs of connections.	Countries can adopt rules for uniform connection costs across geographic areas.
Risk of "cream-skimming" or "red-lining"	Firms may have incentives not to serve the poor on an individual (cream-skimming) or neighbourhood (red-lining) basis.	Rules against cream-skimming or red-lining can be imposed.
Reduction in availability of alternative services	The fee for obtaining a connection to the infrastructure service is likely to increase substantially when privatized firms reflect costs of connections.	Access to alternative services will not be affected if foreseen in contracts. Availability of communal services may increase as a result of privatisation.
Increase in network cost caused by service quality upgrades	The quality of service is likely to improve, but this may make network services unaffordable for the poor.	Evidence shows that poor households are willing to pay reasonable amounts for improved quality service.
Affordability		
Increase in price	Average tariff levels can increase because of cost-recovery requirements and the need to finance quality-related investments.	Increases in average tariffs depend on pre-reform price levels and the distribution of the benefits of private participation between stakeholders. Reform can cut costs significantly through improvements in efficiency or new technologies and effective competition.

Tariff rebalancing	Tariff structure is likely to be reformed in ways that could increase the marginal tariff faced by the poor.	Competition is likely to decrease average tariffs, thereby possibly compensating for the impact of tariff rebalancing.
Formalization and revenue collection	Revenue collection and discouragement of informal connections are likely to be more effective and result in an increase in the effective price paid.	Vulnerable households may desire a formal connection, even at a cost. Safety is likely to increase with the formalization of connections. Informal connection may have been more expensive. Reform can bring technology choices that lower costs.

Stakeholders' resistance

The response to the privatisation program had been mixed. While many Nigerians and organizations are generally opposed, there seems to have been an apparent support from the international community (Ariyo, et al., 2004). They explain that "According to the (World Bank, 2001b): "While the Obasanjo administration is strongly committed to an accelerated privatisation program, significant stakeholder groups are resisting the reforms. These include public enterprises' managers and employees, senior government officials and civil servants, notably in sectoral ministries, who perceive that their current power and perquisites will be reduced as the privatisation program is implemented. In the National Assembly, a range of politicians view privatisation as a threat to national sovereignty, and an unwarranted reduction in the role of the state".

They further explain that "The strongest opposition has emerged from the National Assembly and labour unions, particularly in the utilities sector. In part, such opposition is due to emotion, and this is further complicated by the deep-seated ethnic and regional differences in Nigerian society." They declare that "This has complicated the implementation process in general and has in particular affected the sale of some public enterprises perceived as being bought by non-indigenes of beneficiary locations. This underscores the need for the support of local elites and local population for the overall success of the program." The situation was heightened by the lack of transparency of the privatisation process, absence of a popularly acceptable regulatory framework, and total neglect of issues relating to social safety nets, among others. The integrity of the asset and share valuation process for privatisation had also been questioned over time (Ariyo, 1991).

Quality of the debate

However, Ariyo, et al. observed that “It is important to admit that the overall quality of on-going debate on privatisation in Nigeria is below an acceptable level. It is not only emotional, but also beclouded by myopic consideration and self-interest especially on issues relating to laws of employment. Extreme positions are also taken by agitators instead of proposing viable or alternative options for achieving the desired goal. In particular, for policy effect, such debates should focus on broader nation-wide issues on how the reformed the public enterprise sector can promote accelerated growth, wealth creation, sustainable development and effective poverty alleviation.” They mention that “As Harneit-Sievers (2003) has observed, any critique of privatisation in Nigeria should focus on issues of poverty, efficiency, service availability and the ‘common good’.

Conclusion

In Nigeria, privatisation has broadened and deepened the capital market resulting from increased listings and market size, improved liquidity and regulatory infrastructure, improved awareness and enlarged investor base. The process has recorded a significant increase in profitability, operating efficiency, capital investment spending, output (adjusted for inflation), and dividends.

The government, through sale of shares and assets, realised over N3.7 billion as gross privatisation proceeds from the privatisation of 55 enterprises with total original investment of N652 million. The corporate environment of privatised enterprises as well as the negative perception of public enterprises has also improved. Privatisation has provided opportunity for risk diversification, enhanced professionalism and increased government attention.

Donors and multilateral agencies acknowledged the benefits of privatisation, and viewed its implementation as a commitment on the part of national policy makers to economic reform and to efficiency in government. The efficiency of privatised enterprises improved. With a reduced reliance of public enterprises on the government for finance, the programme of privatisation has encouraged new investments in the enterprises concerned, with many of them raising funds through the capital market. Politically motivated resource allocation has been reduced.

However, some practical issues surrounded the process, mainly in connection with the selection of the appropriate core investors, the harmonisation of policy statements with practical realities. Before and during privatisation concerns were raised by various stakeholders because of threats emanating from government officials over the loss of political position on boards of the state owned companies.

The real policy challenges were related to government's failure to integrate environmental concerns in the commercialisation and privatisation policy. Theoretical issues arose regarding the performance monitoring of privatised enterprises, since the indicators were judged inappropriate in the Nigerian context which is characterised by a lack of market competition as prices did not integrate environmental and other costs. Also, privatisation had little impact on the level of poverty as issues of pertaining to insecure housing and food insecurity as well as limited access to utilities and services were insufficiently addressed by the privatisation policy. Therefore, the responses to the privatisation program have been mixed. The strongest opposition has emerged from the National Assembly and labour unions, particularly in the utilities sector. The overall quality of debate on privatisation in Nigeria was found to be below the acceptable level.

PART 2: STUDY

Chapter 5: Background of the study

5.1 Context of the study

5.1.1 Political context

Nigeria has a constitutional three-tier government system made of a Federal government, 36 State government and 774 local governments; and the Public Enterprises (Privatisation and Commercialisation) Decree 1999 confers to the three-tier of government the role to fund the national privatisation agency as this law stipulates that: 20.-(1) The Bureau shall establish and maintain a fund, to be approved by the Council from which shall be defrayed all expenditures incurred by it. (2) There shall be paid and credited to the fund established pursuant to subsection (1) of this section - (a) the annual subvention received from the Government of the Federation; (b) such money as may, from time to time, be lent, deposited with or granted to the Bureau by the Government of the Federation, of a State, or a Local Government.

As confirmed by Adewumi Rowland ()clvi “The 36 State Ministries of Works and Transport have similar responsibility for the State roads while the 774 Local Government Works Departments have the responsibilities for Local Government roads.” Furthermore, Article 7 (3) of the constitution provides that every local government council within a state shall participate in economic planning and an economic planning board shall be established by law enacted by the House of Assembly of the state.

Also, as reported by May Ifeoma Nwoye[37], "at the state and local governmental levels, the range of activities that had attracted public sector investment also had become quite large. Thus, a variety of enterprises - with public interest in terms of majority equity participation or fully-owned by state and local government as well as other governmental entities - became visible in various parts of Nigeria". According to Mr. Hamza Zayyad (1994)[38], "There is no local government in Nigeria today where there are no shareholders". Zayyad argues that "A survey undertaken by the Technical Committee on Privatisation and Commercialisation (TCPC) shows that there are nearly 600 public enterprises at the federal (national) level alone, and an estimated 900 at the state (regional) and local government levels." It was even suggested by Alhaji G. N. Hamza[39] in 2001 in line with the privatisation of NITEL that "the 49 percent reserved for Nigerians should be allotted and shared equally between the 774 local government councils for resale to their respective indigenes. Whatever shares the local government were able to sell, the left out shares should be sold to the poor and less privileged people in that particular local government area via our proposed financing scheme at the most generous terms and conditions.

5.1.2 Specific constitutional provision

The 1999 Constitution of the Federal Republic of Nigeria provides in its section 9 that "It shall be the duty of the Board of Directors of every state-owned enterprise to recognise and promote the principle of federal character in the ownership and management structure of the company. Furthermore, section 16 of the same 1999 Constitution provides that: The State shall, within the context of the ideals and objectives for which provisions are made in this Constitution. (a) Harness the resources of the nation and promote national prosperity and an

[37] Privatisation of Public Enterprises in Nigeria: The Views and Counterviews, By May Ifeoma Nwoye, Ph.D., Nigerian Institute of Management, Nigeria
[38] Former head of the Bureau of Public Enterprises
[39] Foreign Investment And Privatisation, Daily Trust, November 2001

efficient, a dynamic and self-reliant economy; (b) control the national economy in such manner as to secure the maximum welfare, freedom and happiness of every citizen on the basis of social justice and equality of status and opportunity; (c) without prejudice to its right to operate or participate in areas of the economy, other than the major sectors of the economy, manage and operate the major sectors of the economy; (d) without prejudice to the right of any person to participate in areas of the economy within the major sector of the economy, protect the right of every citizen to engage in any economic activities outside the major sectors of the economy. Pursuant, the same section provides that:" A body shall be set up by an Act of the National Assembly which shall have power; (a) to review, from time to time, the ownership and control of business enterprises operating in Nigeria and make recommendations to the President on same; and (b) to administer any law for the regulation of the ownership and control of such enterprises.

The same 1999 Constitution provides that : "(a) the reference to the "major sectors of the economy" shall be construed as a reference to such economic activities as may, from time to time, be declared by a resolution of each House of the National Assembly to be managed and operated exclusively by the Government of the Federation, and until a resolution to the contrary is made by the National Assembly, economic activities being operated exclusively by the Government of the Federation on the date immediately preceding the day when this section comes into force, whether directly or through the agencies of a statutory or other corporation or company, shall be deemed to be major sectors of the economy; (b) "economic activities" includes activities directly concerned with the production, distribution and exchange of weather or of goods and services; and (c) "participate" includes the rendering of services and supplying of goods.

5.2 Justification of the study

5.2.1 Conflicting investment behaviours

In Nigeria, the institutional framework of privatisation, exclusively managed by the Federal Government with a dedicated privatisation agency, is targeted at divesting federal stakes in SOEs, without any allusion to sub national stakes in the same SOEs. Whereas, at the sub-national level, State governments float their respective investment companies which are registered in the forms of limited liabilities companies, and which actions do not forcefully match the strategic privatisation goals of the federal government.

As per their behaviours, these sub-national public agents have the tendency to increase their respective stakes where the federal government attempt to divest its own. Some of these sub-national agents are: Abuja Investments Company Ltd., Adamawa Inv. & Prop. Dev. Co. Ltd., Akwa Ibom Investment And Industrial Promotion Council, Bauchi State Inv. & Prop. Dev. Co. Ltd., Benue Investment & Property Company Ltd, Borno Investment Company Ltd., Development Fin. & Inv. Co. Ltd., Ebonyi Investment & Property Company Ltd, Gombe State Investment & Property Development Company Ltd, Jigawa State Inv. & Prop. Dev. Ltd., Kaduna Industrial & Finance Co. Ltd., Kaduna State Dev. & Prop. Co. Ltd., Kano State Investment & Properties Ltd., Katsina State Investment & Dev. Co. Ltd., Kogi Investment & Dev. Co. Ltd., Kwara Inv. & Prop. Dev. Co. Ltd, Lagos Building Investment Co. Ltd., Nasarawa Investment & Property, Niger State Dev. Co. Ltd., Odu'a Investment Co, Ltd., Ondo State Development Co. Ltd, Oyo State Inv. & Fin. Co. Ltd, Plateau Investment & Prop. Dev. Co. Ltd., Sokoto Investment Co. Ltd., Taraba Investment & Properties Ltd., Yobe Investment Co. Ltd., Zamfara State Investment & Property Development Company Ltd, etc.

It is recalled as accounted by A. Etukudo (2000)[clvii] in an ILO publication that as a participation strategy "publicity printed copies of application forms were circulated countrywide through such distribution channels as local government headquarters, post offices, state investment companies, state ministries of commerce and industry, all branches of licensed banks, offices of chambers of commerce and stockbrokers."

5.2.2 Problematic developments

It was recently reported by the press[40], "The Bureau of Public Enterprises, (BPE) has said it has a presidential mandate to revoke the privatisation of over 350 government-owned companies which have been sold since 1999 but have failed to perform to expectation." The same article is quoted as follows: "Director-General of the BPE, Dr. Chris Anyanwu[41]blamed the failure of most privatised companies on the hurried manner they were sold, particularly without due diligence carried out to ascertain the financial and technical competence of the buyers.

Anyanwu said that the biggest challenges facing the BPE at the moment are that out of over 400 government-owned companies privatised since 1999, less than 10 of them are performing well." "We have discovered that the privatisation process of most of the companies was carried out in a hurry. We have also found out that there was lack of effective regulation of privatised companies and that is why the new leadership in BPE has resolved to avoid the mistakes of the past by strictly monitoring privatised companies which is the practice all over the world." As assessed by Igbuzor (2003)[42], there has been "no effective monitoring and evaluation of the privatisation programme in Nigeria. For instance, it has been documented

[40] The Independent newspaper, September 27, 2009, http://nigerianbulletin.com/2009/09/27/presidency-orders-bpe-to-revoke-sale-of-350-firms-the-independent/
[41] Dr Chris Anyanwu is the Director General of the Bureau of Public
[42] In a paper presented at a power mapping roundtable discussion on the privatisation programme in Nigeria organised by socio-economic rights initiative (SERI) held at Niger Links Hotel Abuja on 3rd September 2003.

that fifteen years after the initiation of privatisation programme in Nigeria, there has not been a comprehensive assessment of the post-privatisation performance of affected enterprises."

According to the former DG of the Bureau of Public Enterprises, "through DFID support, the BPE had concluded two major restructuring programmes in 2004 and 2006 and strengthened its management information systems." But, in an article published by Brooke Chambers in 2008, Barrister Onjefu Adoga[43], saying "The consensus among several stakeholders is that Nigerian privatisation program requires several fundamental restructuring and improvements to augment and maximize its impact on Nigerians."

He argues that the issues to be addressed include: a workable privatisation model, establishment of additional sector regulatory commissions, improved post privatisation regulatory framework, enacting Nigeria's competition laws, corruption, transparency of the exercise, public accountability, ostracization of affected communities, exclusivity of certain privatisation exercises, no audit or evaluation of the exercise, judicial and juristic review, corporate democracy and balance of majority and minority ownership rights, human capacity building, administrative limitations of the BPE, loss of experienced manpower, increasing foreign direct investments, protectionism and national security, diversifying into Private Public Partnerships (PPP), untimely winding up of state enterprises, reducing the local costs of business operations."

An optimal privatisation strategy is still being debated upon, as expressed by the former minister of power, Dr Rilwan Olanrewaju Babalola[44] who was quoted in April 2009 by

[43] Mr. Adoga is the managing partner of Brooke Chambers Law Firm, Legal Consultants to the Bureau for Public Enterprises (BPE) and Securities and Exchange Commission (SEC). He is an international counsel with over 18 years experience in business, investment and financial services law.

[44] Former Federal Minister of Power and holder of a Doctorate Degree in Energy Economics from the University of Surrey in the United Kingdom, and former Team Leader for Power Sector Reform at the Bureau for Public Enterprises; briefly as Deputy General Manager at the Nigerian Electricity Regulatory Commission

Abraham Oyelade (http://www.groundreport.com) saying that “Nigeria Power Sector Needs Accountability before Privatisation.”

But contrary to this view, in August 2010, the Federal Government of Nigeria through the National Council on Privatisation has approved the "core investor sale strategy" for the privatisation of its 11 power distribution companies.

On that occasion the spokesperson of the National Council on Privatisation announced that “under the proposed privatisation strategy, private-sector operators will acquire controlling equity interest in the distribution companies with a view to rapidly improving its operational efficiency. ... Unlike the traditional approach, where buyers merely bid on price for the equity shares, bids would be made on the basis of a trajectory of technical, commercial and collection loss improvements, usually during the first five years of post-privatisation operation or the number of years agreed with the Nigerian Electricity Regulatory Commission, the industry regulator.”

It was also disclosed that “the NCP, chaired by vice president Mohammed Namadi Sambo, also approved the offering of a minority equity interest to state governments in Nigeria that wish to participate in the privatisation of the distribution companies.”[45]

[45] By Obafemi Oredein; Dow Jones Newswire, First Published Monday, 23 August 2010

5.2.3 Adverse effects on the privatisation programme

Figure 6: Privatisation in the national press

Lagos — The on-going bickering between the Ebonyi State Government and Eastern Bulkcem Company Limited over ownership and control of Nigeria Cement Company Plc, Nkalagu, (NIGERCEM), has raised fundamental issues of concern that need to be addressed in the interest of all. Until 2002, when the plant was sold through the privatisation process, it was the common heritage of the south-east zone states. It was a vital asset, which not only played a key role in the economy of the area but also represented a concrete legacy of the great vision of the founding fathers of the region.

As the first cement producing company in Nigeria (established in 1954), NIGERCEM was, on the eve of independence in 1960, also seen, by the leaders of Nigeria, as one of the pillars upon which the economy of the nation would rest. Today, because of the current unfortunate face-off, the company, which once employed up to 3,000 workers (when it reached its peak production in the early 1980s), has been abandoned and has since become home to various kinds of reptiles and other animals. Besides reports of the looting of important machine spare parts in the company, we understand that the machines not vandalized have been left to rot. Events leading to the sad state of the company can be traced back to 2001, shortly before the commencement of campaigns for the 2003 general elections, when the then South-East governors suddenly resolved to sell off NIGERCEM through the Bureau of Public Enterprises-supervised privatisation exercise. In October 2002, the plant was sold. Eastern Bulkcem Company Limited emerged the core investor with 60 percent share holding. The host state, Ebonyi State, holds 10 percent, while the remaining 30 percent shares were acquired by the public and some institutions.

The expectation of well-meaning Nigerians then was that within the first 10 years of the privatisation of the organisation, the new owners would reposition it not only to regain its leadership position as a pioneer producer of cement in this part of the world, but also to truly make it a viable competitor in the international cement market. NIGERCEM had the potential to achieve these. For example, a survey carried out by African Development Bank (AfDB) in 1996 projected that the limestone deposit in one, out of the five mining leases for NIGERCEM, would subsist for more than 100 years for a new capacity of 2,000 tonnes of cement per day, which translates to about 200 lorry loads of cement, with each lorry carrying about 200 bags of 50kg each. It is, to say the least, unfortunate that more than eight years after the privatisation of this key company, the high expectations of the people have not only been dashed, the company itself has also reportedly become a carcass waiting to be thrown into the dustbin. Instead of hearing cheery reports of increased production of cement and profitability as a result of privatisation, all that is heard concerning NIGERCEM has been allegations and counter-allegations between the Gov. Martin Elechi-led Ebonyi State Government and Eastern Bulkcem Company, the core investor.

Elechi had, in recent media reports, alleged that Eastern Bulkcem Company was neither serious nor competent to revive and sustain NIGERCEM. After setting up a five-man panel to investigate the activities of the core investor and the fortunes of the company, the governor was quoted as saying, "The factual situation of NIGERCEM is that it has been despoiled beyond revival." He openly expressed intention to repossess the company from the core investor and sell it to what he described as "a more serious investor," arguing that the current core investor, that allegedly dumped its technical partner, Daewoo International, shortly after getting the offer, "has been using NIGERCEM to obtain import licence from the Federal Government, which it uses to import cement and make $1million profit every month."

He, therefore, implored the Federal Government to investigate the matter and probably revoke the sale of the company to the current owners. So far, the core investor has denied the allegations, maintaining that it is working hard to commence total revival of the company and alleging undue harassment by the state government. Even as the Federal Government continues its investigation, we must state categorically that this face-off and the attendant abandonment of NIGERCEM have cost the state, the region and the entire nation too much. At least, over 3,000 workers have since been thrown into the labour market. Some reports say at least 18 former workers have died as a result of hardship since they are being owed up to eight years salaries.

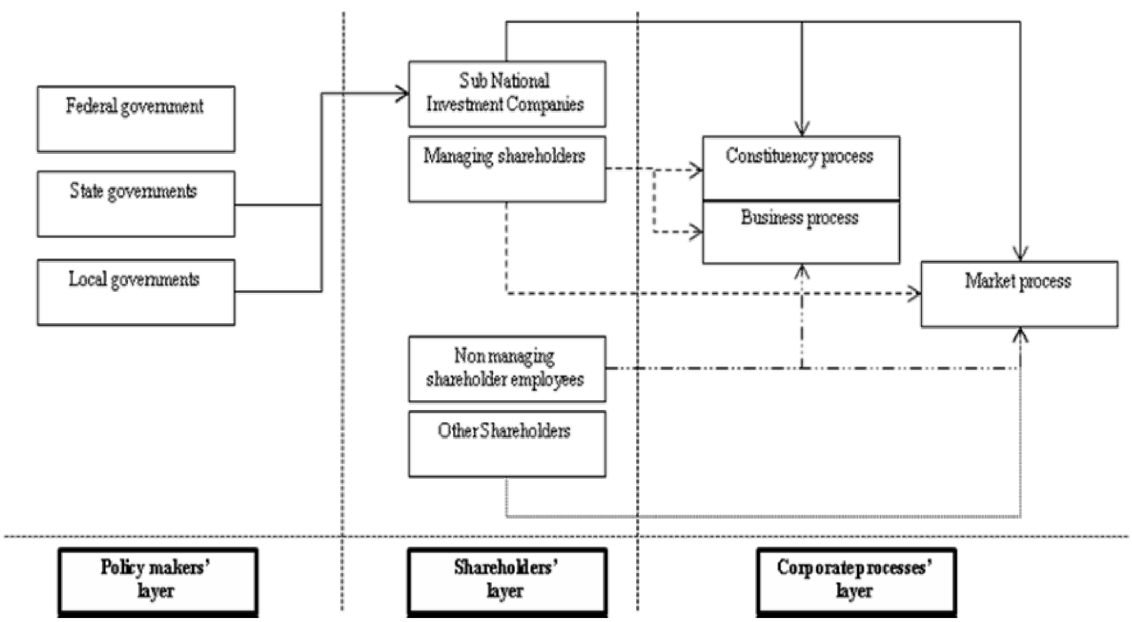
Aware that NIGERCEM can do better than what we have seen so far, we hereby demand immediate resolution of whatever issues that led to the abandonment of such a vital asset. Allegations, counter-allegations, threats and harassments by stakeholders will not solve the problem. We, therefore, suggest that the Ebonyi State

Government should immediately take this matter to court which should determine whether or not to retrieve the company from the present owners for sale to a more competent group. We say so because we agree with Article 13.1 of the guidelines on Privatisation (a statutory working document of NCP, through the Bureau of Public Enterprises) which defines a core investor as "a formidable and experienced group with capabilities for adding value to an enterprise and making it operate profitably in the face of international competition." We advise the Federal Government to do the same concerning several other privatised companies where it has become obvious that no value has been added since privatization.

Source: Daily Champion, “Ebonyi State And Nigercem”, 7 February 2010

5.3 Logical diagram of the problem

Figure 7: Logical diagram



Chapter 6: Research methodology

6.1 Research problem

In the light of our literature review, various problems have been identified in relation with the privatisation programme being implemented by the Federal Government of Nigeria. The polity, policy and politics of privatisation need to be prudently streamlined by the Federal Government. The ideological paradigm of privatisation is characterised by a very low level of awareness and consensus among policy-makers and civil society organisations. The theoretical framework of privatisation needs to be further strengthened. We notice that the Nigerian privatisation process is tailored around the free-market school of thoughts. The practice of privatisation is undermined by theoretical issues related to public choice, property rights, transaction cost, principal-agent, and incomplete contract theories.

Besides these broad issues, we have identified a behavioural problem that needs to be urgently and diligently addressed. Indeed, <u>while the Federal Government disinvests, Sub national governments (through their respective sub national investment companies) increase and/or maintain their own stake in privatised enterprises</u>. This phenomenon most of the time widely reported in the press results into a trend of conflicts between stakeholders (involving many times the Sub-national investments companies, State governments, core investors and unions) which could have a reversal effect on Federal Government's privatisation programme. We opine that this problem can be studied from a strategic management perspective.

6.2 Theoretical framework

The problem can be addressed as a stakeholder problem between legitimate interest groups through the stakeholder theory, as a constituency problem between internal and external coalitions through the constituency theory and as shareholder problem upholding shareholders' interests through the shareholder theory. However, we opt for an empirical study of the phenomenon.

6.2.1 Stakeholder theory (legitimate of interest groups)

Andrew R. Weiss (1982)[clviii] asserts that "Stakeholder Theory has become an established framework within which to identify and examine the impact of organization action. It has been used to inform discussion of corporate governance, business ethics, strategic management and organizational effectiveness." Stakeholder Theory posits a model of the enterprise in which" all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits, and there is no prima facie priority of one set of interests and benefits over another" (Donaldson and Preston, 1995:68). The model rejects the idea that the enterprise exists to serve the interest of its owners, be that maximizing their wealth or some other reason for being in business. Rather, the model is based on the idea that the enterprise exists to serve the many stakeholders who have an interest in it or who in some way may be harmed or benefited by it. R. Edward Freeman, Jeffrey S. Harrison, Andrew C. Wicks, Bidhan L. Parmar, Simone de Colle[clix] (2010) explain that "One area where stakeholder theory has been used to make specific changes is that of the corporate constituency statutes.

These statutes direct, or at least allow, managers to consider the interests of stakeholders groups beyond those of shareholders in making important decisions that materially affects the future of the corporation." They add that "rather than covering all aspects of corporate activities, many of these statutes are specially crafted for the context of corporate mergers and acquisitions, particularly as a measure that might provide a defence against takeover attempts."

6.2.2 Constituency theory (internal and external coalitions)

Chenting Su[46], Ronald K Mitchell[47] and M. Joseph Sirgy[48] refer to Anderson (1982) as suggesting a constituency theory of firm survival which draws upon the Behavioural model of the firm (Cyert and March, 1963; Simon, 1964) and the resource dependence model of the firm (Pfeffer and Salancik, 1978). They advance that "The gist of this theory is that a business firm is viewed as a coalition of resources or interests, internal and external alike, and that the firm's survival is dependent on obtaining the needed resources from the external coalitions through the efforts of the internal coalitions.

Another perspective of the constituency theory if given Henry Mintzberg who depicts organisational behaviours as shaped by two coalitions, with the internal coalition made of the organisation's full-time employees – specifically and the external coalition consisting of non employees their bases of influence to try to influence the behaviours of employees and include owners, employees associations, public constituencies, and directors (the latter being intermediary between the two coalitions. Martin Staniland[clx](2003) asserts that "in the same vein, a recent survey by Willis Emmons of the implications of deregulation and privatisation stresses the continuing importance of "enterprises bargain" which defines the firm's rights and obligations as well as the enforcement mechanisms associated with them."He quotes Emmons saying "the terms of bargain are symmetrical: the rights of the firm imply

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[47] Professor of Management, Texas Tech University
[48] Professor of Marketing, Virginia Tech University

obligations from on the part of the state obligation to uphold these rights, while obligations of the firm correspond to the rights enjoyed by the state and the broader society". Staniland view "deregulation and different degrees of privatisation of particular firms as a form of specific bargain".

6.2.3 Shareholder theory (shareholders interests)

David Levy & Mark Mitschow[clxi] (2009) advance that "Shareholder Theory in its most simplified form seems to suggest that managers are morally obligated to do whatever will maximize shareholder return. Understood in this way, Shareholder Theory seems to be nothing more than a cover for legitimizing greed; worse, it seems to provide an endorsement of the idea that, in the pursuit of profit, moral concern for the interests of other stakeholders has no place."

Frederick R. Post49 (2003)[clxii] "Shareholder Theory allows management to ignore the interests of the other constituencies while pursuing its own narrow self-interest under the guise (the ethical facade) of promoting the interests of the shareholder owners. The Shareholder Theory does not provide any realistic counterweight against management abuse. The Enron example strengthens the arguments for the use of Stakeholder theory and exposes the utter failure of the Shareholder Theory."

On a more specific note H. Jeff Smith (2003)[clxiii] notes that "Shareholder theory asserts that shareholders advance capital to a company's managers, who are supposed to spend corporate funds only in ways that have been authorized by the shareholders." He argues quoting Milton Friedman, that "There is one and only one social responsibility of business — to use its

[49] University of Toledo

resources and engage in activities designed to increase its profits so long as it engages in open and free competition, without deception or fraud."

6.2.4 Conflict management theory

De Bono (1985) asserts that "Conflict is a clash of interests, values, actions, views or directions. Conflicts emanate from more than one source, and so their true origin may be hard to identify."However, he argues that "important initiators of conflict situations include disagreement among people because of different viewpoints, different styles, principles, values, beliefs and slogans which determine their choices and objectives, different ideological and philosophical outlooks, different status, different thinking styles, etc. He also stresses that "People are concerned with fear, force, fairness or funds"

Gordon Marshall (1998) asserts that "Conflict theorists emphasized the importance of interests over norms and values, and the ways in which the pursuit of interests generated various types of conflict as normal aspects of social life, rather than abnormal or dysfunctional occurrences."

Turner and Weed (1983) add that "Organizational conflicts usually involve three elements, which have to be appropriately matched through necessary organizational arrangements in order to resolve the conflict."These elements are: *Power as* the capacities and means that people have at their disposal to get work done through budgetary discretion, personal influence, information, time, space, staff size and dependence on others, *Organizational demands* as the people's expectations regarding a person's job performance, and *Worth* as a person's self-esteem.

As regards conflict management specifically, (Kirchoff and Adams, 1982) defined conflict as a disagreement between individuals and adds that " It can vary from a mild disagreement to a win-or-lose, emotion-packed, confrontation." They identified two categories of conflict: *The traditional theory* which "is based on the assumption that conflicts are bad, are caused by trouble makers, and should be subdued" and the *Contemporary theory* which "recognizes that conflicts between human beings are unavoidable. They emerge as a natural result of change and can be beneficial to the organization, if managed efficiently." He argues that innovation is "a mechanism for bringing together various ideas and viewpoints into a new and different fusion." They postulate that "An atmosphere of tension, and hence conflict, is thus essential in any organization committed to developing or working with new ideas."

6.3 Research question

Our research question is the following:

- Does the participation of Sub national investment companies into privatised firms affect the "organizational effectiveness" of privatised firms?

Organizational effectiveness in concerned about how effective an organization is in achieving the outcomes it intends for itself. Organisational effectiveness has been approached by various management experts from different perspectives including: productivity, decision making, internal conflict, wellness, etc. We have opted to focus on *internal conflict*.

- Does the participation of Sub national investment companies into privatised firms affect the internal harmony of the board of privatised firms?

6.4 Research hypothesis

6.4.1 Enunciation

This study postulated that *internal conflict*s are characteristic boards of corporate bodies. Unresolved internal conflicts between on one side; the representatives of sub national investment companies and on the other side, other board members of privatised firms affect the effectiveness of these privatised companies, and that the occurrence of *unresolved internal conflicts* tends to correlate the level of sub national stake in privatised firms.

- H_0: The occurrence of unresolved board conflicts in privatised firms correlates the weights of sub national stakes in a privatised firm,
- H_1: The occurrence of unresolved board conflicts is not correlated by the level of sub national stakes in privatised firms

6.4.2 Variables

In the framework of this study:

- "*Occurrence of unresolved board conflicts*" refers to any disagreement arising between board members in the framework of board's proceedings, documented as such in the board's minutes by the company secretary.

- "*Sub-national stakes*" account for "shares" of privatised firms detained by sub-national investment companies, as well as their identified pledges to the company's "running assets" (lands, licenses, etc.) and their recourse to the firm's services and or products in the form of "commercial patronage".

6.5 Data collection and Hypothesis testing

6.5.1 Procedure

In Nigeria, the Companies and Allied Matters Act (CAMA) compels all firms (including privatised firms) to appoint a company secretary for the purpose of performing the function of following up and keeping firm's backlog of information including *periodic* board minutes and firms' *yearly* financial reports.

The preliminary inventory returns obtained from 25 company secretaries of firms privatised between 2000 and 2007 identified 11 privatised firms with noticeable sub-national companies' share participations; among these 11 firms 3 undergone transformation as a result of post-privatisation take-overs and/or mergers. The company secretaries of the 8 remaining privatised firms were asked at 3 different periods to feel and submit a data sheet. These 3 periods were December '07, December '08 and December '09.

6.5.2 Observed data

The restitution dully filled under *confidentiality clause* by 6 of the 8 privatised companies for these three periods is the following:

Figure 8: Data observed at different periods

Dec 07	Stakes			Cases of board conflicts in connection with			
	Shares (%)	Running assets (%)	Commercial patronage (%)	Goal setting	Organisational structure	Managers' appointment	Control measures
A	7	5	3	1	4	6	8
B	6	3	9	3	9	2	11
C	8	3	11.5	2	10	10	3
D	4	6	5	7	2	1	2
E	5	10.5	9	12	18	12	9
F	9	11	11	4	2	9	13

Dec 08	Stakes			Cases of board conflicts in connection with			
	Shares (%)	Running assets (%)	Commercial patronage (%)	Goal setting	Organisational structure	Managers' appointment	Control measures
A	7	7	5	1	4	6	8
B	6	7	9	3	9	2	11
C	8	3	12.5	2	10	10	3
D	4	8	3	7	2	1	2
E	5	13.5	11	12	18	12	9
F	9	11	13	4	2	9	13

Dec 09	Stakes			Cases of board conflicts in connection with			
	Shares (%)	Running assets (%)	Commercial patronage (%)	Goal setting	Organisational structure	Managers' appointment	Control measures
A	7	8	4	2	4	5	8
B	6	7	9	3	9	3	11
C	8	4	16	4	10	12	3
D	4	8	3	8	2	1	2
E	5	12.6	15	16	18	9	9
F	9	12	12	6	2	4	13

6.5.3 Test procedure

Step 0: The data pertaining to Dec.'07 and those pertaining to Dec.'08 were averaged as follows:

Sub national investment company	weights of stakes in a privatised firm			Cases of board conflicts in connection with			
	Shares (%)	Running assets (%)	Commercial patronage (%)	Goal setting	Organisational structure	Managers' appointment	Control measures
A	7	6	4	1	4	6	8
B	6	5	9	3	9	2	11
C	8	3	12	2	10	10	3
D	4	7	4	7	2	1	2
E	5	12	10	12	18	12	9
F	9	11	12	4	2	9	13

Step 1: Correlation (Excel – Analysis ToolPak – Data Analysis)

sub national investment company	Shares (%)	Running assets (%)	Commercial patronage (%)	Goal setting	Organisational structure	Managers' appointment	Control measures
Shares (%)	1						
Running assets (%)	-0.0916	1					
Commercial patronage (%)	0.5965	0.1710	1				
Goal setting	-0.6172	**0.7202**	0.0602	1			
Organisational structure	-0.2505	0.1938	0.4090	0.5677	1		
Managers' appointment	0.4557	0.4185	**0.6595**	0.2830	0.5655	1	
Control measures	0.4162	0.5187	0.3740	-0.0150	0.0592	0.2089	1

The correlation table suggests the highest correlation between two pairs of variables:

- "weight of running assets" and " board unresolved conflicts related to goal setting"

- "weight of commercial patronage" and " board unresolved conflicts related to manager's appointment"

Step 2: Determination of empirical correlation

- **Correlation of the "weight of running assets" and " board unresolved conflicts related to goal setting"**

	Running assets (%)	Goal setting	X_i-m_x	Y_i-m_y	(X_i-m_x)* (Y_i-m_y)	$(X_i-m_x)^2$	$(Y_i-m_y)^2$
A	6	1	-1.33	-3.83	5.11	1.78	14.69
B	5	3	-2.33	-1.83	4.28	5.44	3.36
C	3	2	-4.33	-2.83	12.28	18.78	8.03
D	7	7	-0.33	2.17	-0.72	0.11	4.69
E	12	12	4.67	7.17	33.44	21.78	51.36
F	11	4	3.67	-0.83	-3.06	13.44	0.69
m_x and m_y	7.33	4.83		Σ	51.33	61.33	82.83

$\Sigma (X_i-m_x)(Y_i-m_y)$ = 51.33

$SQRT(\Sigma (X_i-m_x)^2)$ = 7.831560

$SQRT(\Sigma (Y_i-m_y)^2)$ = 9.101282

ρ_0 = **0.7202** for T = **2.0762** following a Student t-distribution with 4 degrees of freedom.

- **Correlation of the "weight of commercial patronage" and " board unresolved conflicts related to manager's appointment"**

	Commercial patronage (%)	Managers' appointment	X_i-m_x	Y_i-m_y	(X_i-m_x)* (Y_i-m_y)	$(X_i-m_x)^2$	$(Y_i-m_y)^2$
A	4	6	-4.50	-0.67	3.00	20.25	0.44
B	9	2	0.50	-4.67	-2.33	0.25	21.78
C	12	10	3.50	3.33	11.67	12.25	11.11
D	4	1	-4.50	-5.67	25.50	20.25	32.11
E	10	12	1.50	5.33	8.00	2.25	28.44
F	12	9	3.50	2.33	8.17	12.25	5.44
m_x and m_y	8.50	6.67		Σ	54.00	67.50	99.33

$\Sigma (X_i-m_x) (Y_i-m_y)$	=	54.00
$SQRT (\Sigma (X_i-m_x)^2)$	=	8.215838
$SQRT (\Sigma (Y_i-m_y)^2)$	=	9.966611

ρ_0 = **0.6595** for T = **1.7545** following a Student t-distribution with 4 degrees of freedom.

Step 3: Decision protocol

$H_0: \rho = \rho_{0;}$

$H_1: \rho \neq \rho_{0;}$

$\alpha = 0.05$

Conclusion:

The critical value for $\alpha/2 = 0.025$ from the t-distribution with 4 degrees of freedom is equal to 2.77645 which is superior to the empirical value of T resulting from the test in both cases. Therefore, there is not sufficient evidence to reject H_0 postulating that $\rho = \rho_0$ in both cases:

- Correlation of the "weight of running assets" and "board unresolved conflicts related to goal setting"
- Correlation of the "weight of commercial patronage" and "board unresolved conflicts related to manager's appointment"

6.6 Validity and reliability

6.6.1 Validity

Content Validity is based on the extent to which a measurement reflects the specific intended domain of content (Carmines & Zeller, 1991, p.20). Content validity is illustrated using the following examples: Researchers aim to study mathematical learning and create a survey to test for mathematical skill. If these researchers only tested for multiplication and then drew conclusions from that survey, their study would not show content validity because it excludes other mathematical functions. Although the establishment of content validity for placement-type exams seems relatively straight-forward, the process becomes more complex as it moves into the more abstract domain of socio-cultural studies. For example, a researcher needing to measure an attitude like self-esteem must decide what constitutes a relevant domain of content for that attitude. For socio-cultural studies, content validity forces the researchers to define the very domains they are attempting to study.

In order to test the content validity of our study, three distinct variables (% of Shares, % of Running assets, % of Commercial patronage) were used to approach the concept of "*Sub-national stakes*" and four other variables (Goal setting, Organisational structure, Managers' appointment, Control measures) were applied to identify areas of "*Occurrence of unresolved board conflicts*".

The highest positive correlations were rendered by the correlation, on one side of "% of Running assets" and "Goal setting" (i.e. 0.7202); and on the other side between "% of Commercial patronage" and "Managers' appointment" (i.e. 0.6595).

Figure 9: Cross correlation of variables

sub national investment company	Shares (%)	Running assets (%)	Commercial patronage (%)	Goal setting	Organisational structure	Managers' appointment	Control measures
Shares (%)	1						
Running assets (%)	-0.0916	1					
Commercial patronage (%)	0.5965	0.1710	1				
Goal setting	-0.6172	0.7202	0.0602	1			
Organisational structure	-0.2505	0.1938	0.4090	0.5677	1		
Managers' appointment	0.4557	0.4185	0.6595	0.2830	0.5655	1	
Control measures	0.4162	0.5187	0.3740	-0.0150	0.0592	0.2089	1

Face validity

Face validity is concerned with how a measure or procedure appears. Does it seem like a reasonable way to gain the information the researchers are attempting to obtain? Does it seem well designed? Does it seem as though it will work reliably? Unlike content validity, face validity does not depend on established theories for support (Fink, 1995).

In order to ensure face validity, we have focused on the company secretaries who are legitimately mandated by the Companies and Allied Matters Act (CAMA) to maintain and keep the backlog of information including *periodic* board minutes and firms' *yearly* financial reports pertaining to firms under their custody. Company secretaries are either lawyers or chartered accounts.

6.6.2 Reliability

CS Wells and JA Wollack (2003) explain that "Test reliability refers to the consistency of scores students would receive on alternate forms of the same test." They argue that "Due to differences in the exact content being assessed on the alternate forms, environmental variables such as fatigue or lighting, or student error in responding, no two tests will consistently produce identical results. This is true regardless of how similar the two tests are. In fact, even the same test administered to the same group of students a day later will result in two sets of scores that do not perfectly coincide. Obviously, when we administer two tests covering similar material, we prefer students' scores be similar. The more comparable the scores are, the more reliable the test scores are."

In this regards, collected data pertaining the same variables were collected for three different periods (December '07, December '08 and December '09). The returned correlation coefficients are the following:

Figure 10: Correlation coefficients pertaining to three different periods

	Correlation coefficient pertaining to "running assets" and " unresolved conflicts related to goal setting"	Correlation coefficient pertaining to "commercial patronage" and "unresolved conflicts related to manager's appointment"
Data December '07	0.634571575	0.526197226
Data December '08	0.768250732	0.747149596
Data December '09	0.66406925	0.721729815

The further correlation of these same (correlation) coefficients for the three periods gave a positive correlation of 0.7449, suggesting the test-retest reliability of the data collected.

6.7 Sampling

P. Paul Heppner, Bruce E. Wampold, Dennis M. Kivlighan (2007) assert that "The essence of sampling theory involves selecting samples that reflect larger or total populations." Otherwise expressed by Daniel F. Chambliss, Russell K. Schutt (2006) "the essence of sampling is that a small portion, carefully chosen, can reveal the quality of a much larger whole." In this regards, Alan Bryman and Emma Bell (2007) emphasise that one question about research methods that is asked by students almost than any other relates to the size of the sample: How large should my sample be? Or is my sample large enough?" They advise that "the decision about sample size is not a straight forward one: It depends on a number of considerations and there is no one definite answer."

Pfannkuch, Maxine admits that "statistical inference lies at the heart of learning about real world situations from data"; and that "a myriad of concepts underpin statistical inference such as variation, sample, population, and distribution." The importance of sampling to the success of a research endeavour cannot be minimized. However, Michael R. Leming poses that "There are two basic types of sampling techniques -- probability sampling and nonprobability sampling. In a probability sample each unit or element in the general population has an equal or known chance of being included in the sample. By contrast, it is not possible to determine the likelihood that an element of the population might be included in the sample if one employs a nonprobability sampling technique." He advances that "many research situations make it impossible to employ probability sampling techniques, making nonprobability sampling the method of choice -- even if not the method of preference."

Gregory M. Herek states that "Two general approaches to sampling are used in social science research. With *probability sampling*, all elements (e.g., persons, households) in the population have some opportunity of being included in the sample, and the mathematical probability that any one of them will be selected can be calculated. He argues that "With *nonprobability* *sampling*, in contrast, population elements are selected on the basis of their availability (e.g., because they volunteered) or because of the researcher's personal judgment that they are representative. The consequence is that an unknown portion of the population is excluded (e.g., those who did not volunteer). One of the most common types of nonprobability sample is called a *convenience* sample – not because such samples are necessarily easy to recruit, but because the researcher uses whatever individuals are available rather than selecting from the entire population." David S. Walonick (1993) also says that "In nonprobability sampling, members are selected from the population in some nonrandom manner." According to Daniel P. Schuster, William J. Powers (2005) "a convenience sample consists of easily accessible people who meet eligibility criteria." However, they argue that convenient samples often generalizability, more especially when the target population is relatively.

As regards, the Nigerian privatisation programme, the Bureau of Public Enterprises reports that 146 companies have been privatised between 2000 and 2007 as follows:

Figure 11: Privatised companies (2000 - 2007)

Share flotation	Sale to existing shareholders	Public offer	Management buy-out	Private placements	Core investor sale	Concession	Asset sale on competitive basis	Liquidation
11	1	1	1	8	53	52	11	8
7.53%	0.68%	0.68%	0.68%	5.48%	36.30%	35.62%	7.53%	5.48%

Source: BPE, Privatisation for a brighter future

The phenomenon being examined by our study is likely to affect a population limited in size. Thus, we have applied a nonprobability sampling strategy to the target population, using a convenience sampling approach in a nonrandom manner, excluding the privatised firms without sub-national shareholding (also limited in number[50]) as determined by the company secretaries assigned to collect the data used in the process of this study.

[50] Abuja Investments Company Limited, Adamawa Investment and Property Development Company Limited., Akwa Ibom Investment And Industrial Promotion Council, Bauchi State Investment and Property Development Company Limited., Benue Investment and Property Company Ltd, Borno Investment Company Limited, Development Finance and Investment Company Limited, Ebonyi Investment and

6.8 Assumptions

We assumed that the following fundamental principles of organisational effectiveness theory are observed:

1. Privatised firms have clearly spelt out goals and objectives, and that these objectives are prioritised,

2. Privatised firms have the required capacities to implement their self-defined objectives,

3. Privatised firms have a distinctive and rational organisational culture,

4. Privatised firms implement rational organisational processes,

5. Privatised firms are able to acquire the human, financial and technical resources required for their harmonious and continuous development,

6. All types of interests are clearly identifiable among all groups stakeholders, including Sub national stakes,

7. unresolved internal conflicts are well documented in the minutes of board meetings,

8. Both internal and external constituencies of privatised firms have clearly defined satisfaction criteria,

9. Privatised firms comply with rules and regulations imposed by government as regards the nature of their respective activities, and

10. Managers of privatised firms explicitly develop and maintain a sound relationship with different stakeholders' groups, including salient stakeholders' groups

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Property Company Limited, Gombe State Investment and Property Development Company Limited, Jigawa State Investment and Property Developement Limited, Kaduna Industrial and Finance Corporation Limited, Kaduna State Development and Property Company Limited., Kano State Investment and Properties Limited., Katsina State Investment and Development Company Limited, Kogi Investment and Development Company Ltd., Kwara Investment and Property Development Company Limited, Lagos Building Investment Company Limited, Nasarawa Investment and Property, Niger State Development Company Limited, Odu'a Investment Company Limited, Ondo State Development Company Limited, Oyo State Inv. and Fin. Company Limited, Plateau Investment and Property Development Company Limited, Sokoto Investment Company Ltd., Taraba Investment and Properties Limited, Yobe Investment Company Limited, Zamfara State Investment and Property Development Company Limited, etc

6.9 Limitations

We encountered four main difficulties in the course of this study.

Firstly, in the process of collecting the data used in the course of our study, we had to rely on company secretaries for the accuracy of the data supplied. The weights of stakes were predetermined by these professional who were solely guided by the standards and guidelines applicable to their profession.

Secondly, the fact that the variables were self-defined exposes the results of the study to criticism. The “Occurrence of unresolved board conflicts” referred to any disagreement arising between board members in the framework of board’s proceedings, documented as such in the board’s minutes by the company secretary. If this study should be replicated or generalised, we would suggest that some key parameters related to constituency statutes should be taken into consideration.

Thirdly, in the course of our study the definition of stakes was limited to “shares” of privatised firms detained by sub-national investment companies, as well as their identified pledges to the company’s “running assets” (lands, licenses, etc.) and their recourse to the firm’s services and or products in the form of “commercial patronage”. We would like to suggest that for the replication of this study and for the generalisation of the results thereof a preliminary assessment should conducted in order to capture other types of stakes that our study may have eluded.

Fourthly, the data collected relate to the privatisation exercise carried out between 2000 and 2007. There is the risk that our study might not capture key statistical inference linked to the problem studied. This limitation is highlighted by Dr Wale Babalakin SAN[51] who asserts that "The privatisation exercise in Nigeria is being presently pursued under Public Enterprises (Privatisation and Commercialization) Act 1999. But the privatisation programme actually commenced under the Privatisation and Commercialization Decree 1988." He notes that "there are remarkable differences between these two laws." Under the 1988 Decree, the policy objective of that Decree included raising capital; removing bureaucratic control; encouraging Nigerian shareholders and encouraging employees. Shares of the listed companies for privatisation were to be sold by Public Issue in the Nigerian Capital Market, (or by private placement where the TCPC so recommended to Government). The law expressly reserved between 10% – 20% of the shares of State owned enterprises to be privatized for associations and interest groups (i.e. trade unions), while a maximum of 10% was reserved for the staff of such State owned enterprises." Babalakin argues that "by the time the Decree was replaced by the Bureau of Public Enterprises Decree No. 78, 1993, only about 87 State owned enterprises had been privatized. Under the new law, the Bureau for Public Enterprises was established to take over the implementation of the privatisation programme, hitherto performed by the TCPC. Under this law, shares could be sold either by public issue through the capital market or private placement where the Bureau recommends to the Federal Government. The Decree maintained the 10 – 20% shareholding reservation for unions and associations, and 10% for Staff. It also stipulated a maximum of 1% shareholding for any individual." Furthermore, he explains that "Under the 1999 privatisation act, apart from this apparent policy shift, the 1999 Public Enterprises Act is remarkably different from the previous privatisation laws ... Unlike the previous privatisation laws where the Federal Government had express direct control over the TCPC and the Bureau, the Bureau under the present law is answerable to the National Council on Privatisation, among other things, the body approves prices of shares for sale; the mode of selling the shares, (that is; whether by public or private issue, or otherwise) as well as

[51] Dr Wale Babalakin, SAN was admitted to the Nigerian Bar in 1982 and is an active member of the Nigerian Bar Association (NBA)

the time of sale. Significantly, strategic investors are favoured under the present position. The programme reserves 40% of the shares for strategic investors, 20% to the Nigerian public through the Nigerian stock market, while the Government is to retain 40% of the shares."

6.10 Objective

This study aims to:

- Analyze the impact of sub national governments' behaviours on the Federal Government's privatisation policy;
- Identify the formal and informal drives and modalities of sub national governments' participation into the privatisation process;
- Assess the impact of sub national interests on the constituency process, business process and market process of selected privatised companies;
- Assess the impact of sub national interests on the corporate and managerial values of privatised companies;
- Suggest an optimal and comprehensive institutional privatisation framework to take into account and to streamline sub national governments' contributions into the privatisation policy.

6.11 Rationale

We acknowledge that the central focus of studying any organisational relationship is the establishment, development, and maintenance of relationships between exchange partners (Morgan & Hunt, 1994). Stakeholders of the privatised companies (shareholders, trade unions, etc.) are concerned by their level of performance and efficiency.

Through the National Council of Privatisation (NCP), the Federal Government has adopted a privatisation policy enacted upon by the National Assembly. In this framework, the Federal Government is concerned with the rationalisation of the privatisation process and the sustainability thereof which depends on the quality of stakeholder – organisation relationship in privatised firms.

More especially, the National Council of Privatisation (NCP) which membership is drawn from various sectors (sectoral supervising ministries/agencies, enterprise managers, professional bodies, the academia, labour unions, organised private sector, and other interest groups) oversees the privatisation process and has the responsibility: To determine the political, economic and social objectives of privatisation and commercialization of public enterprises, to approve policies on privatisation and commercialization, to approve guidelines and criteria for valuation of public enterprises for privatisation and choice of strategic investors, to approve the legal and regulatory framework for the public enterprises to be privatized, to determine the mode of sale of shares of a listed public enterprise and to advise the Federal Government accordingly, to approve the prices of shares or assets of the public enterprise to be offered for sale, to approve the appointment of privatisation advisers and consultants and their remuneration, to appoint as and when necessary Committees comprising persons from both the public and private sectors with requisite technical competence to advise on the privatisation or commercialization of specific public sector enterprises, to approve the budget of the Council, to approve the budget of the Bureau, to receive and consider for approval audited accounts of the Bureau, and to receive and review periodic reports from the Bureau on programme implementation and give appropriate directions.

As the secretariat of the National Council on Privatisation, the Bureau of Public Enterprises (BPE) has been charged with the responsibility to practically implementing the Nigerian policy on privatisation and commercialization in line with the privatisation Act which provides for the following functions to be performed by the Bureau: Implementing the Nigerian policy on privatisation and commercialization, preparing public enterprises approved for privatisation and commercialization, ensuring the update of accounts of all commercialized enterprises for financial discipline, making recommendations on the appointment of Consultants, advisers, investment bankers, issuing houses stockbrokers, Solicitors, trustees, accountants and other professionals required for the purpose of either privatisation or commercialization, and ensuring the success of the privatisation and commercialization exercise through effective post transactional performance monitoring and evaluation.

The Nigerian Stock Exchange (NSE) as well as the Stock and the Securities Exchanges Commission (SEC) are responsible for market regulation and are concerned with market capitalisation which correlates investors' behaviours and confidence in market structures, processes and regulations.

In addition to the Senate and House Committees on privatisation, and many other arms of the Executive power, such the Nigerian Investments Promotion Commission (NIPC) and Infrastructures Concession Regulatory Commission (ICRC) are by virtue of their respective mandates concerned with issues arising from the privatisation process.

In line with the microeconomic and macroeconomic objectives assigned to the privatisation programme, the entire population is directly and indirectly bound to the outcomes of this study because privatisation is generally targeted at ensuring service delivery, and more specifically in the Nigerian context it is aimed at: Achieving higher allocative and productive efficiency, leading to faster economic growth and development, Strengthening the role of the private sector in the economy through job creation and economic development, Improving the public sector's financial health, and Freeing resources for allocation in other important sectors activity such as education, health, housing, transportation, and other infrastructure development initiatives.

6.12 Findings

These results of our study suggest that "unresolved board conflicts" might increase as sub-national companies increase their stakes in privatised firms. More precisely, their contributions to the "running assets" and the "commercial patronage" of privatised firms respectively affect the "goal setting" and "manager's appointment" in privatised firms.

6.13 Perspectives

These results also suggest the need for privatised firms to implement a sound conflict management framework and the necessity for the Federal Government to adopt a post-privatisation monitoring system, and to make provision for a systematic organisational audit of privatised firms.

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