# THE EFFECTS OF PRIVATIZATION OF PUBLIC ENTERPRISES IN NIGERIA

**BY**

**JUMARE, HARUNA MOHAMMED**

**BEING A DISSERTATION SUBMITTED TO THE ST CLEMENTS UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF DOCTOR OF PHILOSOPHY (PhD) (SPECIALIZING IN FINANCIAL MANAGEMENT)**

**DECEMBER 2013**

**Title Page**

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## DECLARATION

I, Jumare, Haruna Mohammed of the St Clements University, hereby declare that this dissertation entitled “**The Effects of Privatization of Public Enterprises in Nigerian**” is a product of my own research efforts and has not been presented and will not be presented elsewhere for the award of a degree or certificate. All sources of information have been duly acknowledged.

Signature and Date ………………………………………………………………………

## CERTIFICATION

This is to certify that this dissertation titled, **“The Effects of Privatization of Public Enterprises in Nigeria”** written by Jumare, Haruna Muhammed was carried out under strict supervision and has been approved for submission to the Postgraduate School in partial fulfillment of the requirements for the award of the degree of Doctor of Philosophy (PhD) in Financial Management of the St Clements University, for its contribution to knowledge and literacy presentation.

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| Name of Academic Adviser/Counsellor | Signature & Date |
| Name of Administrative Director | Signature & Date |

# APPROVAL

This is to certify that this Dissertation has been examined and approved for the award of the degree of Doctor of Philosophy (PhD) in Financial Management.

Supervisor

Internal Examiner

External Examiner

Dean, School of Postgraduate Studies

## DEDICATION

To the Almighty Allah, the most beneficent, the most merciful, the giver of life, knowledge and protection; and to my mother Hajiya Hauwa Jumare, and my wife Hajiya Hadiza Talatu Jumare for their love, care and support at all times.

## ACKNOWLEDGEMENT

In the name of Allah, the Beneficent, the Merciful. All praise is to Allah for giving me the health; intellect and network of contacts for varying support for the actualization of this programme and research in particular.

I owe a debt of gratitude to many people of good will for their varying support in the course of carrying out this research. First, I am grateful to Professor David Iornem, my Academic Adviser and Counsellor for his invaluable time, constructive criticisms and guidance in the course of this research.

My special appreciation goes to His Highness, the Emir of Zazzau, Alhaji (Dr) Shehu Idris, *CFR*, for his fatherly encouragement at all times and most especially while undertaking this programme.

I am thankful to the Provost of the Federal College of Education, Zaria Dr. Mouktar Ibrahim Maccido for the understanding, encouragement and for creating the enabling environment for me to undertake this programme.

The Vice-Chancellor of Ahmadu Bello University Zaria, Professor Abdullahi Mustapha, the Registrar of the Federal College of Education Zaria, Dr. Jubril Lawal, the Director of Works of the Federal College of Education, Arc. Uwani Ibrahim Sulaiman and indeed all the principal officers and staff of the College deserve this appreciation for being supportive in the course of my undertaking this programme.

Yet, I must mention the invaluable research-material support offered by Mr. Joseph Nashakyaa of the Nigerian Institute of Transport Technology (NITT), Zaria while undertaking this study.

To my beloved wife Mrs Hadiza Talatu Jumare and other members of the family I appreciate their tolerance of the privation of my busy time on this programme.

## ABSTRACT

*The research work titled,* ***"The Effects of Privatization on Public Enterprises in Nigeria,"*** *has revealed that over two decades old privatization of public enterprises in Nigeria [since 1988] had significant positive effects on the economy and the polity in the first place; but the effects could not withstand the unforgiving global economic meltdown that swept across the globe especially in the year 2008 and 2009. The study shows that the gains made initially were reduced to insignificance and the social cost of living was raised as a result of the high record of failed businesses. Only a few the privatized state owned companies significantly withstood the financial crisis and such companies were those that provided unavoidable physiological needs such as food for feeding, fuel for transportation and cement for the provision of shelter of which the demand for them is inelastic. Areas of investment that were secondary to human existence suffered failure, depreciating in value rather than showing value appreciation. With the hurricane of the financial crises, most companies took to the option of acquisition or mergers and adopted the public private partnership option for sustainability. The study considered the parameters of visible trade, the rate of exchange of the naira to the dollar, the market value of stocks, the quality of products and the rate of unemployment as yardsticks for assessment. The scope of the study is for the five year period from 2006 to 2010 - a period when most of the listed public enterprises were privatized and within which the global economic meltdown became very obviously. The study concludes by recommending fanatic discipline, productive paranoia and empirical creativity as the antidote for withstanding the uncertainties that lie in the way of businesses. The work depended largely on secondary data generated by the Central Bank of Nigeria (CBN), the National Bureau of Statistics and some National Dailies; but not without a primary interaction with stakeholders with respect to privatization - the economic policy that became the in-thing the world over since the 1980s.*

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CHAPTER ONE

# INTRODUCTION

## 1.0 Background to the Study

The optimal performance of economies of nations or states and their organized endeavours is the desire of all conscious, conscientious and disciplined governments; and the leadership of the organizations. Governments throughout the world face mounting demands on scarce public resources. At the same time, the pressures of international competition mean that they want efficient enterprises, capable of competing directly with, or delivering cost-effective services to, others.

In developing countries growing populations, and the need to provide an attractive environment for business, require improved infrastructure. In developed countries there is a continuing demand for higher standards in the provision of services, whether healthcare, electricity and telecommunications or transport, and whether provided to the public or to businesses.

Yet everywhere Governments are under pressure to keep control of public finances. The disparity between the demands on the public purse and the resources available to meet them is leading Governments to look at how infrastructure can be developed, services provided, and enterprise modernized in partnership with the private sector.

Governments of nations or states and leaders of organizations must seek to create enabling environments that will engage all scarce resources including available human, material supplies and capital inputs for the best possible results at all times so that nations and organizations will not only survive but thrive.

Without the conscious engagement of the available resources, nations and their organizations may suffer the disease of decline and eventually fall no matter how big they may be. Collins (2009:2) captures this succinctly, “History shows, repeatedly, that the mighty can fall. The Egyptian Old Kingdom, the Minoans of Crete, the Chou Dynasty, the Hittite Empire, the Mayan Civilization – all fell. Athens fell. Rome fell. Even Britain, which stood a century before as a global superpower, saw its position erode…”

In a world of scarce resources, there is nothing like institutional self-perpetuation. Therefore, real leaders seek to prevent, detect, or reverse decline of their nations and organizations. Great leaders work hard to terminate institutional mediocrity or seek to transform mediocrity into excellence (Collins, 2009:111).

To ensure that they thrive and not only survive, all countries initiate, formulate or adopt and implement policies (economic policies in particular) that will ensure the best engagements of all the factors of production at all times.

Hence, all nations do switch from one less desirable to the most result oriented economic policy within a given period. Acknowledging the need for policy switches from time to time, Obasanjo

(1999) at the inauguration of the National Council on Privatization observed that "… there was a time when it was sound economic policy for Government to establish and invest in statutory corporations and state owned companies. Then, socialism existed side by side with capitalism. It was argued that public owned companies were better for stimulating and accelerating national economic development than private capital. The result was a proliferation of such state-owned enterprises covering a broad spectrum of economic activities, from steel plants and petro-chemicals, through banks and hotels, to, as transit and abattoirs!"

Addressing the audience at a workshop on the Power Industry in 1996, the then head of state, General Sani Abacha acknowledged the limitations of the country in coping with the provision of services in the face of limited resources, "In view of our limited resources and competing demands, it would seem that the best option available to us is…privatization…" The then Head of State had with reference to electricity generation observed "The enormous responsibility of generating, transmitting and distributing electricity throughout our country rests solely with the National Electric Power Authority (NEPA), which is finding it increasingly difficult to cope. Power outages have become disturbingly frequent in all parts of the country. Power generation and supply have, like other social services in our country, been adversely affected by the decline in our national income over the past decade. Existing lines and transformers have become overloaded forcing NEPA to resort to load-shedding in many areas to avoid blow-outs and damage to its expensive facilities."

Public enterprises were however fashionable at one time and the reasons adduced as the justification for creating public enterprises have been advanced by Nwoye (2006) as follows:

i. The first of these, especially in the context of developing countries is the development emphasis. In many developing countries, the resources available to the private sector are not adequate for the provision of certain goods and services. For example, the investments required in the construction of a hydroelectricity-generating plant or a water scheme for a large urban center are quite enormous and the returns on such investments will take a very long time to realize.

ii. Secondly, political considerations influence governmental involvement in the provision of certain social and economic services. In many African countries, development is closely associated with the provision of social services; consequently, the performance of the government, in many of these countries, is evaluated on the basis of its ability to provide different types of public services in areas where such services do not exist.

iii. The third reason for governmental intervention in the provision and management of goods and services in many parts of the world is the fact that no person should be permanently deprived of the access to such facilities because of lack of finances or by reason of geographical location.

iv. A fourth reason relates to the need to protect the consumer, which may not be of interest to the private sector. For example, government intervenes in the provision of education in many countries to protect children, who are not capable of making important decisions for themselves, by making education up to a certain age compulsory and free.

v. The fifth reason for governmental intervention in the provision of certain goods and services relates to the indivisibility that characterizes such services. Some facilities, such as bridges, tunnels, roads, streetlights, and waste disposal facilities, cannot be divided or partially provided. Either streetlights are provided for the benefit of everybody in the community or they are not. Facilities of this type must therefore be provided publicly and financed through taxation.

vi. The sixth reason for governmental intervention is the consciousness of the national security. Certain facilities, like the National Ports Authority and the police, are too vital to be left at the mercy of private citizens.

The evolution of public sector enterprises often takes one of two forms. First, they could evolve from local calls or responses to an ad-hoc economic crisis, a specific shortage, flagrant abuse of monopoly or oligopoly powers by private producers, economic bottlenecks and scarcities, apparent market failures in resource allocation, etc. It is economic crises that create socioeconomic conditions that justify public intervention. Alternatively, the evolution can take the process of a carefully planned body of ideas involving the issues of management, financial control, and/or pricing.

In most situations, the primary interests of the society such as "welfarism" are predetermined and postulated. These two processes have characterized the evolution of public sector enterprises in Nigeria, which dates back to the pre-colonial era.

However, no sooner had it been discovered that government's direct involvement in business is predominantly characterized by inefficiencies. A World Bank Study on Nigeria reported that, " (10 – 50) percent of equipment /machinery budget is spent on provision of infrastructure, i.e. electricity, freight transportation, personnel transportation, water. Barriers to participation of private sector should be removed i.e. Electricity, Water, Telecommunication, Lease Laws, excessive political involvement in management issues." The report criticized the view that "government should handle all urban activities despite the obvious weaknesses of public sector institutions in terms of (a) adequate budget (b) lower remuneration of employees (c) poor management practices."

Sachs (2005:254), observes that there are many odds against the governments as an investor in business oriented ventures:

> *Experience has shown that private entrepreneurs do as much better job of running businesses than governments. When governments run businesses, they tend to do so for political rather than economic reasons. State enterprises tend to overstaff their operations, since jobs equal votes for politicians, and layoffs can cost a politician the next election. State-owned banks tend to make loans for political reasons, rather than on the basis of expected returns. Factories are likely to be built in the districts of powerful politicians, not where they can best serve the broader population. Moreover, governments rarely have the in-house expertise to manage complex technologies, and they shouldn't, aside from sectors where government's role is central, such as in defense, infrastructure, health, and education.*

The World Bank in a report "World Development Report" of 1983 cited in Nyagba (1996) listed the following factors as responsible for poor performance of non privatized government organizations:

1. Political influence
2. Bad siting
3. Ministerial interference
4. Board composition
5. Absence of clear policy
6. Confused planning philosophy

7. Manipulated contracts
8. Internal power tussle
9. Corruption
10. Manpower policy
11. Motivation policy
12. Defective structure

Sachs suggests that governments should support the private sector with investible capital if the country is poor but leave business to the private hands while creating an enabling environment for the businesses to perform at their best.

Hence, many nations deregulated to involve the private enterprises in the management of business-oriented ventures that were hitherto run by the public sectors. Indeed, Nyagba (1996) noted that "It is therefore not surprising that between 1988 and 1993, privatization recorded 2655 transaction in 19 countries. The revenue yield of the transaction was put at $271 billion. "

Historically, running the economies and enterprises of nations used to be the responsibility of the private sectors. A paradigm shift to the ownership of property by the governments was based on the philosophy of James Harrington (1611 – 1677) propagated that "Power Follows Property" (cited in Drucker, 1999:58). The work of Harrington, the Father of the English political philosophy laid down in his book *Oceania* grew the likes of Locke, Hume, Burke, and *The Federalist Papers.* It was the shift in property from the great nobles to the country squires, he argued that explained the English Revolution of the 1640s, the overthrow of absolute government and its replacement by the parliamentary government of the new property owners, the local gentry.

Privatization is not an entirely new concept. According to Wikipedia, the history of privatization dates back to Ancient Greece, when governments contracted out almost everything to the private sector. The Roman Republic was also know for allowing the private individuals and companies to perform the majority of services including tax collection (tax farming), army supplies (military contractors), religious sacrifices and construction. However, the Roman Empire also created state-owned-enterprises—for example, much of the grain was eventually produced on estates owned by the Emperor. Some scholars suggest that the cost of bureaucracy was one of the reasons for the fall of the Roman Empire.

Perhaps one of the first ideological movements towards privatization came during China's golden age of the Han Dynasty. Taoism came into prominence for the first time at a state level, and it advocated the laissez-faire principle of Wu Wei, literally meaning "do nothing". The rulers were counseled by the Taoist clergy that a strong ruler was virtually invisible.

During the Renaissance, most of Europe was still by and large following the feudal economic model. By contrast, the Ming dynasty in China began once more to practice privatization, especially with regards to their manufacturing industries. This was a reversal of the earlier Song Dynasty policies, which had themselves overturned earlier policies in favor of more rigorous state control.

In Britain, the privatization of common lands was referred to as enclosure (in Scotland as the Lowland Clearance and the Highland Clearance). Significant privatizations of this nature occurred from 1760 to 1820, coincident with the industrial revolution in that country.

For the transport sector, Professor Peter Turnbull has identified three historical phases in the provision of transport since the industrial world. The first phase covers the period when transport providers were private companies but their activities were subject to various controls imposed by the public authorities (1769 – 1918). The second phase covers the period when transport provision was increasingly brought under public control (1918 – 1970) and the third phase is the return to private hands under the banner of privatization and deregulation (1970- date) and of course we can add the fourth phase which aims at controlling some aspects that were freed for the free market to determine.

In more recent times, Winston Churchill's government privatized the British steel industry in the 1950s, and West Germany's government embarked on large-scale privatization, including selling its majority stake in Volkswagen to small investors in a public share offering in 1961.

However, it was in the 1980s under the leaderships of Margaret Thatcher in the UK and Ronald Reagan in the USA, that privatization gained worldwide momentum.

Deregulation of the transport sector became the predominant policy the worlds over in the 1970s but it is on record that the transport sector showed ad hoc signs of deregulation much earlier. In 1954, the Australian Government deregulated its road freight transport.

In 1963, the Swedish Railways were divided into commercial and social networks. Again in 1968, the Swedish Road haulage was deregulated, and in the same year the British Road haulage was also deregulated.

Privatization is not a new development, but it is generally a offshoot of deregulation. The turning point of deregulation was in 1978, when the U.S. Domestic Air Service was deregulated. This air of deregulation actually gained momentum from the researchers of the University of Chicago and the theories Ludwig Von Mises, Frederick Von Harpk and Milton Friedman amongst others. But more importantly, the contributions of Alfred E. Khans, a professor of economics at Cornell University in New York State, who later served as Chairman of the New York State Public Service Commission later brought about significant development. Khans had appeared at the 1975 oversight hearing chaired by Senator Edward Kennedy and testified against regulation describing it as an imperfect institution, antithetical to competition, a producer of cartelization and inefficiency and to the extent the industry is competitive, the producer of excessive services and high prices.

Khan's input, provided the grade for the then U.S. President Jimmy Carter to decide against regulation. Consequently, the Airline Deregulation Act (ADA), 24 of October 1978 was signed. Other Acts that followed were the Staggers Rail Act of October 1980 and the Motor Cover Act also, of 1980 amongst others. The Airline Deregulation Act sought to reintroduce market forces to the heavily regulated commercial airline industry. The deregulation process also took place in many other parts of the world and ushered in privatization.

Notable privatizations in the UK under Thatcher included British Airways (1987), British Petroleum (gradually privatized between 1979 and 1987), British Aerospace (1985 to 1987), British Gas (1986), Rover Group (formerly British Leyland; (1988), British Steel (1988), British Telecom (1984), Sealink ferries (1984), Rolls Royce (1987) and the regional water authorities (mostly in 1989). After 1979, Council house tenants in the UK were given the right to buy their homes; one million had done so by 1986.

In the UK this culminated in the 1993 privatization of British Rail under Thatcher's successor, John Major; British Rail having been formed by prior nationalization of private rail companies. In Latin America privatization flourished in the 1980s and 90's as a result of Western liberal economic policy. Public resources, including water management, transport systems and national telecommunication companies, were sold off to the private sector more rapidly than in almost any part of the world. In the 1990s, privatization revenue from 18 Latin American countries totaled 6% of gross domestic product or GDP. Private investment in infrastructure, between 1990 and 2001, reached $360.5 billion, $150 billion more than the next emerging economy. While the evaluation of privatization in Latin America by economists is generally favourable, opinion polls and public protests across the country suggest the vast majority of citizens are dissatisfied with or have negative views of privatization in the region.

Significant privatization of state owned enterprises in Eastern and Central Europe and the former Soviet Union was undertaken in the 1990s with assistance from the World Bank, the U.S. Agency for International Development, the German Treuhand, and other governmental and nongovernmental organizations.

Another major privatization in recent times is that of Japan Post, which involved the Japanese post service and the largest bank in the world. This privatization, spearheaded by Junichiro Koizumi, which started in 2007 following generations of debate. The privatization process is expected to last until 2017. Japan Post was the nation's largest employer and one third of all Japanese government employees worked for Japan Post. Japan Post was often said to be the largest holder of personal savings in the world.

Japan Post was thought to be inefficient and a source for corruption. In September 2003, Prime Minister Junichiro Koizumo's cabinet proposed splitting Japan Post into four separate companies: A bank, an insurance company, a postal service company, and a fourth company to handle the post offices as retail storefronts of the other three.

After the Upper House rejected privatization, Koizumi scheduled nationwide elections for September 11, 2005. He declared the election to be a referendum on postal privatization. Koizumi subsequently won this election, gaining the necessary supermajority and a mandate for reform, and in October 2005, the bill was passed to privatize Japan Post in 2007.

Nippon Telegraph and Telephone's privatization in 1987 involved the largest share-offering in financial history at the time. Fifteen (15) of the world's 20 largest public share offerings have been privatizations of telecoms.

In 1988, the Perestroika policy of Mikhail Gorbachev started allowing private enterprise in the previous centrally-planned and government-owned economy of the Soviet Union. This began a massive privatization of the Soviet economy over the next few years as the country dissolved. Other Eastern Bloc countries followed suit after the Revolution of 1989 brought them non-Communist governments.

The United Kingdom's largest public-share offerings were privatizations of British Telecom and British Gas during the 1980s under the Conservative government of Margaret Thatcher when many state-run firms were sold off to the private sector. This attracted very mixed views from the public and parliament, and even a former Conservative prime minister, Harold Macmillan, was critical of the policy; likening it to "selling the family silver."

There were around 3,000,000 shareholders in Britain when Thatcher took office in 1979, but the subsequent sale of state-run firms saw the level of shareholders double to 6,000,000 by 1985 and by the time of her resignation as prime minister in 1990 there were more than 10,000,000 shareholders in Britain. The largest public-share offering in France was France Telecom.

Egypt undertook widespread privatization under President Hosni Mubarak. After his overthrow in the 2011 revolution, the association of the newly private businesses with the crony capitalism of the old regime along with the new look at long-festering labour and police-state issues have led to calls for re-nationalization.

The issue of privatization has been a subject of intense global debate in recent years. In Africa, it has remained highly controversial and politically risky. Privatization in Nigeria has not been a popular reform. It has received so much criticism from labor, academia, and individuals. There have been numerous strikes against proposed sell-offs by unions fearing loss of jobs.

While proponents of privatization see that aspect of economic reform as an instrument of efficient resource management for rapid economic development and poverty reduction, the critics argue that privatization inflicts damage on the poor through loss of employment, reduction in income, and reduced access to basic social services or increases in prices. Whatever are the views of the two parties, the only group that has no voice in the matter is the poor. Nightingale and Pindus (1997) are of the view that privatization is not inherently good or bad, but the poor performance or effectiveness depends on implementation.

In Nigeria, the participation of the States in enterprises dates back to the colonial era (Udoka and Anyingang, 2012). During the colonial era, the task of providing basic infrastructure such as railway, road, bridges, water, electricity and port facilities fell on the colonial government due to the absences of indigenous companies with the required capital as well as the inability or unwillingness of foreign trading companies to embark on capital intensive projects (Iheme, 1997).

Right from the political independence of Nigeria in 1960, the two motivating forces behind the direct interventionist measures of government in the economic affairs of the country have been the fervent desires for rapid economic development and self-reliance. Government involvement in all forms of enterprises continued in Nigeria up to 1999 when it was estimated that successive Nigerian governments had invested up to N800 billion in public owned enterprises (Obasanjo, 1999). It became evidently clear that there was a limit to which government could continue to intervene in running organizations that could better be handled by the private sector.

Adeyemo (2002) however, reveals that pointers to possible change of economic policy especially the adoption of the privatization/commercialization policy in Nigeria dates as far back as 1965. Rweyemanu and Hyden (1975) justified the poor performance of public enterprises in Nigeria and stated that between 1960 and 1965 the Nigerian Railway Corporation alone had 13 enquiries into its activities and in 1965 it had a deficit of N7 million and the World Bank described its finances as disastrous.

At the International scene, the World Bank in 1981 declared for the dismantling of the African Public Enterprises system and submitted: "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" (Probsting, 1977).

The International Monetary Fund (IMF) had often been recommending privatization/commercialization for developing countries including Nigeria, where the industrial sector and occasionally, key elements in the commercial sector, are heavily dominated by public enterprises. The Fund also argued that "loss-making enterprises have, for many years been a drain in government resources in these Countries. Such enterprises have required direct budgetary transfers or have relied on government guaranteed borrowing to finance their cash operating losses" (Hemming and Mansor, 1988).

The unprecedented economic problems in Nigeria since early 1980s, which led to the accumulation of debts and advise from the international quarters to borrow and accept International Monetary Fund (IMF) conditionalities and the subsequent refusal of the loan by Nigerian led to the Structural Adjustment Programme (SAP). It was aimed at restructuring the economy and making it more competitive and efficient. The restructuring of public enterprises was an integral part of the Structural Adjustment Programme, in 1986.

The actual implementation of commercialization and Privatization started in 1988 with the inauguration of the Technical Committee on Privatization and Commercialization as contained in Decree No. 25 of 1988. Thus, in November 1989 the implementation process of full or partial commercialization began. The parastatals and government owned companies were classified into five broad categories; Full or partial privatization, full or partial communication or to remain as public institutions (FGN, 1993). The Technical Committee on Commercialization and Privatization (TCPC) initially served as the secretariat and implementation of privatization reform.

Following enactment of the Public Enterprises Act of 1999, the Bureau of Public Enterprises (BPE) was formed to take over the activities of TCPC. The Act also made provision for the establishment of National Council on Privatization (NCP). The NCP is the lead policy making body in charge of privatization and commercialization in Nigeria. The Public Enterprises (Privatization and the Commercialization) Act in 1999 empowered the BPE to change emphases from commercialization to encouraging core investors, and promoting foreign investment in the privatization programme. In some cases like the Nigerian Port Authority, BPE employed concessioning rather than outright privatization. Concessioning entails allowing some private company to run ports for five to ten year. The company is automatically granted some level of ownership right. The exercise of privatization started with commercialization of some enterprises like the Nigeria Railway Corporation (NRC), National Electric Power Authority (NEPA), Nigerian Telecommunication Limited (NITEL) and the postal services. Essentially, privatization programme in Nigeria started with commercialization of public enterprises. This was inevitable because, it was less cumbersome and easier to achieve. It only entails detaching the enterprises from government departments and ministries and made them to be a cost accountability centers as done in the private sector. Government was relieved releasing of subvention to the enterprises.

Thereafter, certain enterprises like the Ikoyi Hotel, Federal Palace Hotel, African Petroleum, National oil and Unipetrol were sold to Nigerians. Kuye (1990) once asserted that the governments of countries such as United Kingdom, France, Canada, Turkey, Nigeria etc. which adopted mixed economy have now accepted the obvious truth that if all, or at least most of the public enterprises were turned over to the private sector they would be better managed and their economies would fare much better in terms of their set out goals. For instance, in United Kingdom, the British Prime Minister charted a new economic direction to reduce the high level of inflation, huge domestic debt, high level of unemployment and low growth rate of the national economy, chronic deficit in the British balance of payments position and the depreciation in the value of Pound Sterling. Thus, the privatization of the British economy charted by the Labor Party, led to greater accountability, better factor allocation, ceasing of public subventions of industries.

In Nigeria however, the privatization and commercialization programme has become a major policy instrument, which in addition with other instruments was expected to contribute to the overall attainment of the general macroeconomic goals.

Therefore, the privatization and commercialization programme in Nigeria was aimed at achieving the following objectives:

i. To restructure and rationalize the public sector in order to lessen the dominance of unproductive investments in that sector;
ii. To re-orientated the enterprise for privatization and commercialization towards a new horizon of performance improvement, viability and overall efficiency;
iii. To ensure positive returns in public sector investment in commercialization enterprises;
iv. To check the present absolute reliance of commercially oriented parastatals on the Treasury for funding and to encourage their approach to the Nigerian capital market;
v. To initiate the process of gradual cession to the private sector of such Public enterprises those by the nature of their operations and other social-economic factors are best performed by the private sector;
vi. Creating a favorable investment climate for both local and foreign investors;
vii. Reduce in the level of internal and external debts; and
viii. To provide institutional arrangements and operational guidelines that would ensure that the gains of privatization and commercialization are sustained in the future Decree No. 25 of 1988).

In a more specified manner commercialization policy was informed by the following reasons:

1. Minimization of Government Interference. The process of commercialization is much more complex. Unlike the privatized enterprises, in commercialization, government would continue to be the sole owner of the enterprises, they would also continue to have financial stake in the enterprises to be commercialized.

   However, the Technical Committee on Privatization and Commercialization (TCPC), which later became Bureau of Pubic Privatization (BPE), would ensure that all the checks and balances are in place to minimize government interference and to encourage optimum performance by the managers of those enterprises.

2. Commercialized enterprises should adopt commercial orientation and financial self-sufficiency. They are expected to be better managed and to make profit. They are expected to be run like privatized enterprises in future except perhaps in the case of utilities. It should be self sufficient in both its recurrent as well as capital expenditure needs. Enterprises to be partially commercialized would be expected to operate like the fully commercialized ones in terms of better management and profit orientation but because of the ‘public’ nature of the goods and services provided by those enterprises and in order to keep the prices of their products or services as low as possible for the public, government would still provide financial grants for the capital projects of the partially commercialized enterprises. They would be expected to earn enough revenue to cover their operating costs.

3. Operational and Management Autonomy. They are to enjoy considerable operational autonomy and in accordance with the Decree will have the power to operate on strict commercial basis and subject to the regulatory powers of the government, be able to;
    - Fix rates, prices and charges for the goods and services provided.
    - Capitalize assets
    - Borrow money and issue debenture stock; and
    - Sue and be sued in their corporate names.

The concretization of government policy on privatization can be found in the Structural Adjustment Programme (SAP), which was embarked upon in July 1986 during the administration of Ibrahim Badamasi Babangida (Jerome, 1996). SAP had among others, the major objective of pursuing deregulation and privatization leading to the removal of subsidies, reduction in wage bills and retrenchment of the public sector ostensibly to trim the state down to size. To actualize this, the Federal Government of Nigeria in 1987 set up a Technical Committee on Privatization and commercialization (TCPC) which was backed by Decree No 25 of 1988.

Since the 1970s the growth of ideas of the virtues of choice, competition and efficiency has changed the way public policy is conceived and made in Nigeria and other third world countries, the state has always played a dominant role in national development. This was due largely to the failure after market mechanism or the private sector to promote economic growth and development.

The public sector emerged in Nigeria as a result of the need to harness rationally the scarce resources to produce goods and services for economic improvement, as well as for promotion of the welfare of the citizens. The involvement of the public sector in Nigeria became significant during the period after independence.

The railways were probably the first major example of public sector enterprises in Nigeria. At first, conceived mainly in terms of colonial strategic and administrative needs, they quickly acquired the dimension of a welcomed economic utility for transporting the goods of international commerce, like cocoa, groundnut, and palm kernels. Given the structural nature of the colonial private ownership and control of the railways in the metropolitan countries, it would hardly be expected that the Nigerian Railways Corporation could have been started as any other project than as a public sector enterprise for such mass transportation.

The colonial administration was the nucleus of necessary economic and social infrastructural facilities that private enterprise could not provide. Facilities included railways, roads, bridges, electricity, ports and harbors, waterworks, and telecommunication. Social services like education and health were still substantially left in the related hands of the Christian Mission. But even at this initial stage government itself moved positively into some of the direct productive sectors of the economy: the stone quarry at Aro, the colliery at Udi, and the saw mill and furniture factory at Ijora. Those were the early stages.

The emergence of the crude oil industry into the Nigerian economy, after the civil war in the 1970s, with the associated boom intensified governmental involvement in production and in control of the Nigerian economy. One major aim of government at that time was to convert as much as possible of the growing oil revenue into social, physical, and economic infrastructural investments.

The Nigerian Enterprises Promotion Decree of 1972, which took effect on 1 April, 1974, with its subsequent amendment in 1976, provided a concrete basis for government's extensive participation in the ownership and management of enterprises. Given these developments, public enterprises at the federal level had exceeded 100 in number by 1985; and these had spread over agriculture, energy, mining, banking, insurance, manufacturing, transport, commerce, and other service activities. Before long, the range of Nigerian public enterprises had stretched from farm organizations to manufacturing, from municipal transport to mining, from housing to multipurpose power, and from trading to banking and insurance. 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. Between 1975 and 1995, it was estimated that the Federal Government of Nigeria had invested more than $100 billion in public enterprises.

The 1980s witnessed steady economic deterioration and seemingly faulty economic policies. At the beginning of the 1980s, the country had entered difficult times. Scarcity of foreign exchange had set in. By the mid-1980s, reality had dawned on the nation's economy. Retrenchment of workers was rampant in both private and public sectors. There were inflation, very high levels of unemployment affecting both skilled and unskilled workers, and low levels of plant capacity utilization. The origin of the socioeconomic difficulties was generally traced to the global economic recession which opened with the decade of the 1980s. Earlier, these socioeconomic problems had forced the Federal Government, under President Shehu Shagari, to embark on an economic stabilization program (Aboyade, 1974).

The problems of performance of the public sector enterprises in Nigeria were further complicated by the downturn in socioeconomic development in the country due to the global economic recession and the collapse of the oil market. Thus, Nigeria's precarious fiscal and monetary posture could no longer sustain the requirements of its public sector enterprises, particularly since they performed below expectations in terms of their returns on investments and quality of services.

Towards the end of 1980s, the public enterprises, which had grown too large, began to suffer from fundamental problems of defective capital structures, excessive bureaucratic control and intervention, inappropriate technologies, gross incompetence, and blatant corruption. With the deep internal crises that included high rates of inflation and unemployment, external debt obligations, and foreign exchange misalignment, Nigeria and many other African countries were strongly advised by the worldwide lending agencies, particularly IMF and the World Bank, to divest their public enterprises as one of the conditions for economic assistance. With the intensified push for economic liberalization, Nigerian and other African leaders were told that privatization as an economic reform would help cut public sector inefficiency and waste, provide greater scope to the private sector, attract more investments, bring in new technologies, and hence revive economic growth. Thus many countries, including Nigeria, embarked on privatization and other market oriented reforms to pull them out of the structural imbalances (Nwoye, 1997).

It is against this background that the Structural Adjustment Programmes (SAP) proposed a kind of reform which would affect the goals, administration, and management of most of the public sector enterprises for purposes of efficiency (Federal Republic of Nigeria, 1986). One of the main objectives of SAP was, therefore, to pursue deregulation and privatization leading to removal of subsidies, reduction in wage expenses, and retrenchment in the public sector ostensibly to trim the state down to size.

Under the reformation scheme, public sector enterprises were expected to be classified into three broad categories:

1. fully privatized or partially privatized,
2. fully commercialized or partially commercialized, or
3. retained as public sector institutions.

Whereas SAP has shown the broad categories under which the public sector enterprises can be grouped, it has failed to actually classify the existing enterprises into specific categories.

The historical development of this programme was born out of the effort to develop and the circumstance of the oil boom of the 1970s and the subsequent burst or doom of the 1980s.

These failure coupled with the underdeveloped nature of the private sector have led to the indiscriminately establishment of all sorts of public enterprises. As a result of the sliver in the Nigerian economy which began in 1982 various crisis management measures were taken by the Nigerian government to contain the economic crisis and restore the economy to the path of stability and growth.

The first step was the introduction of austerity measures by the Shagari government. Austerity measures were to reduce the impact profile of the country. The military government of Major General Buhari, which overthrew the civilian government in a military Coup dated on December 31, 1983, pushed forward these measures even with greater vigour and determination. The basic policy thrust of the Buhari government was similar to that of Shagari, which was aimed at reducing the level of impact and public spending because of declining foreign exchange receipts and declining government revenues (Olukoshin 1992: 64).

Although these measures had far reaching effects on the Nigerian political economy it was the Babangida government which came to power in a palace coup that took the final steps demands the articulation and implementation of a comprehensive Structural Adjustment Programme along the orthodox monetarist lines followed by international financial in institutions (Olukashi 1991: 64). In the words of Uwazarike, the strategy of the military government in dealing with the country's faltering development "has been to create an open capitalist economy based on trade liberalization and enhanced private sector and plantation style agriculture, with multi-national corporations seen by major investors, part of the town sequence of a western mode of increasing privatization and controlled democracy (Uwuzarike 1990:73).

It is not a surprise that the government's adoption of the Structural Adjustment Programme (SAP) attracted several criticisms Ojo and Kochun 1986, Olusegun Obasanjo 1987). The major criticism of the programme was that it lacked a human face. More importantly, many analyst have argued that, the entire programme of economic recovery has been geared towards satisfying external pressures than remedying the worsening domestic situation (Uwazarike 1990).

In short, the programme was meant primarily to satisfy the dominant foreign interests in the Nigerian economy rather than to polity the restive Nigerian people who have always been at the receiving and of bad government policies and the mismanagement of the Nigerian economy.

This privatization is a relatively new phenomenon in Nigeria as the first declaration of policy intention in this area was made in the 1986 federal government annual budget. The policy itself cause into effect in January 1989 what could be regarded as a precursor to the policy was the 1972 indigenization programme participation of Nigerians in the management of the economy.

The immediate causes of privatization policy could thus be traced to two related issues first, is the poor performance of public enterprises in the country. By 1986 there were 500 governments owned companies and parastatals in which the government had invested over N36 billion in the form of equity loan and grants but returned on investing were far below 10 percent a year. (Usman , 1989).

These enterprise including the Nigeria national supply company (NNSC), the Nigerian enterprises promotion Board (NEPB), the Nigerian bank for commerce and industry (NBC) and the securities and exchange commission (SEC) and many others, however "formed the bedrock of Nigeria's pattern of state capitalist accumulation that was to become in 1980s the focus of attack by the International Monetary Fund (IMF) and World Bank (Olukoshi 1991:91). The vicious attack on those state institutions by the Bretton woods institutions coupled with their poor performance made them vulnerable to disinvestments.

The second factor a list of which was given in the previous analysis relates to the oil gloat of the early 1980s which led to the collapse of oil prices and dividing revenue profile of the government oil prices rose from $14.9 a barrel in 1978 to an time high of $44.4 in 1980. But with the dramatic drop in the international policies of oil to less than $30 in 1982, there was a simultaneous decline in government revenue. The government earning feel from a peak of $22.4 billion in 1980 to $16.7 billion in 1981 $12.8 billion in 1982 and $10 billion in 1983. As a result of the fall in government revenue the country's GDP fell by 2 percent in 1982 and declined further by 4.4 percent in 1983.The current account of the country also fell by N4.9 billion in 1982 and N2.9 billion in 1983 while the budget deficit for 1983 was N6.231 billion , more than 50 percent of government expenditure.

For a country that depends so heavily on oil revenue, the fell in oil price inevitably created balance of payment problems and fiscal deficits. Thus by 1986, Nigeria had an external debts of about $25 billion. The government was then compelled to consult the IMF for short term loans and the world bank (International Bank) for Reconstruction and Development for long term assistance. One of the preconditions given by the international financial institutions was the privatization and commercialization of state owned enterprises. The nascent military regime which came to power in 1985 and which was quote assure of its self sought public opinion on these conditions and the responses of Nigerians was unequivocally negative. It appeared unclear whether the decision of government to call for debate on the issue was rhetorical and an attempt to direct attention from more pressing political and economic problems or was actually a genuine concern by government for the interest of the people.

A grow reading of the totality of the action or outcome of the Babangida regime, however shows that it was not indecisive in state matters as exemplified in the execution of the coup plotters in 1986 and 1990 despite wide spread appeal for clemency and the sudden movement of the seat of government to Abuja on December 12, 1991.

It would appear that the government was simply flying a kite by making IMF conditionalities a topic for debate. It was essentially a play to befuddle the issues at stake. In any case, the government made it clear that taking the loans was not a foregone conclusion but rejecting the conditionalities would force lose any foreign assistance, which the government directly needed to salvage the tottering economy.

The government then formed what seemed like a compromise solution by introducing a home grown" structural adjustment programme (SAP) privatization and commercialization was a major component of the structural adjustment programme just as the parent programme (ie SAP) was a product of controversy, the privatization exercises itself was borne out of confusion.

This then was always been a confusion as to the real meaning and objectives of privatization in Nigeria.

## 1.2 STATEMENT OF THE PROBLEMS

The Nigerian economic environment has been doubted for having the sufficient ground for privatization. Kalejaiye, et al (2013) reveals the continued skepticism of Nigerians about the privatization policy in Nigeria as spearheaded by the Nigerian Labour Congress (NLC). The NLC President, Comrade Abdulwaheed Omar is noted to have reiterated in his 2011 new year message to Nigerian Workers the opposition to further privatization of public establishments. The NLC President argued that privatization failed to improve the condition of Nigerian workers and the population at large and that due to persistent corruption, insecurity and lack of political will to do what is right, these economic ideas have been sinking the country into anomie – a normless state of detachment and perilous disorder.

Indeed, according to the World Bank (2003), "… most privatization success stories come from high income and middle income countries. Privatization is easier to launch and more likely to produce positive result when the company operates in a competitive market and when the country has a market-friendly policy environment and a good capacity to regulate. The poorer the country, the longer the odds against privatization producing its anticipated benefits, and the more difficult the process of preparing the terrain for sale."

From the above, four conditions must be met for the success of any privatization programme. First, the country should be either in the high or middle income bracket. The second condition is that the country should operate a competitive market. The third is that the country should be a good policy environments, and finally, a good capacity to regulate it. Any keen observer of Nigeria's economic environment will know that these conditions are completely absent. This is why apologist of privatization insists that any privatization programme should be a part of a comprehensive public sector reform package (Jerome, 1991).

However, it has been argued that the Nigerian privatization exercise is not accompanied or preceded by an articulated and property 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 (Amadi, 2003).

It is instructive to note that the World Bank gives eight key lessons on the experience of privatization:

i. Privatization works best when it is a part of large programme of reforms promoting efficiency;
ii. Regulation is critical to the success of monopolies
iii. Countries can benefit from privatizing management without privatizing ownership
iv. of assets;
v. The sale of large enterprises requires considerable preparation;
vi. Transparency is critical for economic and political success

vii. Government must pay special attention to developing a social safety net; the formerly socialist economies should privatize in all possible ways that encourage competition, and they should experiment with all available methods that go beyond a case by case approach to privatization;

viii. In changing the public-private mix in any type of economy, privatization will sometimes be less important than the emergence of new private business.

While some blame the privatization policy for sinking Nigeria, there is the group that believes that deregulation and privatization are neutral policy ideas that several countries across the globe have benefited from such that if given the right political atmosphere also, Nigeria would have gained a lot. Zayyad (2007) and Akinrele (2002), who belong to this group argued that the future if socio-infrastructural development of Nigeria may actually be dependent on freeing the government of responsibilities that can be completely handled by private entrepreneurs.

Nigeria is a country of enormous potentials, though, the result of her economic performance has always been dismal. This prompted the privatization policy in the first place as President Olusegun Obasanjo explained in the year 2000, "Nigeria is a country of enormous potentials. It has a vibrant population…vast arable land, minerals of every description and huge reserves of oil and gas. Since the quadrupling of oil prices in 1973, Nigeria has earned over $300 billion. Regrettably, this has not has the desired impact on the welfare of our people. The per capita GDP was about $300 in 1999 ranking among the lowest in the world." It was believed that economic reforms such as privatization would make a meaningful difference.

Majority of Nigerians hinging mainly on transparency, honesty and due process viewed the privatization programme carried out by the Obasanjo administration with dismay. People even ask if the country is ripe for full scale privation of the economy at this stage of her development. Privatization according to the its proponents is supposed to bring about positive changes in the economy by way of quality of goods and services, efficiency and productivity.

However, many Nigerians believed that this cannot be feasible going by the way and manner the exercises was being implemented especially as the major state holders Nigerians especially local communities are never consulted etc. Also contrary to public expectations rather than the programme bringing or creating job opportunities as its proponent have always advocated many Nigerians have lost their jobs when these enterprises are sold out e.g Benue Cement Company, Nigerian Ports Authority etc.

It appears privatization is a ploy and license for core investors to rationalize and exploit the workforce among other issues. Also, some stakeholders especially the local communities where privatized companies are located were and are still not taken into consideration eg the takeover of the Benue cement company (BCC) by Dangote group of company was not transparent and fair to the local communities, hence the resultant resistant by the local communities. Questions agitating the minds of many is whether Nigeria is yet ripe for the kind of privatization been foisted on the country now.

Under normal conditions privatization is supposed to be a welcome reform policy of government owning to the non-performance of the Nigerian public utilities like NEPA NITEL, the Railway corporations, NNPC etc. These enterprises have not lived to expectations due largely to the bureaucracy, inefficiently and mismanagement and corruption that have ravaged these government agencies.

The need to manage the Nigeria's economy efficiently can also be felt when considered along 183 countries. Doing Business 2012 is in its ninth edition. Doing Business 2012 in a series of annual reports investigating the regulations that enhance business activity and those that constrain it in developed and developing countries has consistently shown that Nigeria lags behind other countries in Africa. Out of about 183 countries, Nigeria came 114 in 2008, 118 in 2009, 125 in 2010, 133 in 2011 and 133 in 2012. Countries like South Africa, Botswana, Zambia, Morocco, Kenya, Egypt, Ethiopia, Uganda and Tanzania have consistently done better than Nigeria in this index. For instance in 2011 and 2012, South Africa came 36 and 35 respectively. In 2005, the Infrastructure Concession Regulatory Commission Act was passed to provide a regulatory environment for the attraction of private sector participants to the delivery of infrastructure in Nigeria. This is consistent with the Government policy in fostering public private partnership (PPP) in infrastructure delivery. In a sector where the Minister has a domineering role, no private sector participant will feel safe to invest. There was therefore the need to confine the Ministers to policy formulation where an independent regulator like the Nigerian Communications Commission and the Nigerian Electricity Regulatory Commission will regulate the key economic sectors. PPP can only strive where the proper regulatory environment is created.

The goods and services, which are produced in a country, are produced by both the public and private sectors of the economy. Nevertheless it is always difficult to determine the prices and contributions of each sector, to the national economy. This is more so in the case of a country like Nigeria where the data are not readily available.

In an open market oriented economy such as the united states of America, Japan Germany, Britain and France, the private sector is the principal agent of economic development in the Netherlands for example the share of private sector is total production in 1980 was 83 percent while the public sector contributed on 17 percent.

In countries where the strategy rejected an open market oriented economy and instituted a planed, regulated and centralized economic agent and the pursuit of development was to be given priority, the public sector would be dominant. The socialist states and other developing countries which claim to operate a "mixed economy" falls into this category. In these usually account for more than half of the Gross Domestic Product (GDP)

Public production may be divided into two sub-section:

a. Public production for public provision

b. Public production for sale

Similarly, there are two forms of private production and these are:

a. Private production for the market

b. Private production for public provision

Public production for public provision: It is sometimes called general government or more appropriately the civil service. It deals with the provision of service, which are general in nature, including education justice, security, defense and roads transportation. They are usually provided free of change  taxes are the main sources of revenue for the provision of these services.

Pubic production for sale: Public production for sale refers to public enterprises. Government provides services for which changes are made. The fees charged are sometimes below the economic (market) prices of the goods and services

Private production for public provision: Private production for public provision deals with the production of goods and services by the private sector for the government eg private publishers may produce book for use in public schools under a free education programme. Government may contract drug manufacturing company to supply anti-biotic to selected public hospitals and military equipments and ammunition may be manufactured by the private companies for government. For example, it is estimated that most of  the weapons being used by the USA and its allies in the GULF wars are manufactured by private companies. This underlines the complex relationship between government, the military and weapon manufacturing industries in the United States of America (USA).

### 1.3 The Research Questions

This research study is based on the following:

i. Has privatization of public enterprises attracted more foreign investors?

ii. Has privatization of public enterprises created more job opportunities in the country?

iii. Has privatization of public enterprises improved the standard of living of the people?

iv. Has privatized enterprises performed better than public enterprises?

v. Has privatization of public enterprise curb inefficiency in public services?

vi. Has privatization eliminated wastages and indolence in public service?

The above are the questions that this research seeks to investigate.

## 1.4 The Objectives of the Study

It can be very challenging addressing all the ramifications and parameters of a privatization policy. This study is aimed achieving six specific objectives:

1. To estimate the level of foreign investment into the country following privatization;
2. To determine the rate of growth of Gross Domestic Product;
3. To appraise the level of appreciation of stocks under a privatized regime;
4. To ascertain the levels of service quality under privatization;
5. To assess the degree of employment generated in a privatized regime;
6. To evaluate the social costs of privatization;

### 1.5 Significance of the Study

There are conflicting views, albeit emotionally expressed opinions about privatization of public enterprises in Nigeria rather than efforts to scientifically assess the impact of privatization on the economy of the country. This study is significant for investigating the effects of privatization of public enterprises with the aim of identifying areas of strengths to which Nigeria will capitalize on or take corrective measures to ensure substantial and sustainable development. The study is significant for providing a data base for policy makers, researchers and prospective investors in to the Nigerian economy.

This study will also clear the cloud surrounding the whole privatization programme embarked upon by Nigerian leaders with the aim of ascertaining the truest picture and enlightening the public who depend on unscientific propaganda and cause all kinds of social commotions.

## 1.6 Delimitation of the Study

Privatization is a multiple dimensional issue. One study on privatization can only even exhaust a single dimension. A single dimension may be multifaceted and interrelated with many stakeholders and sectors of the economy. The focus of this study is on the performance of the Nigerian economy for the five years spanning (2006 and 2010) in terms of attraction of foreign investment and the social effects arising there from after privatization. The year 2006 is a year after which the entire privatization process was expected to be completed.

## 1.7 Limitations of the Study

The major limitation of this study is the absence of relevant and up to date data on the issues of privatization. The lack of data has forced the study to be limited to 2010 when at least much of data released by the Central Bank of Nigeria (CBN) and the National Bureau of Statistics (NBS). The study has also relied mainly on secondary data with scanty interviews with varying group of stakeholders whose opinion formed the basis of analysis of the study and subsequent generalization of findings, from which conclusions have been drawn.

## 1.8 Definitions of Terms

The following terms are used in this study and they are used in the following contexts:

**Commercialization:** the reorganization of enterprises wholly and partly owned by the government in which such commercialized enterprises shall operate as profit-making ventures and without subvention from government.

**Denationalization**: is the opposite of nationalization and was christened privatization. The World bank calls it divestment. It simply means the sales of public enterprises or assets.

**Deregulation**: This refers to governments removal of control or restrictions in the economy.

**Downstream:** this refers to the operation of the oil industry by service providers or marketers as opposed to upstream (see upstream).

**Liberalization**: This refers to the opening up and removal of monopoly in the economy for faire competitions among participating investors.

**Load shading**: It is another form of privatization and it represent the market and tariff structures.

**Private sector**: this refers to privately owned enterprises.

**Privatization**: is the rolling back of activities of the state in favour of the private sector. It is the transfer of Government owned shareholding in designated enterprises to private shareholders, comprising individuals and corporate bodies.

**Public sector**: this refers to government owned enterprises.

**Upstream:** the refers to the activities of oil companies in exploration, in the industry. This also include refining of crude petroleum.

CHAPTER TWO

# LITERATURE REVIEW

## 2.0 Introduction

All research studies rest on previous ones to provide the basis for future studies. The import of the review of related literature is according to Olaofe (2010:70), “to document what has been done in the area of research and to determine areas left untreated. It is also to determine areas of strength and areas of weakness of the treatment so far in the field of study and bring out loopholes that justify more work in the area.” It expected in the review that more links be established between a given study and other studies or a body of theory (Selltiz et al, 1964).

Similarly, Bell (2010:103), explains the importance of Literature Review by citing the work of Hart C., 1998 titled *Doing a Literature Review: Releasing the Social Science Research Imagination* that without it the researcher cannot acquire the understanding of his topic, of what has already been done on it, how it has been researched, and what key issues are. The researcher is expected to show that he understands the topic and this amounts to appreciating the main theories in the subject area and how they have applied and developed, as well as the main criticism that have been made of works on such topic.

A review of literature relating to privatization is therefore presented in this chapter to establish the areas of departure from the earlier studies, which the new study can fill. The chapter considers some conceptual terms and theories as well as arguments for and against privatization or for public sector control and competition. The latter led to privatization as government is known to be a bad “business man” (Sachs, 2005:254).

## 2.1 The Theoretical (Conceptual) Framework

Theories and models are the basis for understanding phenomenon. While theories or models are waved with a hand as “merely theoretical,” Professor George E.P. Box noted, “All models are wrong, some models are useful” (cited in Collins, 2009). This study has drawn on some theories and their models to explain the rationale for privatization as well as the opposing views to it.

Indeed, the concept of privatization has attracted so many theories and models aimed at explaining the need for privatization of state owned companies, which is opposed to the Keynesian theory that promoted the states to own enterprises in order to stimulate economic activities after the World War II.

Prior to the contemporary privatization process, the Economic Depression caused by the First and the Second World Wars (WWWI and II) brought so much hardships on the people all over the world. The private sector alone could not afford to bear the cost and burden of providing capital and manufactured products. Immediately after the Second World War (WWII) for instance, dissatisfied governments with the slow pace of private initiative consistently thought it imperative to establish public enterprises to engage in almost every known area of human endeavour including public utilities, the economy, agriculture, commerce and social services.

Consequently, the western capitalist countries and later the developed countries adopted the Keynesian Macro-economic Model (Yahaya and Bur 1994). John Maynard Keynes in the 1940s had advocated government intervention in the economy to reduce unemployment and inflation rates.

Keynes' thesis supported state intervention (Jhingan 1995). Thus, there was massive state intervention in the private market after the Second World War first, as a policy option to reconstruct part of Europe that was damaged during the war and second, to promote economic growth. As the state assumed control of the commanding heights of the economy and took the central stage in national development, the public service was expanded both in size and scope and state enterprises were created.

The expansion of state-owned enterprises (SOEs) in both developed and developing nations in the 1960s and 1970s was predicated on the assumption that these SOEs would provide opportunities for optimal and efficient resource allocation for national development. They were also expected to make greater contributions to national output, investment and employment.

In this regard, many developing countries relied on SOEs than industrial economies did in the hope of substituting for a weak or non-existent private sector. In developing countries, large public resources were deployed to the creation and development of SOEs, especially in the 1970s. This contributed to the accelerated growth of the SOEs in number, size and complexity.

For instance, increased establishment of SOEs in Nigeria at the time was based mainly on the reasons that they were going to be leading edge of modernization, generate resources for further investment, constitute the commanding heights of the economy, guarantee control away from foreign interests and lead the country towards self-sufficiency in the production of essential goods and services. Policy makers also believed that it would increase the level of employment.

SOEs were mainly large in sizes. Available evidence shows that by the early 1980s, SOEs accounted, on average, for 17.0 per cent of gross domestic product (GDP) in sub-Saharan Africa in a thirteen-country sample (Nellis, 1986), 12.0 per cent for Latin America and a modest 3 .O per cent for Asia (excluding China, India and Myanmar), compared with 10.0 per cent of GDP in mixed economies world-wide (Short, 1984).

SOEs in Nigeria were estimated to account for 16.3 per cent of GDP'. SOEs also accounted for as high as 90.0 per cent of all productive activities in Eastern Europe and Central Asia. It has, however, been observed in many countries, especially developing ones, that SOEs have been economically inefficient and have incurred heavy financial losses over the years. For example, the World Bank estimates show SOE losses between 1989 and 1991 reaching 9.0 per cent of GDP in Yugoslavia, and more than 5.0 per cent on average, in a sample of sub-Saharan African countries.

Similarly, about 30.0 per cent of all SOEs in China incurred losses, and the consolidated government and enterprise deficit was in the range of 8.0 per cent of GDP in 1991 (Mcltinon, 1994; Yusuf and Hua, 1992). Notably, SOEs have contributed substantially to public sector deficits and typically financed less than one-fifth of their investments through internally generated resources (Nair and Filippines, 1988).

According to World Bank (1993) estimates, government transfers and subsidies to SOEs amounted to 3.0 per cent of GNP in Turkey and 9.0 per cent in Poland in 1990. Also the financial performance of nine key SOEs (telecommunications, postal services, airlines, railways, transport, power, cement, iron and steel, and textiles) in five West African countries (Benin, Ghana, Guinea, Nigeria, and Senegal) has been persistently poor, with annual government transfers and overdrafts to these sectors ranging from 8 to 14 per cent of GDP. As governments ran into severe fiscal problems in the 1980s and loans became increasingly difficult to raise at home and abroad, they were forced to consider relatively radical methods for reviving the SOEs.

The factors which influenced the choice of method of privatization have included the objectives of government, current structure, size and financial performance and condition of the SOEs. Others have been the sector of operation of the SOEs, the relative degree of economic advancement within the country as well as the political arrangement.

### 2.1.1 Related Concepts and the Meaning of Privatization

Privatization as a concept is related to deregulation though not the same thing as deregulation. Both deregulation and privatization are often used in relation to commercialization but again the three terms all have differing specific meanings. The concepts are often used loosely and interchangeably and the need to separate one from the other is important. Deregulation and privatization differ from commercialization.

Deregulation attracts various related terms such viz – regulation, deregulation and re-regulation. Generally, regulation, deregulation and re-regulation simply connote control, freedom of operation and some measure of control respectively.

Strictly speaking, the terms do not meet the outright meaning they portray. Deregulation for instance sounds like absence of control but in actual practice this is not so. Some aspects of economic operations especially the social aspects must be determined and must be complied with by operators in the public interest.

Regulation for instance has different interpretations based on aggregation and country. But generally it means protecting and promoting the public interest, enhancing the efficiency of markets and ensuring the provision of social rights. The principal arguments for regulation according to Turnbull (1999) are as follows:

*Economic Arguments*

There are many economic arguments in favour of regulation wherein, government controls and engages in the provision of services that would have been handled by the private sector. Some of the economic arguments are as follows:

- **Guaranteed provision**: where government provides the products (goods and services) there is always an assurance that the products will be made available for all;

unlike the private sector that may engage in some restrictions and even hoarding to release when the prices have risen higher up the ceiling.

- **Market Power**: Government may decide to regulate in order to reduce the market power of the private sector, where in the determine the price of the goods and services – the seller's market.
- **Externalities**: government involvement in the provision of goods and services may be necessary to control the high level of unchecked negative externalities arising from the consumption and disposal of wastes.
- **Information Deficiencies:** Regulation may be necessary for information dissemination, that could otherwise be hoarded by the self-satisfying private sector.
- Excessive competition: Excessive competition could lead to unhealthy rivalry among competitors, hence the need to regulate and even directly engage in te provision of certain essential services by the government.

*Non-Economic Motives*

Even for non-economic reasons, government regulate and get involved in the provision of all manner of goods and services.

- **National Pride**: for pride of ownership, government may engage in the provision of certain services. For instance, it has been fashionable to engage in the provision of transport services as evidenced by the ownership of airlines such as British Airways, Nigeria Airways (defunct).
- **Prestige**: also for prestige and honours, the government may engage in certain provisions that the private sector may lack the capacity to provide.

- **National Unity**: Transport for instance ensures national unity. Thus, government may ensure that even rural and unprofitable routes be served. The rural banking scheme in Nigeria was aimed at ensuring that even the unprofitable settlers were served, the scheme failed anyway.
- Former colonial allegiance

*Social Arguments*

There are also social arguments for the involvement of the public sector in the provision of some goods and services:

- Ensure employment security. It is the duty of the government to ensure that all its citizenry are gainfully employed. Government can only provide employment to the people by engaging them in its controlled ventures.
- Safeguard workers terms and conditions of employment, including health and safety: also the security of workers is considered as paramount by the government.
- Guarantee appropriate training to minimize accidents and maximize productivity and service quality
- Provide effective representation of employee interests.

Public enterprises are usually characterized by direct intervention measures of government in economic affairs and it is thought that such interventions would rapidly effect economic development.

Deregulation can be described as an economic reform, a fiscal and monetary policy measures in which laws or rules of entry and exit into a market weakened, relaxed or totally removed in order to enhance the competiveness of economic actors (Adegbemile, 2007). It is the simplification of or dismantling of the legal and government al restrictions in the operation of market forces, especially in relation to price-fixing (Ajayi and Ekundayo, 2008; Ojo 2010).

Deregulation is predicated on existing set or rules, which impose limitations on how business should be conducted within a market. According to Ojo (2010), deregulation can easily be conceived as 'anti-deregulation' or "a situation in which there is absence of regulatory procedure and lack of directive to bring under control, law or constituted authority. It describes a situation in which individual is allowed legally to act as he wants. And to deregulate economy is to give legal backing to individuals to fix price arbitrarily of whatever products, goods and services produced and rendered. However, it should be noted that deregulation is often in degrees… very often, what we have is the relaxation of government control, the extent of which differs from place to place and for different businesses."

Deregulation deals with the legal framework of market environment, where as privatization relates to transfer of ownership of enterprises from the government to the private owner(s).

Commercialization as defined by the Technical Committee on Privatization (TCPC) in Nigeria is "the re-organization of enterprises, wholly or partially owned by the Government, in which such commercialized enterprises shall operate as profit making commercial ventures without subvention from the Government.” Ojo (2010) and Zayyad (2007) see commercialization as involving a situation in which the mandate of Public Enterprises (PEs) is to operate as moneymaking ventures, source for funds for their activities internally and they are required to efficiently function without any subvention from the government. In other words, a commercialized enterprise is expected to employ the procedures of private enterprises in running its business.

The usage was the term privatization is an invention of David Howell (Secretary of State for Energy, 1979-81, and Secretary of State for Transport, 1981-3 in the United Kingdom). Originally was known as denationalization, Lawson (1992) explains that privatization gained favour simply through the lack of a better alternative to the word denationalization: *“It is an ugly word and Margaret disliked it so much that for some time she refused to use it. But none of us could come up with anything better”* (Lawson, 1992). Nigel Lawson (1992) recalls how the change from denationalization to privatization came about, *“most of us felt denationalization did not sound positive enough,”* therefore, the process came to be officially described as privatization.

Privatization shares quite a number of meanings. It is the sale of publicly owned assets. In its broader conception, privatization also signalled a change in the relationship between the state and business, as well as the deregulation, liberalization and the introduction of competition into formerly publicly owned industries. One of the key aspects of the debate on the origins of privatization is to what extent it was planned in advance by the Conservatives while in opposition.

Privatization was not quite planned for even by the Conservative Party of the United Kingdom. John Wakeham is noted to have recalled that the economist Stephen Littlechild deleted a chapter on privatization from a book, which he wrote on options for a future Conservative government in 1978, because he feared including it would mean the book would not be taken seriously (www.htpp://.Institute for Government Policy, 2010).

The focus of the 1979 manifesto was on controlling money supply, reducing public expenditure and cutting tax. Yet, while it did not outline a programme of widespread privatization, the manifesto did promise *"to sell back to private ownership the recently nationalized aerospace and shipbuilding concerns, giving their employees the opportunity to purchase shares"*, as well as selling off *"shares in the National Freight Corporation to the general public"* (Party Manifesto, 1979).

Many commentators have concluded that denationalisation came about either largely by accident or as a policy emerging through trial and error. According to James Foreman-Peck, *"in the late 1970s privatisation was scarcely even a gleam in the minister's eye"* (Foreman-Peck, 2004). Andrew Gamble described the eventual policy making process as *"a series of ad hoc decisions and experiments"* that were *"given retrospective justification and coherence by government ministers"* (Gamble, 1988).

However, one of the architects of the policy process, Nigel Lawson, has rejected these interpretations: *"They could not be more mistaken." (Lawson, 1992).* Although admitting that little detailed work had been done in opposition, Lawson explained that the reluctance to go public with these plans was the result of *"chiefly Margaret's[Thatcher] understandable fear of frightening the floating voter"* and he remained adamant that "*privatization was a central plank of our policy right from the start"* (Lawson, 1992).

Other accounts suggest that a certain amount of work had been done even before the Heath government a decade earlier. A denationalization group had worked through the Conservative Research Department and a study was prepared on the potential for such a policy (Sewill, 2009). However, these proposals did not make it into Heath's already very full programme. Whatever its exact origins, the ultimate form of privatisation adopted under Thatcher evolved as initial successes spurred on grander initiatives. After winning the 1979 election, the Thatcher government was determined to introduce a raft of reforms that would restructure the economy, roll back the state, and redefine the relationship between the public and private sectors. This radical agenda had been generated in direct response to the failure of previous regimes, but it also responded to a growing disenchantment with the mixed economy of the post-war settlement. Andrew Gamble has suggested that the new direction of the Thatcher government was possible *"because by the time it took office so many of the policies and ideas associated with the 1940s had been discredited"* (Lawson, 1992).

As the government pushed through measures to boost economic performance, reduce dependency on the welfare state and limit the power of public sector unions, post-war political consensus gave way to an increasingly adversarial relationship between reformers and defenders of the status quo. In particular, the key tenet of the New Right strand of Conservatism, which developed during these years, held that the market was the best way to organize economic activities since it provides financial constraints and incentives that reduce waste and inefficiencies. In the words of Lawson (1992), there is *"no equivalent in the state sector to the discipline of the share price and the ever-present threat of bankruptcy."* It should be noted, nonetheless, that the policies adopted in practice were not always as radical as the rhetoric.

Filipovic (2005) defined Privatization as "A method of allocating assets and functions from public sector to the private sector." As such, privatization constitutes a fundamental structural change of ownership which is transferred from public to private sector, leading to a drastic shift in the underlying incentives of the respective owners and in the objectives of the firm (from politically oriented to profit-oriented).

The conceptual definition of privatization as contained in the commercialization and privatization Decree of 1988 in Nigeria and the Bureau of Public Enterprises Act of 1993, perceives privatization as, "the transfer of government owned shareholding in designated enterprises to private shareholder – comprising individuals and corporate bodies." As further broadly define, privatization is an umbrella term to describe a variety of policies which encourage competition and emphasize the role of market forces in place of statutory restrictions and monopoly powers. It involves the sales of equities in public enterprises to private investors, with or without the loss of government control in these organizations.

Privatization, which now occupies the center stage in global economic liberalization is regarded as an avenue for raising productivity and enhancing overall economic growth. This is achieved through increased involvement of the private sector in productive economic activities through the sale of public enterprises to the private sector, with a view to improving economic efficiency.

With privatization, the role of government in direct productive activities diminishes as the private sector takes over such responsibilities. Under such a setting, government is expected to provide essential infrastructure and an enabling environment for private enterprise to thrive. Privatization is predicated on the assumption of state inefficiency and "absolute" efficiency of the market. In essence, privatization describes a socio-economic reorganization of activities in which social services that were hitherto provided for by the government are transferred to private investors. The policy allows the government to divest itself of provision of social services (Izibili and Aiya, 2007). In other words, privatization is the opposite of nationalizations or indigenization where the latter is the conversion of ownership from private owners, usually foreign owners, to the government (Kalejaiye, et al, 2013).

Privatization may take the form of deregulation of state monopolies by the abrogation of legislation restricting entry into economic activities. The Federal Republic of Germany pursued the modern idea of privatization as an economic policy for the first time in 1957, when the government eventually sold its majority stake in Volkswagen to private investors. The next big move n privatization came in the 1980s with Margret Thatcher's privatization of Britain's Telecom and Chirac's (former Prime Minister of France) privatization of government owned communication companies (Megginson W, Nash and Randerborgh, 1994). This was followed by some Latin American countries that launched significant privatization programmes following decades of static economic policies, trade protection, heavy –headed regulation and even nationalization.

Pamacheche et al. expressed that privatization can be defined in several ways depending on the form it takes**.** According to ILO (2001) privatization is the transfer from the public to the private sector of assets in terms of ownership, management, finance or control. In its narrowest sense it is the sale of public assets to the private sector, but it has also been linked to a reduced regulatory role of government, linked to policies of liberalization and deregulation. Pamacheche et al quoted a definition of privatization by the World Bank as: "A transaction or transactions utilizing one or more of the methods resulting in either the sale to private parties of a controlling interest in the share capital of a public enterprise or of a substantial part of its assets", or "the transfer to private parties of operational control of a public enterprise or a substantial part of its assets."

Privatization, connotes a reversal of state ownership of enterprises. It takes many different forms. For example, government might sell some shares in SOEs through public offerings to passive investors without losing control over the enterprise. Another variant of privatization is leases and management contracts which entail no transfer of ownership. Partial privatization mixes private and state ownership. Management contracts and leases combine private management with state ownership and control. Other privatization arrangements mix private ownership with state regulation.

There are many different types of privatization. Below is the summary of the main types of privatizations:

**i.** ***Privatization through the sale of state owned assets*** **–** this is where the government trades ownership for an explicit cash payment. Within this category, there are usually two approaches:

**ii.** ***Direct sales*** of a state owned enterprise or part of to an individual, corporation or group of investors.

**iii.** ***Share Issue Privatization*** **(SIP)** - sale of the government's shares in a company are sold to a private investor through a public share offering. Both of these divesture forms of privatization allow the government to receive a onetime windfall from the sale.

**iv.** ***Mass/Voucher Privatisation*** **–** vouchers are issued for free or at nominal cost to citizens who are able to use them to bid for shares in a company or asset. This method of privatisation has been used primarily in transition economies in Central and Eastern European economies.

**v.** ***Long-term Franchises*** **–** a private sector organisation provides infrastructure that would otherwise be owned by the government, for example, an airport or bridge. This allows an investor to raise funds through capital markets to build a facility. This means that no public spending is required for the capital and private investors bear the risk rather than taxpayers should a project not succeed.

vi. ***Competitive Contracting/Outsourcing*** - the government puts contracts for services out to tender to the private and third sectors. Examples include UK Local Authority competitive outsourcing of services such as street cleaning, janitorial services and grounds maintenance. In order to win a contract, the provider has to be produce services efficiently which should lead to innovation, lower prices and higher quality services than if a state (or private) monopoly is held over the services.

vii. ***Public Private Partnerships (PPP)*** **–** any arrangements that involves joint working between public bodies, local authorities or central government, and private companies to deliver a public project or service. PPPs have been adopted across a wide range of public service industries, including defence, education, health, the environment, justice and housing.

viii. ***Private Finance Initiative (PFI)*** **–** the public sector contracts to purchase services on a long-term basis in order to take advantage of private sector management skills incentivized by having private finance at risk. The private sector partner takes on responsibility for providing a public service, including maintaining, enhancing or constructing the necessary infrastructure and the public sector specifies a level of service in return for an annual payment, called a unitary charge.

ix. ***Offer of Shares to the Public*****:** Privatisation of a SOE through initial public offering (PO) or public offer of shares involves listing of the SOE on the stock exchange and extending invitation to individuals and corporate bodies to purchase the shares offered for sale at a given price. The entire SOE equity or part of it could be offered for sale depending on the privatisation objective as well as the depth of the domestic capital market. For instance in Latin America, where many countries had relatively well-developed capital markets, governments commonly sold a part of the equity to the public (Ramamurti, 1991).

This method promotes wider share ownership and the transaction is perceived as open and transparent. It elicits wide pub1icity through the media to attract a wide range of participants. However, it is costly and may involve a small discount to maximize impact. By contrast, in Africa, where capital markets were underdeveloped or nonexistent, governments used management contracts and leases to privatize SOEs that were large or dominated their markets. However, the option could be politically damaging if it failed.

**x.** ***Trade Sale*****:** The trade sale suits disposal of well-established SOEs which are sufficiently small and specialised not to merit IPO. It may be the only option in countries with vestigial capital markets. However, it is difficult to justify the sale price of the SOE as objective, as it could be challenged with the benefit of hindsight. The SOE which is performing poorly or technically insolvent may require write-offs before sale.

**xi.** ***Sale of Assets*****:** This may be the only option for SOEs that have been making losses over the years. It is the simplest and fastest method of sale, and may make an unattractive SOE business more attractive for sale. The state would have to retain all residual liabilities and may require big write-offs of remaining unsold assets. Employees may also have to be laid off by government.

**xii.** ***New Equity Investment by the Private Sector*****:** In addition to, or in lieu of the sale by own stockholding in the SOE, the government's share or all of its newly-issued stock of the SOE can be sold to private sector purchasers. This option may require conversion of the state enterprise into a public company where the management discipline of the private sector is introduced. This arrangement produces some revenues for the state when compared to outright privatisation.

**xiii.** ***Reorganisation or Breakup*****:** The government may embark on reorganising a SOE before deciding on any of the options in (i-iv) above. This approach, which is useful for dismantling monopolies prior to privatisation, allows a series of partial disposals to take place. However, the parts may be worth less than the whole. Competition may lower enterprise values, while smaller units may be less viable.

**xiv.** ***Employee or Management Buy-outs***: Some or all of the stock in a SOE may be sold to the management and/or employees of the SOE. Such an arrangement may be one of necessity where no other interested purchasers can be found or it may be a matter of government labour policy to encourage employee ownership and participation in the enterprises being privatised. This option may allow privatisation to take place when all other methods are impracticable. It may lead to substantial improvements in performance owing to change of attitude to work and improved motivation. This approach, however, requires strong underlying cash flow in order to finance leverage requirement. It may also require state guarantees to achieve the buy-out deal.

**xv.** ***Management Contracts and Leases*****:** Assets are leased for a predetermined period to an outside group that assumes full commercial responsibility for operating them, while the state retains ownership and responsibility subject to agreed contract. The management provides skills and technology for an agreed fee. The benefits of this option include the introduction of private sector management as well as allowing the state to retain significant control. However, liabilities and ultimate responsibility remain with the government. The option may work when other methods are politically unacceptable, but poor performance could not be ruled out.

However, the motivation that drives government to privatize and the political will to see it through would determine, to a large extent, the success or failure of the programme. The failure or success of one country can easily have a spiral effect on other countries, indeed the entire globe because of globalization, which has reduced the world to a village (Friedman, 2005).

Friedman (2005) has noted, “In Globalization 1.0, countries had to think globally to thrive or at least survive. In Globalization 2.0, companies had to think globally to thrive, or at least survive. In Globalization 3.0, individuals have to think globally to thrive or at least survive. This requires not only a new level of technical skills but also a certain mental flexibility, self-motivation, and psychological mobility.” “Globalization went from globalizing industries to globalizing individuals. Today, people working in jobs can sense how what they are doing integrates globally: ‘I am working with someone in India. I am buying from someone in China. I am selling to someone in England.’

### 2.1.2 The Principal Agent Theory

So many theories have been linked with Privatization. The two main economic theories that provide a strong rationale for privatization as advanced by Parker (2004 cited in JPA Europe Ltd, 2010) follows:

“Principal-agent theory and its implications for effective corporate governance suggest that in privately-owned enterprises management faces superior incentives to drive out waste and maximize productivity. While public choice theory maintains that within government, as elsewhere in the economy, self-interest is the dominant motive, with the result that state ownership is associated with empire building, gold plating of public investments, over-manning and, in general, economic waste. Together, principal-agent theory and public choice theory provide a powerful theoretical rationale for privatization.”

The concept of privatization in recent times evokes sharp political reactions from many angles. Privatization can be defined as the transfer of ownership and control of enterprise from the state to the private sector. Various groups have also defined it differently.

The Privatization and Commercialization Act of 1988 and the Bureau of Public Enterprises Act of 1993 in Nigeria defined privatization as the relinquishment of part or all of the equity and other interests held by the Federal Government or any of its agencies, in enterprises whether wholly or partly owned by the Federal Government. But, however privatization is defined, it transfers ownership of production and control of enterprises from the public to the private sector. It is an ideological concept.

### 2.1.3 The Contestability Theory

The contestability theory actually gave birth to deregulation. The theory featured principally in the 1970s. Its principles were deregulation and efficiency in operations. The theory redefined the role of the state as one of creating conditions and allowing maximum competition instead of planned competition. Deregulation therefore ‘frees’ business activity from the rules and controls thereby leading to the following:

- Increased competition
- Increased prices in the short run
- Reduced prices in the long run
- Increased manpower requirements
- Increased workforce
- Technological change as result of competition
- Market expansion
- Improved service quality
- Innovation

Industries became ventilated as a result of deregulation about the turn of the 1980s thereby ushering in competition on a large scale. Qualitative and more innovative services became the order of the day. Customer care policies were introduced.

However, deregulation and competition can create significant problems that subsequently demand re-regulation. Reregulation has been introduced in most countries that deregulated some aspects of their transport services because of the peculiar nature of transport services – “efficient, reliable and reasonably priced goods transport is vital to economic development ...transportation improvements stimulate economic growth, just as economic growth increases the demand for transport services. To secure both economic and social benefits from the provision of transport services requires regulatory policy to be guided by fair pricing for each mode and the integration of different services” (22)

The general argument for privatization of state owned enterprises is that free market competition forces lead to the more efficient delivery of products and services. It is argued that the incentive of having to compete for customers leads to more choice, lower prices, improved quality, less bureaucracy and quicker delivery.

The general goals of privatization can thus be summarized as follows (JPA Europe, 2010):

1. Raise revenue for the state
2. Promote economic efficiency
3. Allow for specialization in production
4. Reduce government interference in the economy
5. Promote wider share ownership
6. Provide the opportunity to introduce competition
7. Subject state owned enterprises to market discipline
8. Develop the national capital market

9. Lessen demands on tax payers through reduced public spending

10. Allow for production to be more responsive to needs

11. Bring in more entrepreneurialism and skills

An optimal policy of privatization must consider several issues, including which types of SOEs should be privatized. The question of when and how the privatization programme should be carried out and to whom should the SOEs be sold and at what price are other issues that should be addressed.

Also, the privatization option to adopt would depend on the objectives of the divestiture. The options available include public offer of shares or initial public offering (IPO), Trade sale, New equity investment by the private sector and sale of public assets (asset disposal) as well as reorganisation or breakup leading to any of the earlier mentioned options. Others are employee or management buy outs and management contracts and leases.

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### 2.1.4 The Economic Growth Theory and the Incentive Model

William Easterly (2001) masterfully captured the concept of economic growth as a fundamental part of the field of macroeconomics in *The Elusive Quest for Growth*. Easterly powerfully depicts the real, long term economic crisis that many countries are facing around the world and stimulates the reader to take part in the search for economic growth.

The work (*The Elusive Quest for Growth*), reveals from the onset that individual policies such as aid for investment, population control, and human capital investment have all failed as a solution to the lack of economic growth in underdeveloped countries. In other words, Easterly alludes to an idea that a combination of different factors (investment, education, technological innovation), along with a fundamental structural change might be the path to long-term economic growth. One of the underlying themes throughout Easterly's work is the idea that people respond to incentives. In fact, most of Easterly's analysis of various economic models is an analysis of the incentives created by those models (Easterly, 2001).

Another economic growth and development theory is that advanced by Udoka and Anyingang (2012), who revealed that private ownership gained ascendency after the cold war. Since then, they posit that has become applicable that States should recede from playing economic roles while private ownership of the means of production is now seen as the only viable approach to the efficient production of goods and services, as well as economic growth and development. It was as a result of this development that the world over decided to privatize public enterprises (Igbuzor, 2003).

Hence, Anyanwu (1993) looked at privatization as the reduction of public sector intervention in economic activity. It involves the divestiture of government economic activities. This economic policy according to Solako (1999), occupies a unique position in a global economic liberation and provides an avenue for raising productivity, thus enhancing overall economic growth and development.

The achievement of economic growth and development is through increased involvement of the private sector in productive economic activities through the sale of public enterprises to the private sector with the ultimate aim of infusing improved economic efficiency in the businesses. With privatization, the role of government in direct productive activities diminishes as the private sector takes over such responsibilities with profit motive as its major objective (Udoka and Anyingang, 2012).

This situation lives the government as an enabler rather than an producer of goods and services. Government's responsibility is focused on the provision of essential infrastructure and the creation of an enabling environment through the private enterprises. Therefore, privatization is justified by the state inefficiency and the absolute efficiency of the market (Solako, 1999).

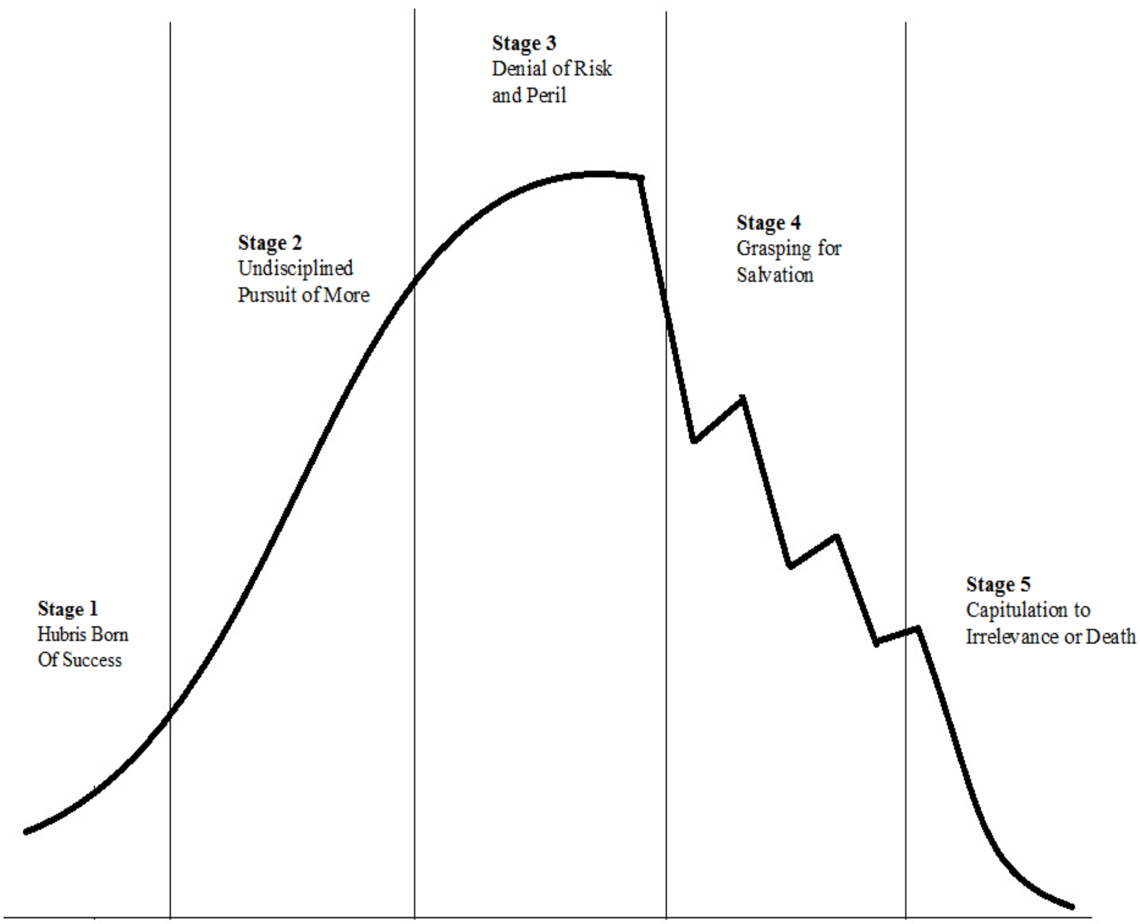
### 2.1.5 The Five Stage Decline Framework

In his book, *How the Mighty Fall* Jim Collins (2009) uncovers the five stages by which failure creeps into an organization even if it is at the peak of success, it is the most powerful company in the industry. He posits that the very power and success might cover up the fact that the firm or the organization is already on the path to decline. Collins thinks of decline as being analogous to a disease, perhaps like cancer, that can grow on the inside while one still looks strong and healthy on the outside. Organizational decline is however different from disease because it is self-inflicted, but is still a useful analogy. Institutional decline is a staged disease: harder to detect but easier to cure in the early stages. An institution may look strong on the outside but already be sick on the inside, dangerously on the cusp of a precipitous fall.

The model consists of five stages that proceed in sequence. The stages are as follows:

1. Stage 1: Hubris Born Success
2. Stage 2: Undisciplined Pursuit of More
3. Stage 3: Denial of Risk and Peril
4. Stage 4: Grasping for Survival
5. Stage 5: Capitulation to Irrelevance or Death

**Fig. 2.1 The Five Stages of Decline**




*Source*: Collins, 2009

**The Hubris Born Success.** This is when companies that are great may become insulated by success; accumulated momentum can carry an enterprise forward, for a while, even if its leaders make poor decisions or lose discipline.  Stage 1 kicks in when people become arrogant, regarding success virtually as a entitlement, and they lose sight of the true underlying factors that created success in the first place. Decline very likely follows when an organization's people begins to feel attribute their successes to certain things they did instead of seeking to have a penetrating understanding and insight. Decline sets in when the people think that they made it because they understand why they do the specific things and under what conditions they would no longer work. The organization's people overestimate their merit and capabilities and rather succumb to hubris.

The concept of hubris dates back to ancient Greece. It is defined as excessive pride that brings down heroes or alternatively outrageous arrogance that inflicts suffering upon the innocent. A good  case in point in Motorola, which began 2001 with 147,000 employees; and by the end of 2003, the number dropped to 88,000 with nearly 60,000 jobs gone. As the company descended through the stages of decline, shareholders also suffered as stock returns fell more than 50% behind the market value from 1995 to 2005.  Multiple forms of hubris can be encountered in the course of journeying through the stages. There are hubris in undisciplined leaps into areas where a company cannot become the best. There can be hubris in a company's pursuit of growth beyond what it can deliver with excellence. There can be hubris in bold, risky decisions that fly in the face of conflicting or negative evidence; and there can also be hubris in denying even the possibility that the enterprise could be at risk, imperiled by external threats or internal erosion. One of the most insidious forms of hubris that can also be encountered is arrogant neglect.

Climbing to greatness involve sustained, cumulative effort, like turning a giant, heavy flywheel: each push builds upon previous work, compounding the investment of effort- days, weeks, months, and years of work – generating momentum, from one turn to ten, from ten to a hundred, from hundred to a thousand, from a thousand to a million. Once an organization gets one flywheel going, it might create a second or third flywheel. But to remain successful in any given area of activity, you have to keep pushing with as much intensity as when you first began building that flywheel.

A cycle of  arrogant neglect may take the following form:

i. A successful flywheel is built quite.

ii. The organization succumbs to the notion that new opportunities will sustain successes better than the primary flywheel, either because, the organization faces impending threat or because it finds other opportunities more exciting or simply just bored.

iii. The organization diverts its creative attention to new ventures and fails to improve its primary flywheel as if its life depends on it.

iv. The new ventures fail outright, siphon off the organization's best creative energy, or take longer to succeed than expected.

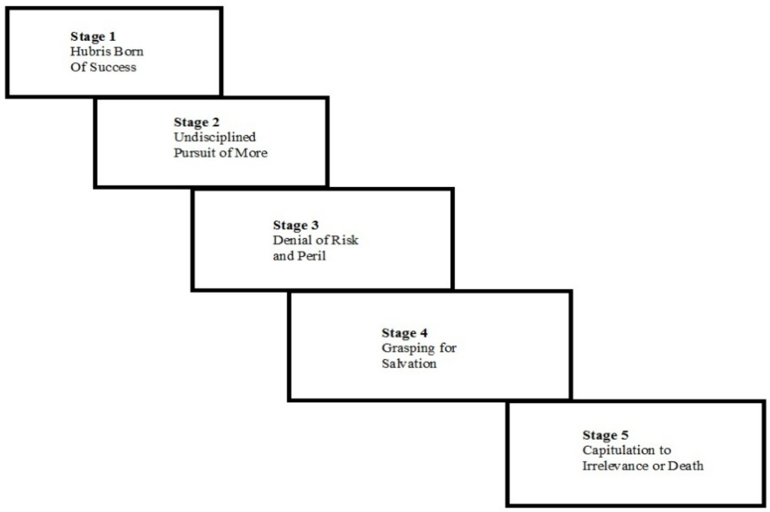
v. The company turns its creative attention back to its primary flywheel only to find it wobbling and losing momentum.

The point here is to disrespect the potential remaining in your primary flywheel – or worse, to neglect that flywheel out of boredom while you trun your attention to the Next Big Thing in the arrogant belief that its success will continue almost automatically – is hubris. And even if you face the impending demise of a core business, that's still no excuse to let it just run autopilot. Exit definitively or renew obsessively, but do not ever neglect a primary flywheel. Distracted by extraneous threats, adventures, and opportunities, leaders neglect a primary flywheel, failing to renew it with the same creative intensity that made it great in the first place.

Also, decline sets in in the very first stage because, leaders lose the inquisitiveness and learning orientation that mark those truly great individuals who, no matter how successful they become, maintain a learning curve as steep as when they first began their careers. Collins (2009) explains that "… the best corporate leaders… remain students of their work, relentlessly asking questions – why, why, why? – and have an incurable compulsion to vacuum the brains of people they meet." Accordingly, they are not "a knowing person" but "learning persons." The "knowing people" can set companies on the path to decline in two ways. First, they they become dogmatic about their practices ("We know we're successful because we do specific things, and we see no reason to question them"). Second, they can overreach, moving into sectors or growing to a scale at which the original success factors no longer apply ("We've been so successful that we can really go for the big bet, the huge growth, the gigantic leap to exciting new adventures").

Finally, when leaders discount the role of luck their organizations follow decline. Instead of acknowledging that luck and fortuitous events might have played a helpful role, people begin to presume that success is due entirely to the superior qualities of the enterprise and its leadership. This is hubris in its highest order.  An organization should be able to know too well that it does not exist for the aggrandizement of its leaders but for its customers. In this manner, it will keep learning and seeking better ways of pursuing its purpose. In this regard, it keeps hiring great people, building the culture and expanding into new arenas while adhering to principles that made it great in the first place.

Figure 2.2 The Five Stages of Decline




*Source*: Collins, 2009

**Undisciplined Pursuit of More:** Hubris from stage 1 (which says, “we’re so great, we can do anything!”) leads right into stage 2, the Undisciplined Pursuit of More – more scale, more growth, more acclaim, more of whatever those in power see as “success.” Companies in stage 2 stray from one disciplined creativity that led them to greatness in the first place, making undisciplined leaps into areas where they cannot be great or growing faster than they can achieve with excellence, or both.

When an organization grows beyond its ability to fill its key seats with the right people, it has set itself up for a fall. At the same time, it must be noted that complacency and resistance to change remain dangers to any successful enterprise, overreaching better captures how the mighty fall. The point here is that while innovation can fuel growth, frenetic innovation – growth that erodes consistent tactical excellence – can just as easily send a company cascading through the stages of decline. Unsustainable quest for growth, confusing big with great can spell doom for a company. This is because; success creates pressure for more growth, setting up a vicious cycle of expectations; that strain people, the culture and systems to the breaking point. Unable to deliver consistent tactical excellence, the institution frays at the edges.

Collins and Hansen (2011) say, "Discipline in essence is consistency of action – consistency with values, consistency with long term goals, consistency with performance standards, consistency of method, consistency over time." They explain further that discipline is not the same as regimentation; it is not the same thing as measurement; it is not the same thing as hierarchical obedience or adherence to bureaucratic rules. Rather, true discipline requires the independence of mind to reject pressures to conform in ways incompatible with values, performance standards and long-term aspirations. Discipline is having the inner will to do whatever it takes to create a great outcome, no matter how difficult.

Discipline companies are utterly relentless, monomaniacal even, unbending in their focus on their quests. They don't overreact to events, succumb to herd, or leap for alluring – but irrelevant – opportunities. They are capable of immense perseverance, unyielding in their standards yet disciplined enough not to overreach. High performance companies are according to Collins and Hansen (2011) not just disciplined but fanatically disciplined. Such discipline may include sticking to a decision to be publishing monthly financial reports; believing passionately in sustaining a high-spirit, fun-loving, and iconoclastic culture full of passionate people infused with a rebellious “Warrior Spirit” like Southwest Airlines under Herb Kelleher. Kelleher understood that superb customer service naturally arises when people have fun at work and love their company. As the airline expanded, with only a handful or airplanes into a major national carrier, it would be increasingly difficult and increasingly important, to sustain the culture. So, Kelleher himself behaved as a fanatic exemplar of the culture. Kelleher maintained an outlandish consistency to animate the culture, like an impactful actor who stays perfectly in character while on stage. He was a complete monomaniac about building Southwest Airlines, never resting in the quest to make the company the best low-cost, high-spirit airline, winning every battle and every war with its competitors.

**Denial of Risk and Peril.** As companies move into Stage 3, internal warning signs begin to mount, yet external results remain strong enough to “explain away” disturbing data or to suggest that difficulties are “temporary” or “cyclical” or “not that bad” and “Nothing is fundamentally wrong.”

In stage 3, leaders discount negative data, amplify positive data, and put a positive spin on ambiguous data. Those in power start to blame external factors for setbacks rather than accept responsibility.

The vigorous, fact-based dialogue that characterizes high performance teams dwindles or disappears altogether. When those in power begin to imperil the enterprise by taking outsized risks and acting in a way that denies the consequences of those risks they are headed straight for Stage 4. Rather than confront the brutal realities, the enterprise chronically reorganizes; people are increasingly preoccupied with internal politics rather than external conditions; and those in power become more imperious and detached; symbols and perks of executive-class status amplify detachment; plush new office buildings may disconnect executives from daily lives.

**Grasping For Salvation.** The cumulative peril and /or risks gone-bad of Stage 3 assert themselves, throwing the enterprise into a sharp decline visible to all. The critical question is, How does its leadership respond? By lurching for a quick salvation or getting back to the disciplines that brought greatness in the first place? Those who grasp for salvation have fallen into Stage 4. Common "saviours" include a charismatic visionary leader, a bold but untested strategy, a radical transformation, a dramatic cultural revolution, a hoped-f or blockbuster product, a "game changing" acquisition, or any number of other silver-bullet solutions. Initial results from taking dramatic action may appear positive, but they do not last.

Stage 4 begins when an organization reacts to a downturn by lurching for a silver bullet. This takes a wide range of possible forms, such as betting big on an unproven technology, pinning hopes on an untested strategy, relying upon the success of a splashy new product, seeking a "game changing" acquisition, gambling on an image makeover, hiring consultants who promise salvation, seeking a savior CEO, expounding the rhetoric of "revolution," or in its very late stages, grasping for a financial rescue or buyout. The key point is that they go for a quick, big solution or bold stroke to jump-start a recovery, rather than embark on the more pedestrian, arduous process of rebuilding long-term momentum. Stage 4 behaviour promises to change-everything-with-one-big-sweeping-action: "the best and the fastest way to increase value"… "in one move, we dramatically improve"… "we immediately double"…"enable us to quickly address"… "will transform our industry"…. and so on.

**The Capitulation to Irrelevance or Death.** The longer a company remains in Stage 4, repeatedly grasping for silver bullets, the more likely it will spiral downward. In Stage 5, accumulated setbacks and expensive false starts erode financial strength and individual spirit to such an extent that leaders abandon all hope of building a great future. In some cases, their leaders just sell out; in other cases, the institution atrophies into utter insignificance; and in most extreme cases, the enterprise simply dies outright.

It is possible to skip a stage or move quickly through the stages, while others languish for years or even decades in a given stage. An institution can stay in one stage for a long time, but then pas quickly through another stage. The stages can also overlap, the remnants of earlier stages playing an enabling role during later stages.

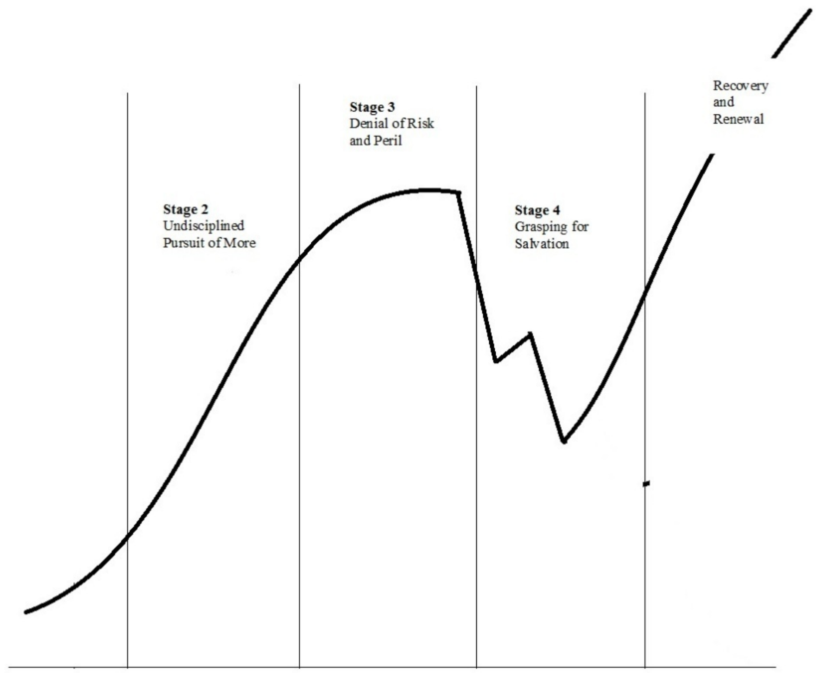
**The Well Founded Hope**

Leaders may emerge at every stage to break the trajectory of decline a and simply refuse to give up on the idea of survival, but of ultimate triumph despite the most extreme odds.

Decline may even become a catalyst for growth. A decline might even be an opportunity and as one CEO puts it, "a terrible thing to waste." The right leaders feel a sense of urgency in good times and in bad, whether facing threat or opportunity, no matter what. They are obsessed, afflicted with a creative compulsion and inner drive for progress – burning hot coals in the stomach – that remain constant whether facing threat or not. The right people will drive improvement, whether standing on a burning platform or not, and they never take well to manipulation. The path to recovery lies first and foremost in returning to sound management practices and rigorous strategic thinking.

Collins (2009) concludes that the signature of the truly great versus the merely successful is not the absences of difficulty, but the ability to come back from setbacks, even cataclysmic catastrophes, stronger than before. He raises hope thus: "Great nations can decline and recover. Great social institutions can fall and recover, and great individuals can fall and recover. As long as you never get entirely knocked out of the game, there remains always hope.

**Fig 2.3 The Path to Recovery**




*Source:* Collins, 2009:113

Thus, the fact that a company declines or faces a decline does not mean that it will extinct. Great Chief Executives may take advantage of the decline and act urgently to turn around the situation positively.

### 2.1.6 Privatization and Efficiency

Ernest (2000) holds that sustainable economic development demands competitiveness in the economy. This is because, firms and not nations compete in international markets (Porter, 1990). For Africa's economies, the ability to create and sustain competitive advantage is central to economic success at any level, to create the wealth that will allow all of their citizens to emerge from poverty and enjoy a higher level of economic and social well-being. Fostering the emergence of competitive firms and sectors is therefore becoming a key theme of development policy.

The quest for competitive performance is in effect a quest for productivity and productivity growth leads to greater efficiency in the use of nation’s resources. Privatization plays a principal role in this effort. Its basic rationale is precisely to achieve greater efficiency in the use of resources, although other objectives matter as well. And privatization properly managed has delivered. The available evidence shows that productivity and profitability of privatized firms improve. Higher productivity is a step towards competitiveness.

Ernest notes that the impact of privatization go beyond the enterprises themselves. These impacts can change the factors that shaped competitive advantage, directly and indirectly. Strategic management of privatization can therefore significantly enhance prospects for achieving and sustaining competitive advantage. However, privatization in Africa, and elsewhere for that matter, has not lived up to its strategic potential. The gap between what is possible and what is being accomplished is partly due to the common lack of a coherent strategy to foster and promote competiveness as a frame of reference.

The theoretical argument in favour of privatization rests primarily on one of the objectives of privatization – economic efficiency (White et al, 1991). For a number of reasons, agency problems, soft budget constraints, political interference, and proliferation of mandates – state ownership of productive enterprises is seen to impair efficiency of resource use. Economically inefficient operations are not competitive in global markets, and few markets, even domestic ones, are unaffected by globalization. Thus, if privatization achieves increased economic efficiency, it contributes indirectly to competitiveness.

Efficiency tends to be equated with productivity, where productivity is defined as some ration between outputs and inputs. The exact level of productivity for any given activity then depend on the specific measures used for both the numerator and the denominator; for example, labour productivity may be defined as the output (measured in monetary terms) per labour, or hour, or the (dimensionless) ration between the value of output and total labour costs.

Efficiency is a much more complex concept. There are several valid concepts of efficiency. Understanding the different concepts forms the basis for understanding the ways in which strategic and operational decisions in privatization affect competitiveness directly o indirectly. The basic rationale for privatization stresses its contribution to allocative efficiency - the gains from the reallocation of productive assets to new ownership and management. Privatization seeks to transfer control over resources to those who have the ability and the motivation to make the best use of them, resulting in higher output and lower prices overall.

The key to sustainable social and economic development is adaptive economic efficiency – defined as the set of institution (beliefs, attitudes, behaviours, rules, laws) and organizations that are essential to the functioning of a market economy. While allocative efficiency gains are in effect the result of one-tiem changes, adaptive economic efficiency is virtually by definition has also a dynamic concept, critical to continued change and innovation (Douglas North cited in Christenson, 1997). North has also argued that privatization can be a powerful instrument in building the institutions.

Three dimensions of efficiency concepts have been distinguished by Robert Kuttner (cited in Jeffrey, et al, 2000):

i. ***Smithian Efficiency*** (named after Adam Smith): it is largely the same thing as productive efficiency, increased specialization (technology) and market incentives lead to increased output for the same level of resource use;

ii. ***Keynesian Efficiency*** (John Maynard Keynes): posits that economic equilibrium need not entail full use of all factors of production. It refers to the degree to which a society's resources are being used; gains in Keynesian efficiency imply a higher level of utilization of existing capacity; and

iii. ***Schumpeterian Efficiency*** (Joseph Schumpeter): refers to Joseph Schumpeter's theory of economic development stressing the role of the entrepreneur, describes the economy's dynamic performance with respect to growth and innovation; as a dynamic dimension, it is closely related to North's adaptive economic efficiency.

The Smithian or productive efficiency has a growing number of studies focusing under microeconomic dimensions. The studies have made convincing cases that point towards the gains in enterprise performance. Typically, financial performance – profitability, value –serves as a proxy for productive efficiency in the comparisons of pre and post privatization performance of private enterprise. Some studies did use other measures distinguishing for example between profitability and operating efficiency. Examples are Lopes-de-Silanes (1997) who used the ratio of the net sales price to assets as a key measure to assess the impacts of different government actions on the value expressed by investors. Galal et al (1994) based their studies on specific companies in four countries (UK, Chile, Malaysia and Mexico) to find that total welfare improved, for the most part, significantly, for 11 to 12 enterprises.

There are many other studies that produced strong evidence of significant gains in terms of financial performance indicators. The studies found that profitability increased significantly on average. However, the evidence, especially from the studies using cross – country data, also suggests that improved efficiency accounts for only some part of these gains: "…profitability increase more in regulated (or noncompetitive) industries, whereas operating efficiency increases less in those cases. It is clear then that higher profitability does not necessarily imply higher efficiency and the link between the two comes from the market structure. The evidence supports the idea that there is a certain degree of market power being exploited by those firms."

For the case of Mexico, LaPorta and Lopez-de-Silanes (1998) analysed the performance of 218 enterprises in some 26 sectors privatized between 1983 and 1991. They find that average profitability increased by 24 percent; productivity increases accounted for 57 percent of the total gains, reduction in employment for 33 percent; and prices increases for 10 percent. Overall, the evidence seems to indicate that efficiency gains are greater and faster in competitive industries.

In another study of six countries in sub-Saharan Africa, Campbell White and Bhatia (1991) found, on average, post-sale increases or improvements in:

- Sales
- Investments
- Financial flows to governments; wages and working conditions;
- Capital market development; and
- Innovation and new market penetration.

On the Keynesian efficiency, there has been little systematic effort to study the impacts of privatization on the level and intensity of resource utilization, except labour issues. Much of the empirical work by which privatization affects the employment of resources has revolved around labour. The incidences and severity of employment effects depends on the situation of the enterprise, its market power and conditions in the immediate environment – sector and region and in the economy as a whole.

Research suggests that employment-related effects need to be viewed in a dynamic context. Net employment impacts tend to follow a J-curve pattern, often cited as characterizing the impacts of policy reform more generally. Following, and sometimes preceding, privatization, redundancies may be cut, or special privileges may be revoked. Consequently, initial employment-related impacts are likely to be negative. As the enterprise or the operation improves its competitiveness, it may be able to raise salaries and offer additional benefits, and to hire new workers. These subsequent gains may offset initial losses, putting the enterprise on the upward slope of the J-curve (Ernst, 2000).

Depending on the time interval, empirical assessments are likely to produce different findings. In fact, the available evidence on the employment impacts of privatization presents a mixed picture.

As a rule, the workforce of many state-owned enterprises is bloated, necessitating often significant retrenchments if they are to compete under commercial conditions. Closing non-viable enterprises and restructuring others translate into job losses. The extent of redundancies reflects both the degree of protection the state owned enterprises enjoyed, and the level of subsidies it received. Excess employment tends to be highest in environments that offer few job opportunities in a formal sector, which complicates restructuring and may delay implementation.

Massive job losses have accompanied privatization in many of the former socialist countries of central and Eastern Europe and Central Asia. In the former German Democratic Republic, six out of ten employees in the enterprises privatized by the Treuhandanstalt lost their jobs (corresponding to a total of 2.4 million workers). Other countries had similar or worse experiences, although employment levels have recovered in some of them. Of course, privatization did not trigger the downfall of the socialist economic system and the collapse of markets. In fact, de facto job losses have often been more severe in enterprises that have yet to be privatized, with many of them operating way below capacity or having ceased operations completely. Although, there may not have been any official layoffs, jobs have been lost. The workforce is engaged in other activities, typically in the informal sector or the underground economy estimated for a half of the GDP in many of these countries.

In Argentina, the privatization of large public enterprises in telecommunications, steel, railways, energy, and water and sanitation required massive retrenchments. The workforce of seven enterprises in these sectors declined by 50 percent in the process of privatization (Hipel, 1994). Cook and Kirpatrick (1995) reported losses of 40 to 50 percent of total employment in privatized enterprise in Bangladesh and Pakistan.

Banerji and Sabot (1994) present a summary table with estimates from a number of studies for several countries (Chile, Egypt, Ghana, India and Turkey) with estimates of excess staffing ranging from 17 to 91 percent with a median in the range of 40 – 50 percent range.

Campbell White and Bhatia (1998) report indicators of excess employment in privatized enterprises in selected African countries as shown in Figure 2.1 below.

Governments often seek to cut excess employment prior to placing the enterprise or concession on the market, reasoning that forcing investors to start operations with unpopular moves like significant workforce reductions is likely to deter bidders. Moreover, in most cases the government has to accept any financial obligations for layoffs or voluntary separations anyway. Alternatively, the government can shift the responsibility to the investor, accepting a lower price in return.

**Table 2.1 Job Losses in Privatization in Africa**

| Country and Period | Number of privatized firms in sample | Employment at Privatization | Employment, first quarter of 1996 | Net change in employment | Percentage change |
|---|---|---|---|---|---|
| Benin, 1988-95 | 8 | 1,872 | 1,197 | - 675 | - 36% |
| B/Faso,1991 – 95 | 10 | 895 | 901 | 6 | - 0.7% |
| Ghana, 1990 – 95 | 7 | 5,363 | 4,431 | - 932 | - 17.4% |
| Togo, 1984 – 95 | 19 | 2882 | 2,338 | - 544 | - 18.9% |
| Zambia, 1993 – 96 | 10 | 6150 | 5,733 | - 417 | - 6.8% |
| **Total** | **54** | **17,162** | **14,600** | **- 2,562** | **-14.9 %** |

*Source*: Campbell White and Bhatia, (1998:94)

While the need for retrenchments is widely accepted or feared, privatization often produces employment gains, sometimes immediately, or after some period of time. The new owners-mangers may expand operations and actually add jobs. In addition to the anecdotal evidence, of such effects, studies of share –issue privatizations (such as Megginson et al, 1994) found that aggregate employment increased.

Generally, state–owned enterprises operating in a competitive environment are less likely to require retrenchment; competitive pressures keep excess employment to a minimum. For example, enterprises privatized in Chile's second round of privatization during the latter part of the 1980s registered employment gains. A decade of reforms had created a competitive environments for the enterprises, trimming excess employment. The transition to private ownership therefore not only required no retrenchment, but employment expanded in the privatized firms. In ten firms privatized after 1984, employment rose by 37 percent between 1984 and 1989 (Krugman, 1999).

The Schumpeterian adaptive efficiency, which looks at the impact of privatization on the economy's ability to stimulate growth and innovation, have received little attention. There is ample anecdotal evidence, but the theoretical framework for tracing such impacts and assessing their magnitude only exists in rather rudimentary form. It has therefore provided only general guidance for empirical work, and for the formulation of privatization policies that seek to boost Schumpeterian efficiency.

Adaptive economic efficiency relates to the existence of institutions (beliefs, rules, procedures, standards, etc) and organization that provide the incentives and the capability to acquire and use knowledge in the performance of economic activity. The importance of this dimension of efficiency in the process of economic and social development is increasingly recognized. Reflecting on the lessons of the efforts to foster the economic transition in the countries of Eastern Europe and the former Soviet Union, the then head of the US Federal Reserve, Alan Greenspan highlighted the importance of these elements thus:

> *Much of what we took for granted in our free market system and assumed to be human nature was not nature at all, but culture. The dismantling of the central planning function in an economy does not, as some had supposed, automatically established a free market entrepreneurial system. There is a vast amount of capitalist culture and infrastructure underpinning market economies that has evolved over generations: laws, conventions, behaviours, and a wide variety of business professions and practices that has no important functions in a central planned economy.*

Mancur Olson's (1996) study of the difference in per capita incomes across countries concluded that institutions matter most (although he does not refer to the concept of adaptive economic efficiency per se):

> *… neither differences in endowment of any of the three classical aggregate factors of production nor differential access to technology explain much of the great variation in per capita incomes,… much the most important explanation of the differences in incomes across countries is the differences I their economic policies and institutions.*

Privatization, a method of reallocating assets and functions from the public sector to the private sector, appears to be a factor that could play a serious role in the quest for growth. In recent history, privatization has been adopted by many different political systems and has spread to every region of the world. The process of privatization can be an effective way to bring about fundamental structural change by formalizing and establishing property rights, which directly create strong individual incentives. A free market economy largely depends on well-defined property rights in which people make individual decisions in their own interests. The importance of property rights is captured by economist Hernando de Soto (1996) as he states, “Modern market economies generate growth because widespread, formal property rights permit massive, low-cost exchange, thus fostering specialization and greater productivity”.

Along with creating strong incentives that induce productivity, privatization may improve efficiency, provide fiscal relief, encourage wider ownership, and increase the availability of credit for the private sector.

## 2. 2 The Legal and Institutional Framework of Privatization in Nigeria

A policy that affects all the citizens of a nation requires a constitutional backing to survive and succeed. A good legal framework on its part is necessary to protect consumers, workers and the environment. It can also foster competition and innovation while constraining the use of monopoly power.

In most national constitutions, amendments are not easily carried out. Consequently, where constitutional provisions limit the disposition of state assets, privatization of such assets usually encounter considerable obstacles such as the feeling that privatizing such assets to a disposition of the national patrimony. Overcoming such constitutional impediments would require tremendous political support to dominate the constitutional amendment process or obtaining a judicial consent through favourable interpretations.

Young (1987), points to Portugal, Mexico and Bolivia as examples of constitutional provisions, which could impede extensive privatization activities. Article 28, of the Mexican Constitution for instance, has specifically designated certain specific sectors of the economy, which are to be managed exclusively by the State. It vests the ownership of all minerals in the State and further provides that government shall not grant any contracts or concessions for the exploitation of petroleum, solid liquid or gaseous hydrocarbons and radioactive minerals.

The Mexican Constitution further provides that, " it is exclusively the function of the Nation to generate, conduct, transform, distribute and supply electric power which is to be used for public service"  and that no concession may be granted to private persons for that purpose.

Constitutionally, the legal framework for a sensitive programme like privatization must be in conformity with the basic laws of a country. The Nigerian constitution does not contain any provision that specifically refers to privatization (Oshio and Stewart, 2006).

However, the economic objectives outlined in Chapter II Section 16 of the Nigerian Constitution requires the state inter alia to: "Control the national economy in such a 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…

Subsection 2 (a) , (b) and (c) state  that the state shall direct policy towards ensuring:

(a) The promotion of planned and balance economic development;

(b) that the material resources of the nation are harnessed and distributed as best as possible to serve the common good;

(c) that the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in that hands of few individuals or of a group…" (Constitution of the Federal Republic of Nigeria, 1999).

Impliedly, Nigeria's main reason for turning to privatization was predicated on the imperative of abandoning a failed option than the need to take advantage of a better course (Duru, 2000). SOEs were typically characterized by ineffective operations, resulting in enormous deficits and in other areas near collapse of essential public services, centralized organizational structures, poor performance, corrupt practices, over staffing, poor financial performance, heavy reliance on government subsidies, unilateral budget transfer (Asiedu-Akrofi, 2000).

Government policy on privatization in Nigeria was concretized in the Structural Adjustment Programme (SAP) embarked upon in July 1986 during the administration of General Ibrahim Badamasi Babangida (Jerome, 1996). A major objective of SAP was to pursue deregulation and privatization leading to removal of subsidies, reduction in wage bills and the retrenchment of the public sector, ostensibly to downsize the state. To actualize this, the Federal Government of Nigeria in 1987, set up the Technical Committee on Privatization and Commercialization (TCPC), which was backed by Decree No. 25 of 1988.

The privatization and commercialization Decree of 1988 set up the Technical Committee on Privatization and Commercialization (TCPC) had Dr. Hamza Zayaad as Chairman. The full functions of the TCPC were to:

i. Advise on the capital restructuring needs of enterprises to be privatized or commercialized under Decree No. 25 of 1988 in order to ensure a good reception in the Stock Exchange Market for those to be privatized, as well as to facilitate good management and independent access to the capital market;

ii. Carry out all activities required for the successful public issue if shares of the enterprises to be privatized including the appointment if issuing houses, stockbrokers, solicitors, trustees, accountants and other experts to the issues;

iii. Approach, through the appointed issuing houses, the Securities and Exchange Commission for a fair price for each issue;

iv. Advise the Federal Military Government, after consultation with the Securities and Exchange Commission and the Nigerian Stock Exchange, on the allotment pattern for the sale if the shares of the enterprises concerned in accordance with Section 7 of the Decree;

v. Oversee the actual sale if shares of the enterprises concerned by the issuing houses in accordance with the guidelines approved by the Federal Military Government;

vi. Submit to the Federal Government from time to time, for the purpose of approval, proposals on sale of government shares in such designated enterprises, with a view to ensuring a fair price and even spread in the ownership of thee shares;

vii. Ensure the success of the privatization and commercialization exercise taking into account the need for balanced and meaningful participation by Nigerians and foreign interests in accordance with the relevant laws of Nigeria;

viii. Ensure the updating of the accounts of all commercialized enterprises with a view to assuring financial discipline;

ix. Perform such other functions as many be assigned to it from time to time, by the President, Commander-in-Chief of the Armed Forces;

x. Advise the mode of disposal of an enterprise viewed by the Technical Committee as being unsuitable for disposal by the public issue of shares;

xi. Seek and obtain the prior approval of the Federal Military Government for the price of any share issue in respect of any designated enterprises and pattern of its allotment.

The Hamza Zayyad led Committee was mandated to privatize three public enterprises and commercialize 34 others in 1993. The TCPC concluded its assignment and submitted a final report for privatizing 88 pout of the three enterprises listed in the Decree. Based on the recommendations of the TCPC, the Federal Military Government promulgated the Bureau of Public Enterprises Act of 1993, which repealed the 1988 Act and set up the Bureau of Public Enterprises (BPE) to implement the privatization programme in Nigeria.

The Government of General Sani Abacha (1993 -1998) also showed enthusiasm about privatization. Gen. Abacha sought to address the problems of the public enterprises, not by privatizing them or even commercializing them as provided in the Act of 1993, but by seeking to apply the flawed approach of intensifying political and bureaucratic control over them. Towards this end, his government enacted the Public Enterprises Regulatory Commission (PERC) Act of 1996, a law that curiously remains in the statute books without being implemented.

Under the successive governments of Generals Abdullahi Abdusalam Abubakar (19898 – 1999) and Olusegu Obasanjo (1999 – 2008) privatization was favoured. It was in 1999, the Federal government enacted the public enterprises (Privatization and Commercialization) Act which created the National Council on privatization under the chairmanship of the Vice President Alhaji Atiku Abubakar. The Bureau had the following functions:

i. To make policies of privatization and commercialization;

ii. To determine the modalities of privatization and advising the government accordingly;

iii. To determine the timing of privatization for particular enterprises;

iv. To approve the prices for shares and appointment of privatization advisers;

v. To ensure that commercialized enterprises are managed in accordance with sound commercial principles and prudent financial practices, and

vi. To interface with public enterprise, together with the supervising ministries, in order to ensure effective monitoring and safeguard of the managerial autonomy of the public enterprises.

The Act also established the Bureau of public enterprises as the secretariat of the national council on privatization. The Bureau was to function as follows:

i. implementing of the council's policy on privatization and commercialization;

ii. preparing public enterprises approved by the council for privatization and commercialization;

iii. advising the Council on further public enterprises that may be privatized or commercialized;

iv. ensuring the update of accounts of all commercialized enterprises to be privatized;

v. making recommendations to the council in appointment of consultants, advisers, investment bankers, issuing house, stockbrokers, solicitors, trustees, and other professionals required for the purpose of either privatization and commercialization exercise through effective post transactional performance monitoring the evaluation, and

vi. Providing secretarial support to the Council.

The transition from public to private sector organization, usually requires institutional, regulatory and statutory changes. Such changes, though difficult, are necessary to insure that the transformation process proceeds expeditiously ad efficiently without dampening the interests of potential investors. Consequently, all the necessary steps must be taken to ensure that inordinate delays are avoided. This is necessary if investors are going to feel secure and maintain their confidence in the economy. In this connection, it may be desirable to plan the privatization of divestiture programme in such a manner as to ensure an orderly transition.

Privatization does not just requires laws that are static, therefore, legislation will be required continuously to assuage and assure the populace of continued protection from exploitation. It is indeed not just enough to replace public monopolies with private ones, or to allow things to go haywire through the activities of unscrupulous private hands.

Thus, the point that private sector-led economy is desirable under the right set of circumstances is unassailable (Duru, 2000). Duru laments that in the developing countries like Nigeria, “the right set of circumstances hardly exist.” Hence the legislature and other privatization authorities are under duty to put firmly in place proper ground rules, legal and regulatory frame work that would hel check deviant exploitations of the systems. The onerous task facing the legislature may be found in the following roles among others required of them as identified by Duru (2000):

i. The review of existing body of legislation
ii. The making of new laws where necessary
iii. Taking active part in the fashioning of the regulation for the sectors and for the entire system;
iv. Discharging of its oversight functions with regard to the implementation and regulatory agencies;
v. Helping to create the conducive, enabling environment for peace and the rule of law;
vi. Ensuring the proper management of the privatization proceeds through the budget process;
vii. Helping to relate to Nigerians [through the constituencies] for effective participation in the privatization process;
viii. Helping to enlist the support of interest groups like labour.

***The Review of Existing Legislation***

The national assembly has already repealed and replaced the Public Enterprise (Privatization and Commercialization) Decree to Act to take care of many deficiencies and inadequacies of the existing enactment.

Under a democracy, legislations like this go through the necessary processes, and delays associated with these may be unbearably long.  Laws must be made and guided by the spirit of the constitution.

***Laws on Foreign Capital Investment***

Laws known to hamper foreign capital inflow and investment have to be repealed. In addition, the House Committee on Privatization had to review the proposed amendments to the Nigerian to Investment Promotion Commission Decree, 1995 as amended in 1998. The goal of the exercise was to sufficiently strengthen the Nigerian Investment Promotion Council to be able to serve as a one-stop clearinghouse for foreign capital inflow and investment regulations.

***New Enactment***

Anti-trust are necessary for speedy implementation of privatization policy pending a better developed regulatory framework. The national assembly requires from time to time to make comparative studies of developed systems before appropriate antitrust bills to address the challenges. There is also the need to extensively understudy the laws under which Nigeria's monopolistic utilities were operating. In the same direction, there is the need to have firsthand appreciation of the laws (existing or proposed)  setting up the regulatory commissions, and also take proper legislative cognizance of other guidelines and regulatory policies drawn up by the privatization implementation authorities in Nigeria.

Anti-trust laws spell out issues and scenarios characterized of typical market economies such as:

i. **Agreement among Enterprises:** in this case, a distinction is usually made between horizontal agreements in which companies on the same level in the production chain are involved [manufacturers of the same type of products, for example]; and vertical agreements in which enterprises at different levels in the production chain are involved, such as that between a manufacturer and its distributor. Obviously, horizontal agreements should attract more legal attention in post-privatization systems. The principal consideration is a determination of the degree of restraint of trade and competition or the extent to which such an agreement is unreasonably harmful to customers.

A wholesome approach to anti-competition problems as practiced under the U.S. Sherman Act is to assume and declare al horizontal agreements as per se illegal. Enforcement should focus on the need to prevent cartel [horizontal] agreements whose interest is in the fixing of prices, regulation of quantity of commodities that will be made available, or the market areas that will be covered.

The major types of vertical agreements to be provided for are:

a. Tying-selling a product only 'on the condition that the purchaser will patronize a related product.

b. Exclusive supply – the purchase of a product only on the condition that the seller will not supply one's competitors.

c. Exclusive distribution – dealing with a distributor on the condition that he will not deal with the manufacturer of competing products and

d. Territorial restrictions – bargaining to keep a dealer restricted only to certain areas.

*ii.* **Abuse of a Dominant Position:** this type of anti competition situation is also called monopoly.

Monopolistic conditions are easier to determine because of the prominent positions of the firms and the far-reaching effects of their activities. Under the proposed antitrust law, three basic issues are to be addressed:

a. The law to control and influence prices charge by dominant firms.

b. The law to make it illegal to harm or take advantage of a competitor, and

c. Exclusionary behavior by incumbent firms will be monitored, regulated and / or punished.

It is important to note that illegal control of firms that will emerge as monopolies in a post-privatized Nigeria through a well articulated antitrust legislation represents the most crucial plank in the successful privatization of the utilities.

**iii. Combinations:** combinations or mergers constitute another area of interest in antitrust regulations. Adequate provisions are necessary for taking care of business combinations whose activities may pose anti-competition problems. The major task here is to lay down the procedure to be followed before combinations are allowed. This includes, the requirement for a prior notification of intention of enterprise combinations. The provisions of Companies Allied Matters Act (CAMA) regarding mergers or acquisitions should be adequate for regulating procedures.

Overall, the anti-trust enactment is to focus on natural monopolies and the protection of Nigerian consumers from hurt.

iv. **Frameworks for Relations:** the members of the legislators ought to be familiar with the other legislation and regulations necessary for general and sector-specific regulation of privatization. The outstanding sectors in question include the power sector, and the telecommunications sector.

A framework of regulation is also necessary for other sectors like aviation, transport, the rest of the energy sector especially oil and gas, the ports, water and other utilities. The thrust would consists in working from existing laws in a specific sector, reviewing them, and then developing workable regulatory designs, which necessarily includes but not limited to a framework that will support a Regulatory Agency for each or for the system, depending on which is preferred.

v. **Regulation of Utilities**

Nigeria necessarily has much to learn from regulation of utilities through developed countries like the U.S. and U.K., which have a longer history of privatization.

A topical issue in the regulation of utilities is the level of independence that can be allowed the agencies. Controversy on the matter is similar to the situation with other regulatory authorities like Central Banks, Securities Exchange

Commissions, etc. Generally, Governments of newly privatized utilities are reluctant to surrender authority to independent regulators.

Independence of regulators would entail:

i. That Agency and its structures are distanced from regulated firms, consumers, and others.

ii. That Government and political authorities are divestment of control over the regulator, and

iii. That the regulator is endowed with institutional autonomy deriving mainly form mandatory budgetary allocations or some other independent sources.

Like all other regulatory challenges, the major aims of utility regulation are to support investment by protecting investors from arbitrary action by Government, to promote efficiency, and above all, to protect consumers from possible abuse by firms with market advantages like monopoly power.

Often the resistance vested interest especially ministries and government officials may be too overwhelming to allow the independence of regulators to thrive. Solution to this problem is achieved through legal provisions by the legislature. The provisions include:

i. Distinct, legally backed mandate for the regulator

ii. Prescription of professional criteria for appointment of regulators.

iii. Deep involvement off the legislature in the appointment process and

iv. The complete exemption of the regulatory agency from the bureaucratic system complemented with reliable, independent source of funding.

Independence of the regulator is necessarily checked and backed with requirements for accountability. The legislature's rolelies not only in providing the legal instrument for regulators, but also in constantly subjecting their decisions, actions, budgets, and general conduct to examination through normal legislative oversight. Beyond this, it is equally important that controls are effected through:

i. The appointment and removal from office procedure

ii. Prohibition of conflict of interest situations

iii. Provision for appeal against Agency's decisions.

The Legislature is usually the watcher over the watchdog.

### 4. *Oversight Functions*

The oversight functions of the Legislature in Nigeria derive principally from the provisions of the constitution of the Federal Republic of Nigeria, 1999. Ignorance and lack of understanding of understanding of these functions do not detract from the fact. It only goes to show how far away we have gravitated from proper democratic culture and the appreciation of indispensable democratic principles in the system. The understandable deficiency is traceable to the fact of our having been steeped for too long into decrees, fiats, and other military mannerism to the extent that a good number have forgotten that democracy entails submission to constitutional dictates and deference to the principles of separation of powers.

First the constitution of the Federal Republic of Nigeria under section 62 [1] empowers both Houses of the National Assembly to constitute committees "… of its members for such special or general purpose … and may by resolution, regulation, or otherwise, as it thinks fit, delegate any functions exercisable by it to any such committee." Since it would be manifestly cumbersome for the National Assembly to perform all of its functions as one body or as a House, the use of committees for these functions becomes easily understandable.

The power to perform oversight functions itself is sufficiently backed up, among other ancillary provisions, by section 88[1] b, which confers on both Houses the authority to "… direct or cause to be directed an investigation into the conduct of affairs of any person, authority, Ministry or Government department" who/which have responsibility for administering or executing law enacted by the National Assembly and / or disbursing funds appropriated.

Further down under section 88 [2] b, it is additionally provided that these powers are exercisable, among other reasons, for the purpose of helping the law making body to "expose corruption, inefficiency, or waste in the execution or administration of laws within its legislative competence and in the disbursement of funds appropriated by it." Section 89 followed closely went even further to detail procedures and processes for these investigations and how evidence can be obtained in connection therewith.

Chapter V, Part I [E] of the 1999 constitution of the Federal Republic of Nigeria covering sections 80 to 89 thereof made comprehensive provisions on the powers of the national Assembly in respect of control over public funds. Section 80 unambiguously requires all revenues accruing to the Government of the Federation to be paid into the Consolidated Revenue Fund of the Federation. The appropriation of this and other revenues of the Federation is reserved for the National Assembly.

Thus, it is unconstitutional to apply any part of the privatization proceeds without appropriation through the budget process. The control of the application of privatization proceeds through appropriation of the National Assembly is certainly a veritable tool in the exercise of its constitutional oversight functions; by this tool, the Legislature can impact on privatization programme.

### 5. *Enabling Environment for Privatization*

An environment considered as ‘enabling’ where conditions, which promote and foster economic, social, political and other activities necessary for development exist. Such conditions include the laws operative in the environment and the degree of their acceptability, reliability, and predictability. In other words, an average citizen, or in this case, an average investor, should reasonably be able to accept, rely and predict his chances with such set or body of laws.

The body or laws, together with all the regulations, business norms, conventions, mores and ethos combine to make a particular socio-economic setting attractive or otherwise. An unattractive environment will definitely repel and scare investors and is bound to induce capital flight and/or divestment.

While the Legislature can positively contribute to fostering an attractive, or enabling environment by influencing some of the factors under its control, and competence, some other factors are either completely outside its influence or may not be amenable to legislative control. The Legislature can contribute to such factors like consistency of government policies, consistency of political direction, reduction in the quantum of corruption and other vices, safety and security of life and property, market liberalization etc. by making laws, reviewing existing ones, or through passage of motions or resolutions, and the like.

However, there is little the Legislature can do beyond law making and direction setting. Market determined factors like interest rates, and normal business risks cannot be legislated upon in a free market system. Indeed, legislation may prove to be completely ineffective even with those earlier identified factors like corruption and government policies where there are overwhelming debilitating factors such as powerful entrenched interests and distortions.

In the Nigerian privatization endeavour, it is the duty of the Legislature to ensure that property rights are legally protected, that a good framework of business law is in place, and that dispute resolution and labour management legislation and policies are also in place. Ditto for anti competition, banking, foreign exchange, taxation, securities exchange, accounting, and environmental protection laws.

Above all these, the law-making framework should contribute to a reasonable guarantee of respect for the rule of law by all parties including and especially Government and its officials. This is particularly necessary because in the end, the test of a beautiful law lies in its ability to guarantee fairness to all comers and command respect for due process.

### 6. *Constituency Outreach and Labour Relations*

Legislators as are also expected to reach out to their people as their representatives. Also, organized labour is usually more at home with parliament and its members than with the executive arm of Government. These significant factors confer a lot of advantage on the legislature in matters concerning pushing through the privatization process to the people.

On the side of the House of Representatives, for instance, each of the 360 members is representing a certain Federal Constituency. All Representatives are desirous of being in touch and in good terms with his or her constituents. The use of this channel by the implementing agency in the marketing and distribution of share application forms is therefore well advised. The only difficulty, and this is rather crucial, is that there is no complementary funding from the Agency for the effective discharge of this onerous assignment. It cannot be that the forms would have been transported and distributed otherwise at no cost to the issuing Houses.

One of the most explosive issues in privatization is the social cost of labour Worker's vulnerability and fears are usually heightened initially when:

i. Poorly performing public enterprises are being prepared for privatization;

ii. Newly private seed entities are exposed to greater competition through change of ownership and withdrawal of subsidies.

Government as a stakeholder should be interested in the plight of workers in such cases by:

i. Adequately informing and involving workers in the reform process;

ii. Ensuring that workers share in gains of privatization through share ownership;

iii. Making sure that laid-off employees are compensated with requite terminal benefits;

iv. Eliminating obstacles to private jobs.

The role of the legislature in labour matters lies mainly in being supportive of the executive Government when the policy direction is right and pro-people and distancing itself when it is not. Some of the issues are already covered in the body of laws guiding privatization.

Proper education and enhanced information flow and communication between Government and labour will no doubt contribute to smoothing the path for labour involvement in the privatization exercise. In some cases, the authorities do not properly account for the terminal benefits of workers in the form of pensions and the like. The National Assembly gives priority to petitions on some of these labour issues in order to clearly assure workers and organized labour of the commitment of the Legislature to transparency and adequate representation. The use of public hearings offers every interested party the opportunity to state their positions publicly. Such open channels of expressing people's feelings are welcomed development for labour.

On the role of the judiciary in the privatization process, Uwais (2000) who simply see privatization as the opposite of nationalization points to the major objective of either nationalization or privatization as that of "economic development and social and economic justice." Given the justice required, Uwais argues that "a lawyer should steer clear of value judgment and it is not the lawyer's role to determine which of the two is more beneficial or effective than the other, and which one better suits the demand of social justice or even economic justice.

The primary role of the judiciary is therefore that of adjudication, which implies dispute. Thus it is when there is a litigated dispute that the judiciary has a role to perform within the confines of the law. Although, the judiciary has a greater role than merely applying established rules of law to litigated disputes. The adjudicatory role of the judiciary involves very often the interpretation of statues and protecting the values enshrined in the Constitution – the guardian of which is the Judiciary.

One crucial and important role of the Judiciary in the privatization programme is to ensure that the programme has credibility. Consistency and reliability of government policy is essential to the credibility of any economic programme. Credibility of the programme is impaired, if policy statement is at variance with implementation or if powers vested in agencies charged with implementation of the programmes, is abused or unreasonably used. In the same vein, credibility of the programme is impaired if provisions of the enabling Act are obscure and are left without interpretation.

The most significant role of the Judiciary in the privatization programme is in the readiness and preparedness of the judiciary to provide effective protection of the law to investors, speedily and efficiently. Any suspicion that the judicial system will be incapable or unwilling to give such protection is fatal to any privatization programme, particularly, where the enterprise concerned demands huge injections of investments.

Of course, any privatization programme not found on the rule of law is bound to fail even before it takes off. The Judiciary ensures that the rule of law prevails. Indeed, the 1999 Constitution of Nigeria ensures that the rule of law prevails. The Constitution vests judicial powers in an independent Judiciary. Such powers, among other things, extend to:

"all matters between persons, or between government or authority and to any person in Nigeria, and to all action and proceedings relating thereto, for the determination of any question as to the civil rights and obligations of that person (Section 6(6)(b).

The Constitution guarantees in section 36, a fair hearing by a court, within a reasonable time, in the determination of the civil rights and obligations including any question or determination or against any government or authority. These provisions form one of the principal pillars on which the rule of law rests in Nigeria.

Another aspect of the Constition which influences the attitude of the courts are the provisions under Chapter II on Fundamental Objectives and Directives Principles of State Policy. Section 16 thereof, which deals with economic objectives, provides that the state shall control the national economy in such a manner as to secure the maximum welfare, freedom and happiness of every citizen on the bsis of social justice and equality of status and opportunity.

## 2.3 Economic Justification for Privatization in Nigeria

In Nigeria, there had been a cumulative dismal performance of SOEs which resulted in a “crisis of confidence”. This was due to various problems which can be attributed to internal and external factors. The internal factors relate to inadequate and inappropriate investment decisions, adverse business environment characterized by weak capital base and control mechanism, poor system of accountability and the absence of any remarkable reward system. The external factors relate to unfavorable export/import prices, restricted access to external markets and funds; high rates of interest on foreign loans, etc.

Given the prevailing socio-economic and political conditions of the Nigerian economy, the justification for institutional reform of the SOEs derives from three main concerns which are macroeconomic in nature:

a. The first, centers on the need for the restoration of fiscal balance in the highly indebted Nigerian economy in the light of excessive budget deficits, (which SOEs have been a major cause, through excessive loans) and their inflationary impact.

b. The second relates to the need to improve efficiency in the public sector, especially the SOEs' sub-sector.

c. The third factor, which is international in dimension, centers on the need to reduce the size of government involvement in economic activities in order to free some resources which could be deployed to alleviate international debt burden.

The reform of SOEs in Nigeria has, thus, focused on such critical aspects as financial and physical restructuring via divestiture with a market-oriented approach under the Structural Adjustment Programme (SAP) adopted in 1986.

Privatization may not be an enduring solution to the inefficient performance of government parastatals. Other public sector reforms are advocated to achieve the political and economic objectives of government (Nair and Filippines, 1988).

As some governments ran into severe fiscal problems such that loans became increasingly difficult to raise at home and abroad, they were forced to consider some radical methods for reviving the SOEs. Such reforms embarked upon by developing countries included privatization.

Kikeri et a1 (1 994) noted that the high costs and poor performance of SOEs and the modest and fleeting results of reform efforts have turned many government towards privalization. Other reasons include the collapse of communism in Eastern Europe and the Soviet Union, and some successes of privatisation undertaken earlier in countries such as the United Kingdom. Fiscal crises have also led some governments to privatize as a way of raising revenues and stemming losses, especially in the face of increasing public debt. Also, many governments are believed to have opted for privatization because of their inability to finance investment in their SOEs than expectations of efficiency gains.

However, the objectives of governments for embarking on privatisation vary from country to country. They include the expansion of the role of the private sector to improve mobilization of savings for new investments, modernizing the economy through increased private investment, new technology and efficient management to stimulate growth. Others are to facilitate the development of the competitive environment, provide greater employment opportunities over time and reduce the cost of goods and services to consumers. The need to improve government's cash flow, enhance the efficiency of the SOEs, promote 'popular capitalism' and curb the power of labour unions in the public sector, redistribute incomes and rents within society and satisfy foreign donors who would like to see the government's role in the economy reduced are generally fingered as rationale for privatisation.

The expansion of state-owned enterprises (SOEs) in both developed and developing nations in the 1960s and 1970s was predicated on the assumption that these SOEs would provide opportunities for optimal and efficient resource allocation for national development. They were also expected to make greater contributions to national output, investment and employment. In this regard, many developing countries relied on SOEs than industrial economies did in the hope of substituting for a weak or non-existent private sector.

In developing countries, large public resources were deployed to the creation and development of SOEs, especially in the 1970s. This contributed to the accelerated growth of the SOEs in number, size and complexity. For instance, increased establishment of SOEs in Nigeria at the time was based mainly on the reasons that they were going to be leading edge of modernisation, generate resources for further investment, constitute the commanding heights of the economy, guarantee control away from foreign interests and lead the country towards self-sufficiency in the production of essential goods and services. Policy makers also believed that would increase employment.

The promulgation of Privatisation and Commercialisation Decree No. 25 of 1988 gave legal backing to SOEs reform measures proposed in the Structural Adjustment Programme (SAP) document (Federal Republic of Nigeria, 1986, 1988). According to the Decree, the policy is aimed at the following objectives:

(i) restructuring and rationalisation of the SOEs to lessen the dominance of unproductive investments in the sector;

(ii) re-orientation of SOEs towards a new horizon of performance, improvements, viability and overall efficiency;

(iii) ensuring positive returns on public sector investments in SOEs,

(iv) checking of the absolute dependence on the Treasury for funding SOEs and encouraging them to patronize the capital market; and

(v) initiation of the process of gradual cession to the private sector of such SOEs, which by their nature and type of operations, are best performed by the private sector.

The Decree also provided for the establishment of a Technical Committee on Privatization/Commercialization (TCPC) to oversee the implementation of the programme. Towards these ends, the TCPC, now Bureau for Public Enterprises (BPEs) classified the existing SOEs for partial/full commercialization, and partial/full privatisation on the basis of their respective commercial orientation. Within this classification, commercialization is defined as "the reorganisation of enterprises wholly/partially owned by government in which such enterprises shall operate as profit-making ventures and without subvention from government".

Under this definition, enterprises designated as fully commercialized ventures would be expected to operate profitably on commercial basis, adopt private sector procedures and be able to raise funds from the capital market without government guarantee. Partially commercialized SOEs were expected to generate enough revenue to cover operating expenses, with government providing capital grants for the financing of their capital intensive projects. Privatization is conceptualized as the "the transfer of government owned share holding in designated enterprises to private shareholders, comprising individuals and corporate bodies" in addition to management control.

It is therefore apparent from these operational concepts that privatisation of SOEs is deemed to imply their commercialization while a different consideration is given to ownership structure. In the process of programme implementation, out of the 600 SOEs identified at the Federal level by the TCPC, 133 of them were earmarked for reform. Of this number, 111 enterprises were classified for privatisation and the rest for commercialization.

The objectives of governments for embarking on privatization were noted to include the expansion of the role of the private sector in order to improve savings mobilization for new investments and facilitate the development of the competitive environment.

Others include redefining the role of Government in order to allow it concentrate on the essential task of governing; reduction of the fiscal burden of loss making SOEs and spreading and democratizing share ownership for enhanced productivity and accountability. The justification for institutional reform of the SOEs in Nigeria was examined. This was based largely on the cumulative dismal performance of these enterprises.

A major motive of the Nigerian Federal government in privatizing SOEs appears to be the desire to improve government’s cash flow as well as satisfy foreign donors who would favour a reduction in government’s role in the economy. The major issues which influence the mode of privatization and benefits derivable from the various options were also discussed.

Moreover, conditions that would facilitate successful privatization were highlighted. Among others, it was opined that Government should focus more on the critical motives and benefits of privatization, which include redistributing incomes and enhancing the efficiency of the SOEs through effective handling of the privatization initiative. For example, government should exhibit deep commitment to market liberalisation upon which successful privatisation depends. It should also resolve the common conflict between quick and extensive privatisation and the desire to maxirnise proceeds from privatisation.

Furthermore, the necessity for hard budgets which would ensure that state subsidies and policy loans are eliminated, are noted. Similarly, the need for SOE monopoly prices to be regulated with a clear pricing formula that would keep pressure on management to improve efficiency were also discussed.

In a similar manner, the objectives, operational conceptualization and scope of the privatization commercialization programme should be reexamined in order to correct some drawbacks due to omissions in the process of policy implementation.

In the course of privatizing the affected enterprises in Nigeria, the TCPC evolved five methods.

**i.** ***Public offer of shares through the Nigerian stock Exchange (NSE).*** To qualify for listing on the NSE, an enterprise must have a good record of profitability for *5* years and history of dividend payment of not less than *5* per cent for at least 3 years;

**ii.** ***Private Placement of Shares***, principally to institutional investors, core groups with demonstrated management and/or technical skills. This was done in enterprises where government holding was small, and the majority shareholders could not be persuaded to make public offer of shares, even when the conditions for listing were fulfilled; it was also used where the full potentials of the enterprises were yet to be realised and there is need for it to be nurtured for a few years. A total of seven enterprises were privatised through this method.

**iii.** ***Sale of Assets***: Where the above two methods could be applied because of poor track records, liquidation of assets was done via sale of assets on piecemeal basis to public through public tender. A total of twenty-six enterprises were privatized this way. Many small and micro enterprises owned by River Basin Authorities were affected.

**iv.** ***Management Buy Out (MBO)*****:** where the entire enterprise or a substantial **part** was sold to workers who would organize and manage it in their own way.

**v.** ***Deferred Public Offer***: This method was applied where less revenue would be generated than the real value of the enterprises. Thus, a willing buyer seller price was negotiated based on the re-evaluation of the enterprises' assets. The number of enterprises which have been privatized through these method are

The privatization of SOEs in Nigeria had recorded some initial achievements. Some of the achievements include:

a. ***Reduction in the size of the SOEs***. At the early stages of privatization, 88 enterprises were privatized and about 27 others were commercialized successfully. This development raised the level of fiscal receipts and relieved the Treasury of undue pressure;

b. **The Rise in capitalization of the capital market** from N12.0 billion in 1989 to N22.6 billion and N65.5 billion in 1991 and 1994, respectively. The exercise also expanded the frontiers of the Nigerian capital market in terms of resource mobilization and allocation; and

c. **Expansion of Personal Share Ownership**: Privatization has massively expanded personal share ownership in the country. About 1.5 billion equity shareholders, forming two major share holders' associations in the country have "revolutionized" the entire system.

These relative success notwithstanding, the programme implementation faced some problems. These include regional imbalances in shareholder distribution and bottlenecks in the system especially in processing application resulting in frustration for most of the applicants.

Other problems were, inadequate access to credit which tended to dampen enthusiasm especially amongst the poorly paid working class, excessive intervention by institutional investors with the aim of broadening their portfolio as well as antagonism by labour on the ground of retrenchment and others with opposing ideological perceptions.

Various efforts were made to resolve these problems including improved access to finance through Central Bank of Nigeria's advise to banks to provide credit to prospective shareholders.

i) 'the implementation of the requirements of **the** 1990 Company Allied Matters Decree under which commercialised SOEs would be incorporated for competition with others in the same business.

(ii) the need to operate optimal tariffs on the basis of marginal cost (MC) pricing rather than sub-regional tariff comparison. This is to preclude cost-push inflation which could arise as a result of arbitrary fixing of prices of goods and services.

(iii) the need to apply the performance contract system for evaluation purpose in the spirit of the Decree. The performance of **SOEs** that were reorganised for eventual privatisation should be monitored to ensure they live up to expectation. Finally, foreign investors should also be further encouraged by government, although local investors are expected to take advantage of the bulk of the investment opportunities made available by the privatisation programme. Foreign participation should be considered where expertise is needed to upgrade efficiency and such expertise is not available locally. Foreign participation could open up the export market and provide global linkages and international exposure for privatized businesses.

However, for projects of strategic and national importance, foreign ownership should be limited and widespread to ensure that no one foreign party would have undue influence on the enterprise. Foreign participation could take the form of equity financing, debt financing and management expertise.

Privatization of some key government agencies considered as strategic to the Nigeria economy. The privatization exercise has been criticized especially as it involves some paramount that are seen as strategic core values to the nation's economy. The irony of the Nigerian privatization exercise is that even those parastatals that were viable and were making huge profits were still being privatized. Ordinarily, the usable ones are the ones that ought have been privatized these agencies are: the Nigeria Ports Authority (NPA), the Nigerian National petroleum Corporation (NNPC) and the Nigeria Printing and Printing company (NPMC).

The Nigerian Ports Authority (NPA) for instance was established in 1954 to maintain the ports as well as load and discharge cargo. The NPA commenced operation on 1st April, 1955. The need for reconstruction after the civil war and the resultant port congestion of the 70s led to massive port development in the country. It led to the contraction of modern port facilities in Lagos Calabar, Warri, Port Harcourt and Sapele. At the completion of the development programme, the NPA modernized its ports and increased the capacity to 25 million tons of cargo per annum.

The NPA controls 8 major ports excluding oil terminals with a cargo handling capacity of 35 million tones per annum. The berthing facilities at the port include 93 cargo berths, 5

Roro berths  7 bulk solid berths, 11 bulk liquid cargo berths, 63 busy berths in addition to a large number of privately owned jetties under its management. Cargo storage facilities are composed of 63 transit shields, 22 back sheds. 4 Arlon sheds and 40 ware house all with a total storage area of over 460,459 square meters. Also available at the port is a fleet of 54 operational harbour craft as well as over 610 different types of cargo handling plants and equipment. The plants and equipment are updated from time to time in line with international standards and maritime development.

Transportation plays a crucial facilitating role to economic development and poverty alleviation due to past neglect, there has been a substantial backlog of structural reforms in the transport sector. For that reasons the focus of government  is aimed at improved  asset management and structural reforms which would redefine the roles of government over private sector vis-à-vis transport sector. Nigerian ports Authority vested with the ownership and development of port and their facilities, is among those enterprises in the transport sector stated for reform and privatization of its services.

Change in the farm of reforms has always been  constant factor in the life of nations. Privatization as a tool for reform has been a force for economic change in the world over for over two decades now. Yet the question why privatization is still being asked. The following summarizes the reasons for the reform and privatization  of the Nigerian port authority.

1. The privatization of the NPA is in line with government policy to hand off direct investment in the provision of goods and services that are better provided by the

private sector. Government would then concentrate more on providing the enabling environment that is conducive for business law and order the provision of social amenities for the citizens.

2. The need to modernize and develop the ports in line with the current trend in the world. The bulk handling equipment and information technology involves huge investment outlay. However, government has been unable and unwilling to provide funds for such investment.
3. Post development has collateral consequences and effects on public interest in land use environmental impact and economic stimulation through their direct and indirect multiple effects on the entire nation. The privatization of the ports is to ensure that government concentrates on the planning and coordination of the development of ports in Nigeria.

Government direct involvement in the provision of services that are better provided by the private sector in the ports has crowed out the private sector along with their capital and entrepreneur ability from the ports. Government divestment would thus create room and attract the private sector who would invest in the modernization of the ports especially in areas of technology and management techniques and the provision of specialized services that add value to cargo, ship etc.

Government desire to develop ports in Nigeria into hubs for the west and central African sub-regions can only be achieved through a private sector driven public – private partnership in the development of the ports.

To reverse the negative trend of cargo diversion to less equipped neighboring ports through the down ward review of the port tariffs de – bureaucratization of the cleaning and forwarding process, computerization of the ports, improved security, improved services and abolition of cargo sharing.

Government policy for the reform of Nigerian ports falls within the overall privatization programme of the present government of the federal republic of Nigeria. The policy trust is aimed at the creation of the enabling environment that would lead to the development of Nigeria ports in line with the current globalization nature of ports services, which should be competitive, efficient, safe and could attract private capital for its development and the development of the ports into industrial sites through targeted development programme.

The government is focusing the development of Nigerian ports into hubs for the west and central African sub-region toward this end the policy trust is focused on the following:

i. Review the ports and maritime policy within the context of the national policy to provide the enabling environment for the development of the ports
ii. The improvement of the institutional structure of the Nigerian ports and the maritime sub-sector to assure the achievement of the light level of efficiency.
iii. Restructure the Nigerian port authority with a view to transferring it from a service port into a landless port model. The new NPA would own the port/and water, causeway and some basic infrastructure

iv. The creation of an enabling environment for public private partnership where NPA would lease out of concede port terminals and other ports services to the private sector who would operate them efficiency on a fee.

v. In the same high the creation of an enabling environment of industries within the port areas especially for experts.

Creating the environment that would guarantee the training and retraining of the maritime labour force in line with international trend to make them as specialist, able to face the new challenges in the industry.

In view of the importance of this the NCP/BPE is currently working out framework with a world Bank specialist on labour. To re-enforce the expected gains from the privatization programme and to inject new life into the management of NPA that would be responsible to market forces the government in-turn to invest 60% of its share holding in the new NPA. The Nigerian public would be allocated 20% and 40% reserved for a core investor.

Nigeria's reform programme for the ports have been well throughout and focused that would lead to the creation of an enabling environment for the development of a private sector discern ports that are vibrant and competitive. The strategies adopted are twofold .i.e settler reform/privatization of the port operations and administration of the ports.

As stated earlier due to post neglect the present administration decided to address the substandard backlog of structural defects through reforms along with the privatization of the transport sector. The national council on privatization NCP Bureau of Public Enterprises (BPE) through the transport sector reform implementation committee (TSRIC) is shouldered with the responsibility of carrying out the assignment.

Reform activities involved the following:

i. Review or formulation of policy to bring it in line with government's policy on privatized and deregulated economy.
ii. Design of a new legal/regulatory framework that would guarantee the attainment of policy objectives
iii. The restructuring of the transport sector enterprise in this case the Nigerian ports authority from a service port to a land port and to prepare them for the worldwide.
iv. The privatization of the ports would be carried out by the secretariat enterprises: Government privatization objectives is to be achieved through the divestment of 60% of its 100% current share holding in NPA as follows
v. Care investor who would be sourced through the world bank bidding process is allocated 40% share holding in the post privatized NPA. The core investor can concessions (who would manage the various ports and terminal on concession must possess the managerial capability to manage the posts in the emerging new trend of the globalization of port services, the financed muscle not only to pay for the share purchase but to invest in modernizing and developing the ports and the technical ability to key pace with the ever changing technology of port operation in order to remain competitive.
vi. The allocation of 20% to the Nigerian public to be diverted through the stock exchange. To achieve wide spread share ownership in the exercise the allotment would be based

on federal constituencies. This is to allow Nigerians participate in the programme and have their support for the exercise without jeopardizing the development of the ports.

vii. The retention of 40% shares of the post privatized NPA. This is to enable the government manage the transition as well a to shape and sharpen the new public.

viii. Private partnership for posts development in the country.

## 2.4 Prerequisites for Successful Privatization Initiatives

The benefits of privatization can be legion, though, there are records of unsuccessful attempts in some countries. This is because certain conditions precedential to its success are missing.

A major prerequisite for successful privatisation is a firm commitment by government to enact broad measures to liberalize markets and the economy. This is because privatisation works best if it is carried out in a competitive environment. The ensuing competition would improve products and service quality, and with free entry and exit, only the efficient firms will survive.

Also, the markets that surround SOEs on the output and input sides must be liberalised at the same time. That means deregulating banks so that the SOEs would have opportunity to compete for capital at the market. It also means freeing up labour so that SOEs compete for appropriate labour without sacrificing quality for political expediency.

However, reform fatigue owing to extensive debate, with little action, could adversely affect the privatization programme. Governments should strive to maximise proceeds from privatization by taking decisive actions on loss making SOEs, especially in the context of the globalizing world economy.

The lack of political will on the part of government and deference to special interest groups may delay the benefit of privatisation to the detriment of public interest. In addition, privatisation may lose its appeal if incentives and discounts are required to achieve successful privatization of SOEs, thus reducing the revenue derivable from the exercise. This situation could arise when SOEs are bunched for privatisation resulting in a glut of investment opportunities.

Privatization promises to free economic decisions from the direct control of political bureaucrats and administrative force. Privatizing public activities institutes private market transactions as business practices are the mechanism for organizing activities and so making use of resources.

Proponents argue that privatization enlarges freedom to make voluntary exchanges that are always self-rewarding privatization has been just feed us the disengagement or withdrawal of public enterprises from the state and their replacement by the freedom of voluntary mutually advantageous exchange of the market place.

David and Steel's analysis of conservative leaders statements in favour of privatization revealed the link between privatization and market freedom or choice. First freedom is increased because privatization present public enterprises with statutory monopoly power and monopoly market strength from competing unfairly and thereby limiting consumers freedom of choice (Heald and Steel 1982:337) second efficacy is enhanced because the private sector firms have to confront the discipline of capital and product market. Public sector firms are insulated from these forces and use or make use of political pressures instead that lead to inefficient allocation of resources.

The transfer of publicly owned business and assets to private sector has become the main element in population thinking about privatization. However, to liberalization or the creation of alternative providers or suppliers in the markets plane through the elimination of controls on individual action and the encouragement of new and more varied market entrants has been consistently pursued. Liberal critics of privatization the call for more deregulation, particularly the promoting product and services competition (Beesly 1992:15) yet these critical found to appreciate to the extent to which governments of different countries pursued liberalization and came to recognized the weakness of simply reducing barriers to entry. Instead, the governments actively provided incentives for entry into competitive markets. Thus in addition to properly ownership and regulation competition constitutes a descriptive means of individual influencing the way participants coordinate their action.

The aim of privatization is to replace political and bureaucratic modes of decision making with economic moves involving free choices based on calculation of rational self interest. Proponent of privation contends that mark processes harness the individual pursuit of self – interest in constructive way, yielding greater efficiency and productivity. Beesly and Little Child (1983) leading academic proponents of privatization argue that the underlying ideas is to improve industry performance by increasing the role of market forces. While some economist deem other factors like greater competition to be especially necessary more fundamental are the effects of a change in ownership. These occur, they argues, because privatization changes the motivation of managers and employees to the benefit of consumers.

Privately – owned firms are motivated by profit seeking and are responsive to consumer choices. In the model of power implicit in privatization strategies, property rights provided the foundations for individual choices, freedom and initiative. Private property the exclusive rights of control resources and assets makes a person accountable for his or her action linking action explicitly and directly cost and benefits or risks and reward. Private property provides the institutional mechanism producing efficiency and liberty. In the words of Veljanovski, (1987: 77-78), privatization involves the transfers and redefinition of a complex bundle of property rights which creates the whole new penalty reward system which will after the incentives in the firm and its ultimate performance. Similarly Lawson, (1992:206) records;

*The widespread ownership of private property is crucial to the survival of freedom and democracy. It gives the citizens a vital sense of identification with the society of which he is a part it gives in a stake in the future and indeed, equally important, in the present, it creates a society with an in built resistance to revolutionary change (Lawson 1992: 206). From this perspective, socialism fails because the collectivization of production diffuses responsibility and clouds the objectives of organization. Privatization also changes the relations of agency and clearly defines the criteria of choice. According to (Veljaniski 1987:82) by creating interaction of exchanges based on disciplines associated with property ownership, privatization is more productive than bureaucratic forms of power relations. In addition to giving control to individuals and making them responsible for its preservation, property rights facilitates individual choice and initiative properly right confer the means to take risk that can increase their wealth. Shareholders ability to trade ownership rights for example enables them to monitor and than control managements behaviour through their own commercial choices.*

According to Vejanoski (1987:87), the tradability of shares in the private corporation constrain management from acting against their shareholders wealth maximization goal. The mechanism that does this is the takeover especially the hostile takeover. Moreover, property right established the criteria of decision making namely optimizing profits. He also said if management pursue policies that do not maximize profits or if the run the company badly, share holders will begin to drunkest with the result that the share price will begin to fall. This provide a signal to the market which sets in train a self-correcting sequence of events.

In short, markets constitute an explicit, if indirect form of content or power. Freedom and choice manifest in voluntary mutually beneficial trade – offs control behaviour. Individual preference stimulated by property rights grounds choice, self interest motivates initiative and optimization determines preference fulfillment.

As Vejanovski, pointed out, the claim that private monopolies are more efficient than nationalized producers relies on these pressures in the capital market, with profit maximization being stronger than the explicit content mechanisms, which were applied to the nationalized industries. Privatization changes the way firms or organization are controlled as objectives shift from welfare to profit and its maximization information becomes better.

Proponents of privatization claims that increased competition maximizes consumers benefits by creating consumers sovereignty. The consumer with several alternative providers or products to chose from is free to make the exchange which is most advantageous.

According to John Moore the financial secretary at the treasury in the early 1980s and government minister responsible for coordinating the privatization programme. The primary objectives of the government's privatization programme is to reduce the power of the monopolist and encouraged competition. Lilley (1983) argued that the desire of looking after one self and one's family is a characteristic of human nature. At least under competitive private ownership the self interest of employees and managers is harnessed to the satisfaction of customers and the efficient use of resources. According to Moons (1983: 9-13) private sector firms facing competitions are compelled to be responsive to consumers.

The benefits of private commercial transactions stimulate economic growth. By replacing the administrative control of conduct with the real market transactions. Manager become free to manage and to follow opportunities when they emerge (Bruce- Gardyne, 1984:84). In addition employees and managers as in the case of the national freight corporation among others, benefit by taking up ownership in the firm they work for a situation that increases their performance. Financial remunerations is then lined to economic success. Pay bargaining is compelled to responds to the balance book, and job satisfaction and morale can be raised. Privatization compels adoption to technological market development that creates real job and provides entrepreneurial efforts with the opportunity to succeed.

The government also attempted to broaden share ownership to foster a peoples capital market and to change relations between employee and employers in order to obtained wider support for market decision – making. It is believed that privatization would end traditional class conflict between working and management in newly privatized firms and to create a synergy based on more propel to play by the rates and norms of property ownership. Only 7 percent of adults in the United Kingdom own shares, compared to 20 percent in the US and the proportion of UK company shares owned directly by individuals fen from 27 percent in 1975 to 28 percent in 1981. Having created a new array of capitalist with the British telecom sale in 1984, Moore (1984) believes that new attitudes are being formed. He writers 'when employees commit their capital as well as their labour to the company for which they work, it becomes apparent that they and the management have a common interest in the success of the company (Moor, 1984)

According to Thatcher, the government's aim is to harmonies class relations through spreading wealth and ownership via public sale of assets and employee share scheme. Politically privatization proponents justified its benefits in terms of freedom, competition and efficiency. In providing privsatization one observed claimed that, it is a means of changing expectation about the nature of government and the nature of politics (Letwin, 1992: 107).

Liberal advocates picture it, as freedom from oppressive direct power, replacing direct state power with market modes of decision – making. Proponents viewed privatization as freedom from direct state intervention and the institutions of more individual choice and autonomy, privatization become the means for implementing the monetarist goal of introducing restraints on collectivist politics.

By disaggregating or dispatching the power of privilege pressure groups and making them more responsive to market conditions and process market relations were to stimulate and expand economic activity. The effect would be to reduce direct political responsibilities and public accountability as well as improve the governments public finances.

Privatization encompasses the many ways in which the private sector assumes functions that were previously carried out by the government. Privatization also fosters competition and thereby results in efficiency and effectiveness within sectors. Competition is very important to obtain more efficient and effective public services (Aktan, n.d).

In 1980s the governments and citizens recognized the drawbacks of government control of enterprises. Government control restrained competition, which resulted in lower quality of goods and reduced innovation. Citizens were deprived of lower prices and of choice. The international competitiveness of state-controlled enterprises was suffering, which often resulted in the need for growing government subsidies. In addition, rather than focusing on the business aspects, many governments-controlled corporations had become grazing grounds for political appointees or vote winners through job allocations. As a result, many government-owned enterprises excelled in losing money and governments are increasingly recognizing that it is possible to reduce the cost of governing by changing their role and involvement in the economy (Nalingigwa, n.d).

Therefore, according to Charles W. Howe Professor of Economics University of Colorado at Boulder the World Bank and the International Monetary Fund has been pushing client countries toward privatization and Perotti, (2004) asserted that in developing countries the IMF and the World Bank has made their assistance conditional on privatization**.**

Similarly, Borner (2004) of University of Munich in discussion paper revealed that during the last decade, international organizations have promoted privatization as a prerequisite for economic development. The idea is that privatization of the state-owned sector enhances the efficiency and competitiveness of an economy. Because according to an Anonymous (n.d) writer a change in ownership changes the structure of information, incentives and control, affecting operating decisions and thus economic performance.

Privatization, by limiting the state's ability to redirect the enterprises' activities in ways that promote short-term political objectives, enhances economic efficiency. The key difference between public and private firms is that the former maximize an objective function that is a weighted average of social welfare and the bureaucrat's personal agenda. Under competitive market conditions, private and social objectives are more closely aligned and externalities smaller, so that private ownership is likely to have an advantage. In conclusion, private ownership has efficiency advantages over public ownership under a competitive market structure.

Hence Jerome (2008) expressed that privatization of state-owned enterprises (SOEs) 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 privatization programs 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.

Perotti (2004) asserted that SOEs exhibit a significant lower productive efficiency in comparison with privately owned counterparts because of a general lack of accountability, which, is due to lack of managerial and employee incentives to efficiency, problems of competence or corruption by state authorities and the use of SOEs for political purposes, in favor of favored constituencies.

Nellis (2006) asserted that some critics might concede that privatization is of economic benefit, but all question its social utility. They argue that privatization's rewards go to the agile, the rich, the foreign and the corrupt, at the expense of poor and honest nationals. They claim that privatization negatively affects the mass of citizens i.e. it harms workers because of lost jobs, consumers because of higher prices, and taxpayers in general, because of government under pricing of assets, the collusion of crooked bureaucrats with buyers, or the inability of ill-trained and underpaid public servants to see through the stratagems of clever private investors. The overall claim is that privatization contributes to inequality and poverty. About Japan Cato (2008) expressed that the studies on mixed oligopolies revealed that in an industry that is sufficiently competitive (i.e., the number of firms in the market is sufficiently large), privatization improves welfare.

Ab-Razak et al (2011) concluded that majority of studies have shown negative result when looking on government ownership and performance or firm valuation. There are many reasons that explain why government ownership results in poor financial performance. First, the government is guided by social altruism, which may not be in line with the profit motive. Second, the government is not the ultimate owner, but the agent of the real owners – the citizens. And it is not the real owners who exercise governance, but the bureaucrats. There is no personal interest for bureaucrats in ensuring that an organization is run efficiently or governed well since they do not have any benefits from good governance. Government-controlled companies may respond to signals from the government to enhance national welfare or other non-profit considerations, which may not relate well to a goal of value maximization. Jerome (2008) expressed that privatization when correctly conceived should foster efficiency, stimulate investment and yield a corresponding increase in output. Our proxy for output is real sales. The results confirm such theoretical predictions. All the firms experienced marginal boosts in real sales following privatization.

## 2.6 Grounding Public Sector Sales Programme

The inspiration and justification for privatization in general draw on the foregoing analysis. Its rhetoric of individual freedom anti-statism and efficiency projected business practice as more effective way of operating public affairs than the post – war collection package. For the assert sale programme, discussion of the virtues of property rights and private ownership were paramount.

The justification of privatization starts with the critique of nationalization and bureaucratic rule. Nigel Lawson, as Energy secretary stated in a talk in September, 1982 what public ownership does is to eliminate the threat of takeover and ultimately of bankruptcy and the need, which all private undertaking have time to time, to raise Money from the market (1992: 202). Furthermore, he said that the private sector was the only means to real change since the introduction of property rights had provided managers with an incentive to respond the right way (Lawson 1992: 203-4).

Privatization in the view of Beesly can be a political weapon of interference and this may motivate management to seek profits. Privatization implies the political decision to give up direct responsibility and accept drastically diminished direct influence on the industry (1992: 51). In November 1983 John More Economic and then Financial Secretary to the Treasury, provided the first official and intellectually coherent government justification for privatization (Grinstone, 1990: 5).

After the 1983 General election victory prime minister Thatcher took a continuing interest in ensuring that the programme remained on track (Grinstone, 1990:5). Moore's appointment at the treasury gave form to her intention. His effort to give privatization a philosophical coherence aimed to give the programm conviction in economic and political terms and to be seen other than as a purely financially oriented exercises.

Purportedly, privatization would boost public finance and the politicization of nationalized industries by bringing about the end of government involvement in industry, make the firms accountable to private sector rules and disciplines and strengthen the climate for business through wider share ownership stranger capital markets, employee share ownership.

Underlying particular stated objective was a belief in the virtue of property ownership as a mechanism of control. Voljanovski (1987:8) and Witshire (1987: 29), list government objectives in setting states assets in the order in which they were emphasized reducing state interference in industry, facilitating the raising of funds on the capital market, raising government revenue, promoting wider share ownership, creating an enterprise culture, encouraging workers ownership of shares, increasing competition and efficiency and introducing state oversight by economic regulation.

After listing nine reasons for privatization, Letwin (1988) argues that distrusts of the state as or manager of commercial enterprises is a general assumption behind various specific reason. He continues, the proponent of privatization begins with the supposition that all other things being equal it is likely that the state will not be a good manager of any given commercial entity in each particular case, he looks for the specific advantages which a specific privatization could bring and these becomes his reasons for that particular privatization. (Letwin, 1988: 28-29). These arguments of government supporter counter the all section that privatization lacked a clear rationale key and Thompson (1986).

## 2.7 Proponents and Opponents of Privatization

Studies show that private market factors can more efficiently deliver many goods or service than governments due to free market competition. Over time this tends to lead to lower prices, improved quality, more choices, less corruption, less red tape, and/or quicker delivery. Many proponents do not argue that everything should be privatized. According to them, market failures and natural monopolies could be problematic.

However, anarcho-capitalist prefer that every function of the state be privatized, including defense and dispute resolution. Proponents of privatization make the following arguments:

**Performance**. State-run industries tend to be bureaucratic. A political government may only be motivated to improve a function when its poor performance becomes politically sensitive.

**Increased efficiency**. Private companies and firms have a greater incentive to produce more goods and services for the sake of reaching a customer base and hence increasing profits. A public organization would not be as productive due to the lack of financing allocated by the entire government's budget that must consider other areas of the economy.

**Specialization.** A private business has the ability to focus all relevant human and financial resources onto specific functions. A state-owned firm does not have the necessary resources to specialize its goods and services as a result of the general products provided to the greatest number of people in the population.

**Improvements**. Conversely, the government may put off improvements due to political sensitivity and special interests—even in cases of companies that are run well and better serve their customers' needs.

**Corruption**. A state-monopolized function is prone to corruption; decisions are made primarily for political reasons, personal gain of the decision-maker (i.e. "graft"), rather than economic ones. Corruption (or principal- agent issues) in a state-run corporation affects the ongoing asset stream and company performance, whereas any corruption that may occur during the privatization process is a one-time event and does not affect ongoing cash flow or performance of the company.

**Accountability**. Managers of privately owned companies are accountable to their owners/shareholders and to the consumer, and can only exist and thrive where needs are met. Managers of publicly owned companies are required to be more accountable to the broader community and to political "stakeholders". This can reduce their ability to directly and specifically serve the needs of their customers, and can bias investment decisions away from otherwise profitable areas.

**Civil-liberty concerns**. A company controlled by the state may have access to information or assets which may be used against dissidents or any individuals who disagree with their policies.

**Goal**s. A political government tends to run an industry or company for political goals rather than economic ones.

**Capital**. Privately held companies can sometimes more easily raise investment capital in the financial markets when such local markets exist and are suitably liquid. While interest rates for private companies are often higher than for government debt, this can serve as a useful constraint to promote efficient investments by private companies, instead of cross-subsidizing them with the overall credit-risk of the country. Investment decisions are then governed by market interest rates. State-owned industries have to compete with demands from other government departments and special interests. In either case, for smaller markets, political risk may add substantially to the cost of capital.

**Security**. Governments have had the tendency to "bail out" poorly run businesses, often due to the sensitivity of job losses, when economically, it may be better to let the business fold.

**Lack of market discipline**. Poorly managed state companies are insulated from the same discipline as private companies, which could go bankrupt, have their management removed, or be taken over by competitors. Private companies are also able to take greater risks and then seek bankruptcy protection against creditors if those risks turn sour.

**Natural monopolies**. The existence of natural monopolies does not mean that these sectors must be state owned. Governments can enact or are armed with antitrust legislation and bodies to deal with anti-competitive behavior of all companies public or private.

**Concentration of wealth**. Ownership of and profits from successful enterprises tend to be dispersed and diversified -particularly in voucher privatization. The availability of more investment vehicles stimulates capital markets and promotes liquidity and job creation.

**Political influence**. Nationalized industries are prone to interference from politicians for political or populist reasons. Examples include making an industry buy supplies from local producers (when that may be more expensive than buying from abroad), forcing an industry to freeze its prices/fares to satisfy the electorate or control inflation, increasing its staffing to reduce unemployment, or moving its operations to marginal constituencies.

**Profits**. Corporations exist to generate profits for their shareholders. Private companies make a profit by enticing consumers to buy their products in preference to their competitors' (or by increasing primary demand for their products, or by reducing costs). Private corporations typically profit more if they serve the needs of their clients well. Corporations of different sizes may target different market niches in order to focus on marginal groups and satisfy their demand. A company with good corporate governance will therefore be incentivized to meet the needs of its customers efficiently.

**Job gains**. As the economy becomes more efficient, more profits are obtained and no government subsidies and less taxes are needed, there will be more private money available for investments and consumption and more profitable and better-paid jobs will be created than in the case of a more regulated economy.

Opponents of certain privatizations believe that certain public goods and services should remain primarily in the hands of government in order to ensure that everyone in society has access to them (such as law enforcement, basic health care, and basic education). There is a positive externality when the government provides society at large with public goods and services such as defense and disease control.

Some national constitutions in effect define their governments' "core businesses" as being the provision of such things as justice, tranquility, defense, and general welfare. These governments' direct provision of security, stability, and safety, is intended to be done for the common good (in the public interest) with a long-term (for posterity) perspective. As for natural monopolies, opponents of privatisation claim that they aren't subject to fair competition, and better administrated by the state. Likewise, private goods and services should remain in the hands of the private sector.

One study estimated that as many as 1,000,000 working men died as a result of the privatizations in the former Soviet Union and in Eastern Europe during the 1990s. Although private companies will provide a similar good or service alongside the government, opponents of privatization are careful about completely transferring the provision of public goods, services and assets into private hands for the following reasons:

**Performance**. A democratically elected government is accountable to the people through a legislature, Congress or Parliament, and is motivated to safeguarding the assets of the nation. The profit motive may be subordinated to social objectives.

**Improvements**. the government is motivated to performance improvements as well run businesses contribute to the State's revenues.

**Corruption**. Government ministers and civil servants are bound to uphold the highest ethical standards, and standards of probity are guaranteed through codes of conduct and declarations of interest. However, the selling process could lack transparency, allowing the purchaser and civil servants controlling the sale to gain personally.

**Accountability**. The public does not have any control or oversight of private companies.

**Civil-liberty concerns**. A democratically elected government is accountable to the people through a parliament, and can intervene when civil liberties are threatened.

**Goals**. The government may seek to use state companies as instruments to further social goals for the benefit of the nation as a whole.

**Capital**. Governments can raise money in the financial markets most cheaply to re-lend to state-owned enterprises.

**Strategic and Sensitive areas**. Governments have chosen to keep certain companies/industries under public control because of their strategic importance or sensitive nature.

**Cuts in essential services**. If a government-owned company providing an essential service (such as the water supply) to all citizens is privatized, its new owner(s) could lead to the abandoning of the social obligation to those who are less able to pay, or to regions where this service is unprofitable.

**Natural monopolies**. Privatization will not result in true competition if a natural monopoly exists.

**Concentration of wealth**. Profits from successful enterprises end up in private, often foreign, hands instead of being available for the common good.

**Political influence**. Governments may more easily exert pressure on state-owned firms to help implementing government policy.

**Profit**. Private companies do not have any goal other than to maximize profits. A private company will serve the needs of those who are most willing (and able) to pay, as opposed to the needs of the majority, and are thus anti-democratic. The more necessary a good is, the lower the price elasticity of demand, as people will attempt to buy it no matter the price. In the case of price elasticity of demand is zero (perfectly inelastic good), demand part of supply and demand theories does not work.

**Privatization and Poverty**. It is acknowledged by many studies that there are winners and losers with privatization. The number of losers —which may add up to the size and severity of poverty—can be unexpectedly large if the method and process of privatization and how it is implemented are seriously flawed (e.g. lack of transparency leading to state-owned assets being appropriated at minuscule amounts by those with political connections, absence of regulatory institutions leading to transfer of monopoly rents from public to private sector, improper design and inadequate control of the privatization process leading to asset stripping.

**Job Loss**. Due to the additional financial burden placed on privatized companies to succeed without any government help, unlike the public companies, jobs could be lost to keep more money in the company.

## 2.7 Implementing Privatization

The sale of state asset involved political control by individual means. It operated through a patchwork of interconnection but divergent participants drawn into commercial process by motives of indicate benefits and future advantages critical to its success was the liability of the government to translate privatization into a matter of business dealings, shaped by market calculations and trade off. According to Wilshire, his study has revealed that the sale process is heavily driven by the expectations of the market. The sale process limited policy making involvement and accountability to business players (government managers and advisors and buyers institutions and individual purchasers of stocks). The process to transfer control to the private sector and create support for the transport (Buchkland and Devis, 1984:50).

Using business practices to regulate interest formation and group pressures made interest of those owing property rights primary, transferring assets sales processes into commercial transactions and deflecting conflicts over questions of substantive values. Lewis and Harden writer. This particular pattern tends to subordinate the decision making process of the decisions themselves as if they were in some sense already the outcome of consensual politics which they manifestly are not 1983 (1983:22).

In short, the marketing of the political process largely sharpened the method of the sales the form of privatized firm and the role the government will play after the sale. The policy was highly controlled from the center not only imposing but by contracting and maintaining the process of the sale.

According to Gerry Grinstone, treasury assistant secretary responsible for privatization from 1982 to 1986. A strong political will and tight central control and co-ordination are essential. The Treasury dominated the processes, because of the nationalized industries public expenditure impact and their effect on macroeconomic policies with sponsoring department of energy or transport taking responsibility for day – to – day implementation (Grinstone 1990: 7) Whishire recounts the centralized process.

The privatization process begins with a collective discussion by minister aliening the general framework, and an agreement on the candidates for privatization and the arms to be pursues in each sale. The treasury assumes responsibility for the timing of the sale including an assessment of the readiness of the enterprises for sale and the capacity of the market to absorb the flotation. After these matters are settled, it is left to the supervising department to implement the sale.

The treasury keeps a guiding hand firmly in place, however since many of the sales have run into practical difficulties as well as political antagonism from interest group which might tend to swamp the department with difficulties. It is the treasury that keeps the momentum going and with the department and the method of the sale (fixed price or tender for instance).

Moreover steering committees comprises the department, the enterprise and the treasury and their advisors oversaw each phase of the processes, with sub committees dealing with special issues, such as marketing or the prospectus. Regulation decisions involved treasury officials supervising department minister other affected departments and the enterprises itself (Wiltshire, 1987: 54) thus the moral procedure is to employ merchant banks to act as financial advisors and to give advice on the price of be set: the secretary of state in some case also appointed an independent advisor to act as a means of cross-checking (Graham and Prosser, 1991: 91-92)

The advantage of centralized control through a small concuss of officials at the center who would be involved in each and every privatization was a specification of knowledge and institutionalization of initiatives backed by cohesion and discipline. Market imperative limited bargaining to business issues and sector practitioners. Government ministers deal with enterprises managers each of whom helped extensively on city advisors to the exclusion of consumers and citizens decision making focused on business matters, having an essentially private nature. Bishop and key (cited in Graham and Prosser, 1991: 92) wrote.

This mechanism of advice and representation is at once extensive and mainly conducted behind closed doors. Interests consumers for example are represented only to the extent that such interests are among the government concern senior management interest by contrast, are represented very strongly in deed. Employees of the concern to be privatized play no part in the process. Very little of the expensively purchased advice and analysis is available to parliament in its legislative scrutiny of the proposals.

Yet MPS have been extensively lobbied by the enterprises being privatized and the public courted through expensive and sophisticated sales campaigns, problem scrutiny can occur only after the privatization process is completed and is limited to the House of commons public accounts committee and the national Audit office, which examines whether enterprises were sold too cheaply and other aspects of the sales (Graham and (Prosser 1991: 93-4, Withshire 1987: 94-7). In the post-privatization phase, parliamentary scrutiny is derived, despite the fact the fact that the government is still actively participating in the affairs of the new enterprises the regularity system the after math of the share sales, licensing process and direct and substantial share holding in the case of the hybrid enterprises.

The imperatives of the market preparing for sales and interesting buyers) means that the sale of assets went through various distinct phases of selecting dressing up and selling business concerns. Over two or three years period, government ministers selected suitable enterprises, decided on what organizational changes were necessary for it to function effectively in the private sector passed the required enabling legislation and then determine how and when to sell. The ease and speed of a sale correspondent to the potential favouring companies tradition I competitive markets which could be disposed of through trade sales and desolated to existing competition law (Beeslay, 1992; Grinstone, 1990: 98, Letwin, 1988). Yet such sales did little to break up the collectivist arrangement that had developed I the public sector to make a difference, policy had to extend to the core public utilities such s BI, BG water and electricity. Even in these more politically imparted and sensitive enterprises the Government moved with speed to ensure the transfer to the private method of sale, farms of the privatization industry and its regulation.

Legislation provided a framework for the detailed negotiation among key participants. Statutes gave below views to the secretary  of state to license operations and details of the company's financial structure (Graham and Prosser, 1991: 79) as they elaborated:

Noticeable absentees from the legislation are any regulation of the sale procedure in which the discretion  of the secretary of state is almost total and provision  on design of the successor company. Even the most important of such provisions are left to the company's articles of association including those setting out the relations with government after privatization through such devices as the guide share. In the case of regulated companies the operating environment will also be determined not by the legislation itself but by license or authorization issued by the secretary of state and especially in the case of the electricity industry, contracts between different enterprises within the industry and with its suppliers will also established its structure.

In several cases questions however emerged over the legality of enterprises as subjects of privatization. In the case of JS B, they involved rightful ownership in the case of water they involved the authority to sell and meter water. According to graham and Prosser, parliament sovereignty limits potential constitutional challenges, while other aspects of sales fit under private law, limiting issues   concerning the public interest..

The final form of the privatized reflected the effects of the asset sale policy process. Its grounding in property rights drew in the support of crucial actors such as managers while excluding factors unacceptable to the market and minimizing the role of unions, consumers and the public at large. The form which each privatization took results from the ability of the government to engage the participation or acquiescence of key actors.

Usually industry managements supported privatization because they would benefit by being released from the harsh financial control of the government and in the cases where industry chairmen did resist the government to replace them with enthusiastic supporters of its programme (Steel and Aearln, 1985: 77)

Veljanovsko (1987: 119) writes that the management of the nationalized industries have emerged from privatization process as a separate and influential pressure group who will support the government but only on terms that reflect their own economics and political self interest. According to him, the process of privatization is mainly a bargaining process of going on behind closed doors, in which the state industries managers are of paramount importance their support is needed, hence actual privatization are shaped according to their ideas (1988: 76-7).

Because management exercised considerable influence, the government often neglects the goal of increased competition in favour of the other benefits of transferring assets to the private sector (Key and Thompson, 1986: 29) in the case of BT, BG and B A, they acquired in the selloff of the industry as a monopoly rather than breaking it up into competitor parts. BTs Chairman George Jefferson effectively opposed the company being broken up GB Chairman Sir Dennis

Brooks resisted the government's attempt to privatize parts of the industry and called over the sale of its showrooms and its farms oil filed in Dorset, representing the most noteworthy instance of management. Rook supported by Peter Waller, who became Energy Secretary after Nigel Lawson, insisted on maintaining a monopolistic and integrated as industry. He successfully opposed Lawson's (now chancellor) and presumably Prime Minister Thatcher's desire to break the company up along regional lines and then separated the gas and appliance business before selling them.

In addition British Airways Lord King resisted efforts to reduce the firms dominant position by increasing competition in the British Airline industry in the case of water privatization the government initially gave in to the managers wish to maintain integrated control as specified by the water Act of 1973. This made the prospective private water companies responsible for managing rivers and controlling pollution fisheries, environmental conservation, recreation and navigation yet the white paper announcing water privatization drew strong opposition from a small group of Tory back benchers, labour MPS, the confederation of British industry trade unions conservation groups the fishing community and local government guardian July, 4, 1986 An EC commission challenges to the states of the privatized water authority to regulate environmental and other issues led to environment secretary Nicholas Ridley postponing the legislation until after the 1987 election.

The CBI's reasons for opposing the purposed legislation confirm in the view that, the sell – off process was market driven. The CBI and the country Land Owners Association opposed the ideas of privatized water authorities controlling environmental regulation arguing that it was wrong in principles that are privatized company should exercise statutorily control over the affairs of another private company" Richard con Maloney and Ridlle, 1992: 164). A host of problems criticism of metering water use, large debts, a legal challenge over the water authorities ownership (the local councils or the government) as well as the questions about a profit maximizing private water company's ability to protect the environment combined to introduce political controversy into the commercial processes. By July 1986, it was becoming clear that this politicization unpopular and undermine a successful sale

But once Ridell and Lawson agreed that the obvious route was to privatize the water and beverage business and live off the regulatory and environmental responsibilities into a separate state owned national rivers authority. They moved forward recreating the market for the firm and dispensing with opponents supporting non-market values (Lawson 1992: 232) The run-up to privatization in July, 1988 witnessed a re-establishment of close and exclusive cooperation between the government ministers at the DOE and industry leaders in the waster Authorities Association (WA'A) the latter proving very effective in bargaining advantages for their industry. Despite the development of all large group opposing the initial privatization proposals, the WAA now reestablished effective working relationships with the government because other group in the network lacked the technical expertise and were less likely to play role in the implementation process Richardson, Maloney and Ridell, (1992: 171)

The resumption of the policy process meant a return to a private transaction between the key players, he government and the industry leaders interested in moving the corporation into the Private sector. In short despite opposition among unions, conservationist and anglers, the proposal to float the norms of markets practices that separate politics and economics provided the only serious challenge to the privatization of water, which finally occurred in December, 1989.

The privatization of electricity offers another examples of how market processes shaped policy outcomes. In privatizing electricity, the government needed the cooperation of industry leaders who found nuclear power generation a non-starter. The conflict become serious only after the legislative package had passed in July 1989. The key provision of the legislation reflected the governments sense that privatization of electricity had to be different from that of BT (where poor service led to load complaints and BG (where private monopoly seemed to favour share holders that is, it had to appear to favour consumers interest by introducing a measures of competition (Ridell, 1989: 102) rejecting the EGB's desire for unity after privatization, the February 1988 white paper proposed the breakup of the CEGB, ending its monopoly on generation by shifting 30 percent of its capital (coal, oil and gas fired stations) to a competing company, power Gen and National power including the nuclear stations. The decision to privatize nuclear power necessitated this proportioning as well as a requirement that distributors purchase a minimal quota from nuclear generators (Vickers and Yarrow, 1991: 489) the national grid would be jointly owned by the 12 new regional distribution companies which had been the 12 area boards. These new distributors could generate their own electricity as long as this did not led to monopoly of production and supply. Yet opposition to the governments acquiescence to industry leaders wish to include nuclear power generation in the privatization of electricity generation came from the market. This pressure stalemated the government's initial proposals forced a significant modification and then dissipated facilitating a return to concentrated decision making. In July 1989, Parkinson withdrew the aging nuclear stations from the sale and in November the new Energy secretary John Wakeham pulled the rest of the Parkar programme act of the sale of the electricity supply industry thereby signing the government overriding concern to complete the sale without further complications.

According to Roberts, Eliot and Honghon (1991: 97), this means that the security of supply research and development the future at the coal and of the power plant industries were ignored because of ideology combined with the pragmatics of privatization  What forced the withdrawal of the nuclear component of the industry was its unattractiveness to investors and the workers of the old nuclear power lobby.

Robert, Eliot and Haughton (1991), note that just as the economics of nuclear power are incapable with the private sector so the fracture by privatization of the corporatist EST Cancks destroyed the political support on which the continuance of nuclear power programme depended (1991: 100) over all the governments concern with ownership and structure dictated the process of marketing the EST to potential  buyers. This process rejected the inclusion of nuclear power because of is poor commercial future and neglected key post privatized issues such as regulation  and the coordination between distributors and generators (Vickers and Yarrow, 1991: 492-494).

The emphasis on property rights gave the management great influence over the form of most sales and also shaped the methods of sale, designed to win the support of a variety of groups for stock ownership. The hatcheries intended to widen sharp ownership in the belief that this will improve the economic efficiency of companies furthermore, people's voting habits, wisdom, employment share ownership, will enlarge the capital market itself and get a good return of the sales of shares. A high percentage of employees purchased shares usually at a discount or with interest free loans. Private or trade sales to other firms, management buy outs parts of the farmer NBC workers buy out are among the method used to sell public assets. However, the most common has been the fixed price offering and then the tender where the prince is determined by the response. The fixed price method enables the government to appeal to small investors and to create interest in the issue, which results in active trading once the sale is completed.

The government favoured this method because it led to under policy and enabled small shareholders to cash in on their premiums. From the government point of view, this was good. According to Nigel Lawson (1992: 210) The enormous publicity given to the profit enjoyed by subscribers to the issues conveyed the clear message to the general public that investing in privatization issues was a good thing. The fixed price because the norms though criticism of asset stripping came from many question set proponents like Grimstone (1990: 9-10) argued that by at least doubling shares holding, privatization contributes to widening and deepening the capital market in share the government gained public support for expanding private ownership in firms even though it did not relies the highest finance load returns possible.

Further market accountability meant that government would exercise indirect continuing control over the privatized companies while companies entering the competitive sector fall under competition law the sell off at the large utility companies led to the creation of new regulatory agencies. The government starting with BT commission on expert economic to recommend the most effective way to control the privatized enterprise. In the case of BT and water, Stephen Little Child a university of Birmingham economic professor recommended a price control (mechanism backed by licensing agreements enforced by an independent regulatory agency. Accepting these recommendation the government included in its privatization legislation clauses establishing the regulatory authorities.

Furthermore, the government applied other means to prevent a privatized enterprises take over by an undesirable or unwanted agent. Most notable is the golden share retained by the government preventing a takeover or change in a firms articles of association without the governments agreement. In addition, government uses competition law, environmental regulations and contracts with firms to exercise continuing control (Graham and Prosser 1991).

Opposition to privatization per se has proven ineffective, resembling just how successfully neo-liberalism has been able to define policy making in-terms of ownership rights and to limit policy processes to issues and participants conforming to the ideological imperatives of market accountability. The process of engaging individual participants on n corporate ownership advantaged some while denying access and benefits to others. Unions have consistently opposed privatization through share unions and workers have gained from privatization while others have lost (Thomas, 1984:74).

From the governments perspective it has been extremely successful in passing its legislation, reflecting its large majority and the enthusiasm of its backbenchers for the initiatives. The impact of public opinion seems negligible as its opposed the BT, BG, water and electricity sell offs. Only nationalist sentiments evokes enough opposition to block the sell of British firms to foreign multinationals, illustrated by the dropping of plans in 1987 to sell Austin rover to Ford. In short privatizing states industries meant private market processes and expertise were able to continue behaviour thereby directing attention away from direct political contest into the endless and self governing pursuit of private commercial dealings.

According to Veljanovski, the crucial difference between nationalized and private firms that lies at the heart of the privatization debate is that in the privatized company there are tradable private property rights in it, in particular through the potential for the hostile takeover bid, become the main method of deciding policy diminishing the interference of non-market pressures.

This though the form of the firm, the number of competitions, the suppliers and unions may all be different after the selloff, profiting from the new ownership rights because the primary criterion guiding decision making. While BG was transferred to the private sector as a monopoly and the sale of BT was preceded by limiting deregulation and competitions each focused on developing its profitability.

Justified by the idea that property rights provide a superior mode for controlling firms the sale of state asset was a reform or transitional process. The key to its success was the ability of a private commercial transaction process to redirect thinking and activities into operations that in themselves designated how emerging were to be translated into particular results.

## 2.8 Regulation and Control

How does the government exercise control over private sector monopolies and sub central government when direct political decisions, hands on bureaucratic administration and imposition of financial limits prove feeless. The neo liberal solution is to emphases that competition would enable consumers to hold the producers accountable and reduce the need for government intervention.

Yet, there are many situations in which competitive processes do not exist or cannot be easily created. In these circumstances, governments rely on some type of regulatory policy specifying a principal agent relationship designed to effect the principal's ends despite differences in interest and information. When neo liberal regulatory theory assumes that incentives agents to perform stipulated tasks. It is argued that the most important controls arise indirectly and internally from participation in social activities.

Rather than the direct or external force of incentive or legal penalties, compliance depends on strategic behaviour, emerging from involvement within a situation directed by controlling purposes and relying on the use of explicit ides about risks and rewards in view of what other are doing. The regulator as principal, succeeds in gaining compliance with government stipulated standards, not by demanding or negotiating incentives but through the way ideas or meanings defining acceptable activities determine the way constituents refer their way of behaving to the action of others and work to make it fit in. The controlling effect of market utilizing forms of regulation emerge from engagement within commercial or economic processes, situations requiring the adjustment o action in responses to what others have done or are about to do. Understanding organization about the way markets mark and boundaries of the approval for disappears players drive and shape market driven participation. The use of direct forces takes on a secondary role with government intervention being occasional and limited to preventing conflict causing a breakdown.

Two more forms of state control of work in typical of neo-liberal regulation are analyzed here. First it consider the regulation of private sector public utilities. This focuses on the processes of using an independent agency to promote increasing competition and industrial modernization. In regulating what initially were private monopolies or near-monopolies, regulators the both agents of the government and participants in a market driven process of self-administration second it examines the use of competitive tendering throughout sub-central government the process of competition for monopoly as a means to improve economic efficiency. In this case, the government is at a distance from the agency administration spondaic and provision programmes. The government maintains surveillance in order to ensure that agency behaviour conforms to its stipulations on occasion, it interviews directly.

## 2. 9 Regulating Private Monopolies

Enforcing market incentives the successful self off of the major public utilities pushed regulatory policy into the limelight. In turning major public monopolies into private monopolies or near monopolies from 1984 to 1990, Thatcher ensured successful sales but created regulatory policy dilemmas (Maloney) and Richard Sor 1992:15) Veljanovski, writers.

The overriding purpose of privatization was to propel the new entities into the private sector with new and greater freedoms to pursue commercial objectives and improve efficiency. Yet unfitted they have every incentive to charge customers high process, reduce the quality of services and prevent competition. Regulation is required but invites other difficulties (1991:5).

Among these difficulties are regulatory uncertainty pressures for increased controls and due process remedying such market failures is then the primary rationale for regulation. Economics focuses on the effects of market power externalities and systematic information as the sources of internal and a locative inefficiencies.

Regulation aims to constrains monopoly behaviour, limit destructive competition and promote desirable competition (Kay and Vickers, 1988 : 301-8) yet market failure has to be balanced with the possibility of regulatory failures (Helm and yarrows, 1988; ii-vii) post privatizing regulatory agencies replaced nationalization as a failed form of direct regulation.

Nationalization relied on in situational and political criteria , expecting boards to pursue the public interest A 1976 national economic and development office study reported that the control system in nationalized industries revealed a lack of trust and national understanding between government and management confusion about roles and the absence of an effective system for measuring performance and managerial competence. (Veljanovski, 1991: 7). In addition to being monopoly providers, then the nationalized industries become regulated by minister for political ends.

An unregulated privatized monopoly would be able to change higher prices and produce lower outputs eg. Unreliable and outdated products than a firm facing thought regulation and (competition) in the worlds of CD Forester. Thus, the propositions that there are monopolies derives fundamentally from the proposition that there are monopoly industries where such an advance in competition cannot be relied on and that in so far as price discrimination is technically impossible or legally impermissible that means in the absence of regulation under all circumstances higher prices and under almost all lower outputs than under competitions if the firm sets its prices and outputs so as to maximize it profits (1992:198) in short regulation policy acts as a proxy for competition.

Instituting an alternative type of indirect and internal control regulation uses market incentives as the standard of accountability supervising market transactions enable the regulator or principal to maintain incentives for efficiency where he or she lacks information available to the agent and to in due the agent (the regulated firm) to act in the public interest (Vilkers 1990: 23-3).

According to economist Ray Rees (1986: 19) regulation by government department through direct control of capital allocations, investments and pricing policy, it is to replaced with regulation by a quasigovernmental public agency, backed up by competition policy. Regulation formulates the delegation of government functions to designated agents in terms of principal agent problems usually relying on a public agency.

The new regulatory structures which were the result of the selling off of the public sector monopolies reflected departmental preference for marketing policy making without public debate. Economist Stephen Little Child, now a director General (DG) of the office of electricity regulation (Offer) provided academic advice drawing on his economist training and projecting his new Right politics. As walker 1990, p. 150) put it But the advice suggest has come from a single discipline economics and how dogmatic prescriptive rather than analytic favour. The office of telecommunications ore OFTEL the first new regulatory agency was modeled on the office of four trading and then become the model for subsequent regulatory agencies post privatization regulation, there replaces state involvement with public agencies responsible for improving the productive and efficiency of a particular industries. While overly reducing the directness and inevitability of ministerial intervention they ends tighten control because government principals the regulators attempt to entitle their agents the providers to set prices equal to short run marginal costs and expand output unit price equals long run marginal cost (Foster, 1992: 198).

In contrast with omission to serve the public interest through nationalization the economic goal of enhancing internal and efficiency determines more intermediate and explicit ideas conflicts and debates dispensing with the need for direct government intervention and responsibility. Industry participants engage in a game governed by economic modus operant. Yet are indirectly supervised and guided by the regulator who acts more s a leading player than severing powers. Direct governmental involvement remains as a potential and occasional options.

## 2.10 Objectives in Regulating Telecommunications

The post-privatization telecommunication regulatory regime comprises such a quails - market driven game players include the Director General of Telecommunication (DGT), BT and mercury communications (MCL) as well as the cellular phone mobile (PNGS) selected cable private mobile radio (PMR) companies and other new entrants such as the private networks operated by British Rail (BR) and the fuel and power companies the transmission system operated by the BBC and the former independent Broadcasting Authority and various consumer and advisory bodies.

The communications industry decision making centre's on implementing the obligations of the DGT to ensure that companies and to promote competitions while man teeming the economic liability and validity of the industry's enterprises. In telecommunications as in the gas water and electricity sectors, the government shaped policy making by providing the basis for insisting and organizing the support of constituent firms and for deciding, the criteria for approving decisions.

The telecommunications Act 1984 stipulated the GDTS ends. They are essentially economic, specifying improvement of productive and efficiency in the industry. According to DGT (1991: 99) it seems to me that no important regulatory activity falls into two main categories the promotion of competition and the development of incentives regulation. OFTTEL attempts to foster, new competition monitoring BTS behaviour for possible predatory pricing get not being overly restrictive.

In product areas in which BT continues to have monopoly power. OFTEL relies on the price cap formula to encourage internal efficiency (Hartly and Culbraim 1988: 3) OFTEL also oversees provision of socially necessary services in the internet of providing universal basic services. S the leading participants in a regiment of economic interplay the DGT controls by offering incentives and providing opportunities.

The purpose of corporate policy becomes increasingly to secure a profitable future Tavin Vallance, BT Chairman articulates the view point of firms under the new regulatory regime. First he doubted that a nationalized monopoly like BT could have adopted itself to such an environment given that the government decided to push through market competition even faster than was being activated in the united states through the breakup of the Bell conglomeratic rejecting any return to state ownership, when we were so very much a political foot ball at the mercy of stop-start pricing investment and planning politics which characterized our state sector era.

Vollance Portray BT as responding to changing domestic and international markets. He writes. During the 1970s as we look forward among other things to the implementation of the single European market and to inevitable liberalization and change in other telecommunications markets. We expect to see any number of opportunities for generating extra earnings growth provided that we choose and understand our market well and succeed in putting customers first. For BT employees, the changes in the corporations status and environment coincided with the introduction of commercial practices ending the past foundations of industries relations (Hayawood, 1987). The centralized pattern of physical planning based on a commitment of practice the resources necessary to develop phone network become a decentralized system of profit centres with evaluations of mangers, performance based on the cost and income of every activity.

Labour cost were carefully scrutinized as cash limit put downward pressure on manpower levels. This was in contrast to the previous system of estimating the needed manpower and then requesting the necessary finances to have the requisite workforce. At the same time, the traditional open and nonsensical public sector style of industrial relations gave way to resistance to trade union organizations and to repentance in negotiating concessions, bargaining becoming divisional rather than corporate.

### 2.11 Deregulation and Competition as Control

The transfer of publicly owned businesses and assets to the private sector has become the main demit in popular thinking about private privatization. However, liberalization or the creation of alternative providers or suppliers in the market place, through the elimination of controls on individual action and the encouragement of new and more varied market entrants has been consistently pursued.

Liberal critics of privatization often call for more deregulation particularly the promotion of product and service competition (Beesley, 1992: 15) yet these critics fail to appreciate the extent to which the Thatcher government pursued liberalization and came to recognize the weakness of simply, reducing barriers to entry. Instead, the government activity provided incentives for entry into competitive markets. Thus, in addition to property ownership and regulation competition constitutes a distinctive means of indirectly influencing the way participants coordinates their actions. The new right idealizes competition heralding it as enlarging choice and the freeing of individual from state supervision and constraint competition defining and ensuring pure market activity. Impersonal voluntary and mutually advantageous exchanges among independent and self interested agents makes each accountable and responsive to the initiative and reactions of competing producers and consumers.

Success or failure in the market is easily monitored and transparent in the connection between individual action and consequences in liberalizing them, the Thatchertes sought to reduce restrictions on market activity and to enlarge consumers choice among alternative providers.

The progress of the Thatcherites deregulation programme depend on it own success and support as well as a favourable opinion and predisposition among critical actors, enabling the government after the 1987 election to extend radically its commitment to incuriously competition and to improving managerial performance. The government acknowledging some management opposition to liberalization increasingly gained the initiative. Patrick Minford, a leading monetarist and Thatcher to deregulate grew; the boat is now much more on the government foot, with privatization a settled programme (1999: 247).

How did this enhanced positioning the boot effect change and how did deregulation operates to tighten then control of interest formation and so limit representation in policy making arenas?

## 2.12 Alternatives to Privatization

As stressed in this study privatization of public enterprises is based on the assumption that public provision of social goods is inefficient, unresponsive and inequitable. In other words, there should be a retreat or withdrawal of the state from certain economic matters implies cutting every part of the state institutions from policy making and this leads to increasing marginalization of the state.

It also results in cutting down on welfare activities of the state but this may lead to increased poverty in the economy. It needs to be stressed again that investment deregulation in addition to traded debt or aid is used as a cross conditioning instrument to structure African and developing countries economic in the interest of multinational corporations (African and Development news, April, 2004).

Our shared understanding of privatization or liberalization of the economy is that it is a process of social economic and political change driver by the demand of corporate capital. The singular purpose of the capital concentration is a few global corporations is to protect or expand the share of profit without much concern for local interest. For example while the MTN has made a gross profit exceeding N11 billion in three years, the Nigerian Airways has been liquidated and the workers are yet to receive their terminal benefits more than a year after the liquidation of the state corporation, similarly the Nigerian Railways has a Pension bill of N250 million a month and yet it generates a revenue of N22 million. The corporation has 14,000 workers and 17,000 pensioners. This Day August 31, 2003). This is while the local corporations are collapsing and are being sold to the highest bidders, the profit profile of the multinationals keeps on expanding (African and Development News April, 2004). For this globalization of the profit drive to sustain itself, the process ha to be essentially hegemonies. A hegemony required to enforce security ensure safe passage and movement of assets, protect the interest of the corporation where ever it may be and resolved conflict in there.

The hegemony becomes the agency for the good of the world. Besides hegemonic political power there is also a need for a hegemonic ideology presented in belligerent Choice less terms and a hegemonic culture that seeks to supplement indigenous specification in today's globalization the Europe – American alliance stands out clearly as the latter day hegemonic and neo-liberalization the choice less ideology African and development news 2004).

It is not surprising therefore that our political leaders are some of the greatest proponents of liberalization ideology. In 1980s for example the Babangida government claimed that there was no alternative to the structural adjustment programme which it was bent on imposing on Nigerians at the behest of the Bretton Woods institutions. These same institutions were however to admit later on that the mistake in prescribing the same medicine for deferent ailments (Olukoshi, 1991)

In the same vein, the Obasanjo administration which was democratically elected in 1999 has foisted privatization and deregulation on Nigerians. Also, in accordance with the prescriptions of the world Bank and IMF, the leading light of the government claimed that privatization, deregulation is the only cure to the ailing Nigerian economy. In this sense nonprofit provisioning of social services has to give way to the delivery of services by the private sector.

We should not fail to recognized in this respect that the very existence of competition depends on the existence of supplier prepared to compete (Mackintosh 1995:35). The key word here is existence if think is no strong private sector competitions will be stifled. Unfortunately, privatization profit seeking providers are few and far between in Nigeria. Even if we assure that competition exist in the economy, will the providers compete on the basis of price and or quality? In the contracting strategy for example the tendency is far the founders to set the quality thresholds and then seek competition on price.

The difficulty in this approaches is illustrated by the simultaneous undertaken before the introduction of British health services. The simulations showed beyond doubt that where the founder has a tight budget constraints and is known to be focusing strongly on cost in the tendering process, then both founders and providers have an incentive to cut corners in quality in order to reduce cost and to win contracts (East Anglia Regional Health Authority 1990). The report further demonstrated that there exist circumstances in which both purchasers and providers may work away from quality issues. The circumstances have included the assumption that the providers will not attempt to sustain quality for the benefit of users. Cutting corners and colluding to default the unwary public is thus a marked features of the private sector. The collapse of banks the high interest rates, the disappearance of customers savings, insider dealings granting of credit mainly to bank directors alone for example are practices highly prevalent in the banking system and these have adversely affected the growth of the Nigeria economy. As a result the failed bank decree was promulgated in the mind 1990s to check band fraud and in 2004, a capital base of N25 billion was imposed on banks to stem the collapse of banks and ultimately prevent the Nigerian economy from also collapsing. According to Mackintosh, it is difficult to make stringent forward generalization that the private sector in turns of service provision is either better or worse than the public setting (Mackintosh 1995: 45). Sometimes the private sector is seen as offering the best quality services then the public services. As in the case of public hospital for instances, they are considered as the best particularly for complex treatment for complex treatment (Bennet and Tangehareensathein, 1983).

## 2.13 Restructuring of the International Economic Order

The political economy in its conventional form deals with the application of economic models and theories to politics. It is almost impossible for an ordinary man to contest and win an election in Nigeria. The domination of political affairs in the country by money bags and political godfather should be seen from this angel in the wards of Karl Marx, the history of all societies is threat of class struggle. This struggle is usually, between those who own the means of production (ie. Capitalist) and those who have no access to the means of production ie proletariat privatization or deregulation may therefore be seen as an attempt by those who control political power to canner national resource for the local bourgeoisie and their foreign counterparts.

Thus the political economy framework of analysis strips the conventional studies of public enterprises of their ideological and philosophical biases. (Green and Minford 1979) there is however, no good empirical evidence to support the claim in the literature that private competition improves technical efficiency in the delivery of services. On the contrary there is evidence that it may not (Mackintosh 1995: 4-6) for example (Brander and Perker, 1992) cited evidence from Papua Guinea. They argued that for these reasons the development of a commercial health sector requires tight regulation and indeed direction. These are requirements that work against the retreat of the state.

In the same vein, (Meyer, 1992) gave the example of a Dominican Republic interviewed who pointed out that the personnel working in the newly refurbished private companies are the same people that had worked in the public institutions. He added rather sarcastically that, they are not extraterrestrials. In other wards the private sector and the people working in than are a product of the environment and may not be two different from these working for example the public sector has more to do with the level of motivation in either sector than any other sector.

## 2.14 Alternative Strategies for Public Service Reforms

The performance of public enterprises may be enhanced if the following strategies are adopted.

### 2.13.1 **Development of a Mega Policy**

Performance of public or managerial performance may be enhanced by developing a mega policy for public enterprises. Mega policy is the mother policy eg health policy, education policy etc. A mega policy on public enterprises will provide guidelines on their formation purpose or objective funding management, performance bench mark for assessing performance monitoring and evaluation etc. The absence of a mega policy is partly responsible for the poor performance of public enterprises, in less developed countries and particularly in Nigeria.

### 2.13.2 Decentralization

Decentralization is the transfer of resources from the centre to the peripherally (local areas). Ordinarily, the establishment of public enterprises is an attempt to decentralize government in developing countries like Nigeria only pay lip service to decentralization as government and enterprises activities are still highly centralized. For example the headquarters of the NNPC is the Federal Capital Territory Abuja whereas the resources being managed by it are produced mainly in the Delta region.

During the reign of General Abacha, the head of office of the Nigeria ports Authority (NPA) and the national maritime Authority (NMA) and a few others were moved to Abuja whereas most of their activities clients/customers and ports operation are in the coastal areas. The decision by the Obasanjo government to return them to Lagos was vehemently opposed by those who benefit from the existing quasi federal structure. In the 1993 world development report the world bank among other things made proposals for the decentralization of finance legal and financial support  for Ngo and similar nonprofit detailed development cost sharing formula between central government  system devolving greater financial and personnel responsibilities down the administrative and relying increasingly on market signals to orient  public services management behaviour (Mackintosh, 1995:31)

In other words, decentralization or devolution may be a way of increasing funding from local communities reducing paid government staff and drawing on unpaid community labour. It helps to identify some needs. The achievement of developed countries in area of services delivery is to some extent a result of the high degree of decentralization in the system. This has led to the suggestion albeit erroneously that decentralization is for developed countries (Vander Well 1984) Many public policies in developing countries that have effect on the local  levels are usually taken at the centre e.g. labour policy.

In Nigeria a peripheral activity like the issuance of number plate is coordinated at federal level. As a result there is constant scarcity of the item it must be admitted however, that public enterprises local authorities and cities do not even cherish independence because they enjoy their relationship with the central government (Mackintosh, 1995) decentralization to local control may therefore be as important as decentralization to the market.

### 2.13.3 Nongovernmental Organization (NGOs)

Although decentralizing may lead to improvement in public enterprises performance, Rondneilli et al (1989) cautioned that privatization deregulation delegation devolution and decentralization may be incompatible in order to overcome this problem and provide an alternative to the private sector the use of NGO is often suggested. NGOs are non- profit providers. The state may developed activities to them rather than to the private sector. NGOs like other non-profit providers are not profit maximizes  though it is not clear what objective functions they do maximize (LeGraund 1991).

## 2.14 Public Private Partnership (PPP)

Generally, the world economy has so far witnessed the following economic regimes: unregulated, regulated, contestability, deregulation and reregulation. These regimes are characterized either by a predominant public sector control or private sector domination, giving way to dominant public sector regulation and competition respectively or better still the combination of both the public and the private sectors resulting to what is today widely known as Public Private Partnership (PPP).

The idea behind Public Private Partnership is conceptualized on the word synergy that generates energy and produces superlative results. The term synergy comes from the Greek word *synergia* from *synergos*, meaning “working together.” The term was refined by Fuller (1975), who analysed some of its implications more fully and coined the term synergistic:

- A dynamic state in which combined action is favoured over the difference of individual component actions.
- Behavior of whole systems unpredicted by thebehaviour of their parts taken separately, known as emergent behavior.
- The cooperative action of two or more stimuli resulting in a different or greater response than that of the individual stimuli.

In the natural world, synergistic phenomena are ubiquitous, ranging from physics (for example. The different combinations of quarks that produce protons and neutrons), to chemistry (a popular example is water, a compound of hydrogen and oxygen), to the cooperative interactions among the genes in genomes, the division of labour in bacterial colonies, the synergies of scale in multi-cellular organisms, as well as the many different kinds of synergies produced by socially – organized groups, from honeybee colonies to wolf packs and human societies. Even the tools and technologies that are widespread in the natural world represent important sources of synergistic effects. The tools that enabled early hominines to become systematic big-name hunters is a primordial example.

In the context of organizational behavior, following the view that a cohesive group is more than the sum of its parts, synergy is the ability of a group to outperform even its best individual member. These conclusions are derived from studies conducted by Jay Hall on a number of laboratory – based group ranking and predictions tasks. He found that effective groups actively looked for the points in which they disagreed and in consequence encouraged conflicts amongst the participants in the early stages of the discussion. In contrast, the ineffective groups felt a need to establish a common view quickly, used simple decision making methods such as averaging, and focused on completing the task rather than on finding solutions they could agree on.

In a technical context, its meaning is a construct or collection of different elements working together to produce results not obtainable by any of the elements alone. The elements, or parts, can include people, hardware, software, facilities, policies, documents: all things required to produce system level results. The value added by the systems as whole beyond that contributed independently by the parts, is created primarily by the relationship among the parts, that is, how they are interconnected. In essence, a system constitutes a set of interrelated components working together with a common objective: fulfilling some designated need.

Used in a business sense, synergy means that teamwork will produce an overall better result than if each person within the group were working toward the same goal individually. However, the concept of group cohesion needs to be considered. Group cohesion is that property that is inferred from the number of strength of mutual positive attitudes among members of the group. A group becomes more cohesive, its functioning is affected in a number of ways. First, the interactions and communications between members increase. Common goals, interests and small size all contribute to this. In addition, group member satisfaction increases as a group provides friendship and support against outside threats.

There are negative aspects of group cohesion that have an effect on group decision-making and hence on group effectiveness. There are two issues arising. The risky shift phenomenon is the tendency of a group to make decisions that are riskier than those that the group would have recommended individually. Group polarization is when individuals in a group begin by taking a moderate stance on an issue regarding a common value and after having discussed it, end up taking a more extreme stance.

A second potential negative consequence of a group cohesion is group think. Group thin is a mode of thinking that people engage in when they are deeply involved in cohesive group, when the members striving for unanimity overrides their motivation to appraise realistically the alternative courses of action.

In humans, synergy relates to interactions and teamwork. At the corporate level, one can talk of mergers or acquisitions among companies. In management, synergy can be seen from the same angle of teamwork or combined efforts and also employing terms such as combinations and collaborations. It refers to as the condition that exists to when an organization's parts interact to produce a joint effect that is greater than the sum of the parts acting alone.

Employed in Public Private partnerships, Schneider and Davis (2006) have defined a public partnership as "A contractual arrangement between a public or government agency and a private entity that facilitates greater participation by the private entity in the delivery and operation of an infrastructure project, facility or service."

All Public Private partnerships (PPP) are guided and sustained by some basic principles. They are such as a means of assuring that such partnerships protect both the public interest and provide commensurate benefits for private partners. Thus, these guidelines are proposed as a framework for assessing the efficiency of PPPs for funding, financing and delivering services and facilities. Schneider and Davis (2001) identified seven guided principles for PPP:

a. *Public Private Partnerships are a Tool in the Transit Toolbox*: PPPs should be viewed as one of a number of techniques and mechanisms for finding, delivering and sustaining transit facilities and services. PPPs can be used successfully for a variety of purposes, including delivery of major projects, provision of cost-effective services, and utilization of contractual relationship to improve quality and timeliness of capital projects and services. However, PPP should not be viewed as an ultimate funding solution in the absence of other resources, but as a complement to existing and traditional sources of funding for service expansion, modernization, and infrastructure investment.

b. *PPP Should be Structured to Maintain the Public Interest*. In a vast majority of circumstances, control and oversight of public assests – the facilities and services provided to the public must remain with an entity whose client is the public interest. Thus, the governmental or public entity that holds responsibility must carefully evaluate the transfer of risk and the concomitant transfer of control within a proposed ppp to assure that these transfers bring commercial benefits and foster creative use of non-traditional resources, while maintaining sufficient control/oversight to assure the preservation and sustainability of the public interest.

c. *PPP Should be Utilized as a Strategy to Achieve Public Goals and Support Long Range Regional Plans*: PPPs are often proposed and implemented as a means of implementing projects or selling /leasing assets in ways that do not directly support regional goals for multimodal transport investment. There have been projects or assets sales done primarily because they could be done, not because such undertakings achieved outcomes that met a regional prioritization of infrastructure investment. Thus, public assets should not be sold simply for the sake of general revenue enhancement.

d. *PPP are Most Effective in Those Cases Where a Long Term Revenue Stream can be Assured*: Some agencies believe that private sector can be a viable source of funding when no tax or general revenues are available and no identifiable revenue stream exists. The reality, of course, is that the private sector can only be a useful partner in those cases where financing – as contrasted to funding – is the issue, or in those rare cases where capital invested at risks by a private partner has a strong probability of generating a long term return on that investment. In order for such a return to be generated, the presence / predictability and stability of a long-term revenue stream is mandatory.

e. *PPP Should be Based on Constructive and Beneficial Sharing of Risk*. One of the Key premises underlying PPP is the beneficial sharing of risks inherent in project development. This means that the public sector and private sector assume respectively those risks which each are best suited to accept. For example, common risk allocation may be for the private sector to accept the risks inherent in the cost and timeliness of construction, while the public sector is more capable of accepting the risks associated with environmental clearance, public acceptance, and revenue for development of a capital project.

f. *PPP Should b Used Constructively for Increasing Procurement Flexibility and Project Effectiveness*. There are many opportunities for maximizing competitiveness and performance of capital or eoperating assets through creative utilization of private resources. Numerous examples exists in the literature that demonstrate significant cost and time savings owing to private contracting. However, in some states, PPP deployments are obstructed by procurement statutes that have not kept pace with the emergence of PPPs, inhibiting some agencies from PPP deployments.

g. *PPP Should be Structured to Increase Usage*. The concept of high performance corridors is gaining traction, particularly in light of energy saving and global climate change. Increasing the transit share should be a desirable objective in any undertaking to reduce congestion, improve air quality, and reduce dependency on foreign oil.  PPP should be utilized as a strategy to achieve public goods and support long range regional plans.

Public – Private Partnership (PPP) describes a government service or private business venture which is funded and operated through a partnership of government and one or more private sector. It involves a contract agreement between a public sector authority and a private party, in which the private party provides a public service and assumes substantial financial, technical and operational risk in the operations of services.  The cost of using the service is bore exclusively but the users of the service the financing initiative of capital investment is made by the private sector on the strength of a contract with the management to provide agreed services and the cost of providing the services is bore wholly on management performance.

In 1992, the conservative government of John Major in the United Kingdom (UK) introduced the private finance initiative, the first systematic programme aimed at encouraging Public – Private Partnership. It is important to note that by 1992 this very important programme started yielding some impact on the reducing rate of borrowing requirement by public sector.

Also the European commission communication on the Public – Private Partnership (PPP), as a result of the combined effort of its importance to the economic activity, they view the complexity of such transactions, the European Expertise Centre (EPEC) was established to support the public sector capacity to implement Public – Private

Partnership (PPP) and share timely solutions to problems commonly across the European transport systems (cited financial crises in 2008).

In 2009, the New Zealand treasury, in response to the inquiries by the new national party government released the report on Public – Private Partnership (PPP) Scheme which concluded that there is little reliable empirical evidence about the costs and benefits of Public – Private Partnership (PPP). Nowadays, the new model called for Public – Private Community Partnership (PPCP) model, where both government and private players work together for social welfare, eliminating the prime focus of private players on profit. This model is being applied more in developing nations such as India. The success is being achieved through this model too. It mainly helps to rain up the development process as the focus is sulfated toward target achievement rather than profit achievements.

The ideological changes involving an increasing popular rejection of a strong role for the private sector in the management and financing of public services. This changes is most obvious in developing countries but is to not a minor phenomenon elsewhere, to some extent in United Kingdom (UK). Despite these changes, despite the high profile contract renegotiation in Latin America or Africa, despite the railways crises in England and despite the recurring debate on the matter within the European Union EU, the Public – Private Partnership (PPP) continue to be the agenda of many politicians on both developed and developing countries. For many governments, the main motivation is the need to reduce the fiscal cost of the transport sector. It has been usually more present in Anglo – Saxon countries but increasingly so in other countries as well as indicated by the

EU experience. The conviction is that private operators are likely to be able to deliver services more efficiently is indeed often also a key driver of the continued effort to set into Public – Private Partnership (PPP) arrangements.

The rise of Public – Private Partnership (PPP) in transport has its roots in boarder worldwide privatization initiatives during the 1990's. The catalyzer may have been the drama i.e. changes introduced by the Thatcher administration in the United Kingdom (UK), the bulk of the transactions actually took place in developing countries, the dramatic increase in the involvement of private sector in the development of transport service. It shows that transport benefited from a relatively small share of the private commitments to the sector about 15% of the US $1,000 billion or so committed between 1990 and 2005 to all infrastructure sectors.

See Alexander et al (2001) put emphasis on the cost of capital in transport sector. That is in some countries like Chile for example, minimum income guarantee to protect the operator are introduced jointly with revenue sharing scheme which allow the government to share 20 – 80 percent into net profits, based on what each vehicles generated.

Also the thought, is that they may not provide investors with much protection from risk, payment of shallow tolls over time creates accredit risk for private operators. These inefficiencies can be reduced in a number of ways, such as a declaiming payment schedule as volume increase or a maximum traffic level beyond which shadow tolls are not paid.

The subsidy driven Public – Private Partnership (PPP), in this cases, it is a mechanism for providing explicit performance based subsidies to support the delivery of transport services where policy concerns such as limited affordability for some consumers, a desire to capture positive externalities, or the infeasibility of imposing direct users fees to justify public funding to complement or replace users fees.

Also Judy Layne (1983) steed in his program on the evaluation and performance management in the public sector, and alternative service delivery models such as Public – Private Partnership (PPP) will be effectively depends on human resources management. The literature shows the competition of private industry with public service as an alternative form of combine efforts to create and provide positive promising approaches towards the goals of efficient and effective service delivery in transport industry. The question of whether public or private provision of service is better is in itself, inappropriate. Osorne and Gaebler in privatization debate was of the view the "Business does some things better than government but government does some things better than business" He point out that the public sector tends to be better at policy management, regulatory activities , ensuring equity and social cohesion. At the same time, they feel that private sector tends to be better at performing economic tasks, innovations, replicating successful experiments, adopting to rapid change, and abandoning successful or obsolete activities.

In the same vein Spackman (2002) the debate surrounding the issue whether public or private participation has been waged in term of better performance but however the debate cannot be resolve in its present form. It must be extended beyond its predominantly simplistic ideological dimension by recognizing that both public and private enterprises can contribute positively to the goal of effective service delivery in transport sector. The premise is that conventional ideological perspective fall short of providing a meaningful framework within which sound decision surrounding Spackman (2002) Public – Private Partnership (PPP) lesson from British approach. Economic system the initiative of privatization as policy option can be made.

Akintayo (2010) placed emphasis specifically on the role played by private and public sector in the development transport depends on the state of economic development. Because at initial stage government provide everything road, railways, airports, seaport etc But as the economy grows and great pressure is exerted on public involvement it is impossible for government alone to provide all the infrastructure and services efficiently.

Therefore, private sector has to come in. however, in this era of privatization a key issue should be the level of private sector participation given the points that have been raised under privatization arguments. It is important to note that privatization is a continuum with varying alternative located at different location on the continuum. Also experience have shown that other countries with outright privatization of public transport infrastructure provision shown that development may not be all feasible as conceived and even when feasible may not necessarily result in increased efficiency, especially when competition is lacking. The lessons from these experiences led to search for alternative arrangements, which will attract private investor into the transport infrastructure development but at the sometime provide clear role for government agencies.

In general, Public – Private Partnership (PPP) is a form of cooperation between public authorities and private investor coming under agreeable arrangement into the aim boosting the efficient and effective transport services. The more common Public – Private Partnership (PPP) arrangement are in management contracts leasing, concessions joint ventures demonopolization and divesture (World Bank 1994, 1997). It has to be recognized according to USDOT (1986) that the benefits of Public – Private Partnership (PPP) roles will be forthcoming in to action when there is strong stable government with a commitment to the private investor opportunities to display his skills in provision of services in realistic transport and framework for its implementation realistic in the sense that investment and public  risk sharing, realistic are recognized, and an entrepreneurial sector that bring innovation, effectiveness and efficiency.

The rationale behind private sector initiative participation in the transportation industry is to lessen the dominance of unproductive investment in the transportation industry, against the backdrop of dwindling or revenue and the extent of the country's indebtedness. And also embraces partial privatization involving the government/public agency will help re-orientate public enterprises toward a new horizontal performance improvement viability and overall efficiency.

According to O. Ibidapo-obe (1999) stressed that Public – Private Partnership (PPP) initiative in transport industry has numerous advantage, one of the most common support derived from Public – Private Partnership (PPP) arrangement is that it improve performance of utility, expansion of service coverage, increase operating efficiency and also reduced burden on public budget. Another major advantage of this initiative is the ability to the private sector to efficiency, improve services and stimulate fresh flow of increased capital investment in the public services sector.

Moreover, Organizational model for service delivery are emerging, in forms that represent various blends that seek to combine the best features of public and private sectors in their structure and operation within this context, privatization may be seen as a potential choice from among a range of complex policy instruments, whose design and introduction must be thoughtfully balanced with other policy alternatives towards best meeting identified social needs.

Also in recent years, there has been a substantial increase in the participation of private investors in domestic airline market. The government has embarked on a prograamme concessioning of the country's major airports for some time. In 2003 Murtala Mohammed airport terminal 2 (MMAZ) Lagos was hand over to bi-Courtney limited in a 35 years build operation and transfer agreement, the first of its kinds in the country. The plane gate way consortium was granted the concession for Nnamdin Azikwe International Airport at Abuja in November 2006, the negotiation continued between government and the consortium on the final details of the 25year concession. Therefore, government is looking forward for private partners to take over operation, services providers in transport industry.

In recent time, David Hensher (2011), noticed the growing members of major transport infrastructure that have gone rather quiet on patronage forecasts. Reasonable assumption to make is that the travel time is a critical reason for choosing one form of transport over ano0ther form. However, the workshop concluded that stable frameworks led to partnership arrangement and trust and this is where public sector should take lead while the implementation should lead by private sector which lead to feedback. Setting up appropriate structure to managed performance regime is not just compliance but also to assets operators. These  goals could only be achieved through understanding the relationship and obligations of the parties/trust. There should be minimum standards to address the backlog with respect to establishing performance measurement regimes, particularly in the context of creating a formal market which encourages Public – Private Partnership (PPP) measurement and compliance.

While David Hensher (2012) view that both initiative and evolving transport settings which remain great interest in the design of contract arrangements, with over 26 countries present at Thredbo, an intensive high level debate in identified key issues to the success of contract partnership, given global experiences. Furthermore, the gratification is the overall view from the conference is that we must continue to ensure that the process of contract negotiation is open, clear and achieves buy-in from all sides, that it recognize contract arrangement at the tactical level, but need to be constructed within a clear strategic framewo9rk, that it ensure a clear alignment between strategic, tactical and operations aspects to undertake self – evaluation.

Beside the contractual partnership with the private operator, there are two main ways in which the government continues to be involved in the activities covered by the Public – Private Partnership (PPP): The first is the provision of ex-ante government guarantee and ex-post guarantee which consist of financial contribution to offset the consequence of undesirable unexpected event which have resulted in a renegotiation of the contract. The second is the regulation of the sector, which generally includes the monitoring of commitments made by all parties through the contract. Sytrauch L. (2009) Public – Private Partnership (PPP) in European Road introduced Public – Private Partnership (PPP) as investments asset.

## 2.15 International Experience of Privatization:

### 2.15.1 Privatization in a Developed Country: The UK Experience

Privatization is now being pursued by Governments in many countries across the world. It takes many forms, from the wide-ranging "voucher" privatisation in former Soviet Union and other East European countries, to the granting of concessions to operate water supply and sewerage treatment services in India. OECD figures show that the cumulative value of privatization sales worldwide reached some $88 billion in 1996, and total privatization sales revenues in 1997 are estimated to have reached some $160 billion.

Privatization is one of the most influential economic policies in the world in the past thirty years. The UK was the first in contemporary times to adapt the economic policy that was perceived by many as unpopular. The policy, dates back to the first government of Margaret Thatcher, who became Prime Minister in 1979.

The large scale privatization during the Thatcher government in the United Kingdom in the 1980s is mostly cited as the watershed of privatization throughout the world (Loc et al cited in Khan, 2012). More massive and ambitious privatizations have since been launched after the Thatcher example of the 1980s with the aim of improving the efficiencies of the enterprises, mobilizing capital for expansion and modernizing as well as freeing up resources for social services.

The UK was indeed, among the first countries to adopt privatization and UK-based firms are now recognised as leaders in this field, having helped transform privatization from an academic concept into practical policy which has been applied throughout the world – not necessarily following the UK model in all respects, but drawing on the lessons learnt here and elsewhere, and on the experience of key UK-based participants.

In the course of the UK's privatisation programme, UK advisers have developed a number of new techniques which have been adopted, and in some cases further development, in sales around the world. These have included:

i. the restructuring of industries to create financially viable and commercially focused companies, for example the extraction of the oil exploration company Enterprise Oil from the state-owned British Gas Corporation;

ii. the restructuring of other industries to improve (and in some cases to create) competition between market participants, for example in creating National Power and PowerGen, the competing fossil-fuel generating companies, from the monopoly Central Electricity Generating Board;

iii. the creation of new regulatory structures and supervisory bodies (OFTEL, OFGAS, OFFER, OFWAT and the Office of Rail Regulator, ORR), with the aim of safeguarding the consumer interest where local or national monopoly suppliers still exist;

iv. the invention and refining of large-scale public offers, a technique now adopted for sales outside the UK, for example Deutsche Telekom, Electricidade de Portugal, the Indonesian telecoms company PK Telkom, the Polish copper mining group KGHM, and the Australian airline Qantas;

v. the development of legal structures for sales by instalments, allowing investors to pay for shares over an extended period - now adopted overseas, including the recent offers of shares in Commonwealth Bank of Australia and Telstra;

vi. the introduction of “bookbuilding” techniques into privatisation offerings, allowing the vendor to obtain better pricing information from the market, so increasing value to the taxpayer;

vii. the refining of concession structures to allow continued subsidies from the public sector whilst introducing private sector management techniques and working practices; and

viii. through the UK’s Private Finance Initiative, creating structures which allow private sector operators to deliver improved services by constructing and managing infrastructure and other projects, which have traditionally been the province of Government. Privatization programmes tend to have three stages. Broadly, these phases can be defined as;

a. the initial, commercial stage;
b. the more complex, utilities phase; and
c. the third phase, involving the less commercial industries, possibly including those reliant on continuing state subsidy to operate socially desirable or necessary services.

The UK's experience suggests that it is important to plan privatisation as a programme. Initially the vendor Government may require early and high-profile successes, and in some cases short term proceeds. Such individual, proceeds-driven, sales may be carried out on a case-by-case basis. However, a shift in emphasis, considering and implementing sales as part of a more coherent and planned programme, can have significant benefits. Within a longer-term framework it is possible to plan forward and prepare for the later phases of the programme, including the complex re-examination and restructuring of entire sectors which is often required to ensure success.

The commercial stage may involve the sale of companies, which although state-owned, are freestanding and already operate in a competitive fashion, whether domestically or internationally. UK examples include the sale of Amersham International, the radioactive materials manufacturing group, Briloil, the state-owned oil exploration company, as well as British Airways and Royal Ordnance. Companies of this nature can be transferred to the private sector largely in their existing form, although Governments may want to consider before sale whether their balance sheets are appropriate for their new status. Such companies may be strong candidates for trade sales to third parties in the same business sector, although to encourage competition there are often advantages in establishing the companies as stand-alone entities and selling via flotation.

The second, utilities, phase is likely to require an examination of the role of the state in providing key services, including telecommunications, power generation and supply, and water and sewerage services, where there will often be monopoly elements. This phase may also involve restructuring the existing monopoly operation to create new, competitive, markets, and competing companies to operate both within that market and internationally. It may require the creation of a regulatory system and a regulatory body to oversee the new market and, through price and service regulation, to protect the needs of consumers. The regulatory system may also provide a means of improving levels of service and increasing investment. Key UK examples of companies which, because of their monopoly nature of parts of their businesses, were sold subject to a regulatory regime, were BT, British Gas, the Regional Electricity supply and distribution companies, and the Water and Sewerage companies in England and Wales. Utilities of this kind are likely to be large companies, and this usually makes them candidates for sale by public flotation. This approach was adopted for the majority of UK companies included in this phase, although a few (including the electricity generating stations in Northern Ireland) were privatised via trade sales.

The third phase has involved the sale of companies which do not operate in a wholly commercial environment, for example, because they operate socially desirable services, often reliant on subsidy from government. In order to privatise such companies successfully, new relationships between the public and private sectors may need to be established, for example to target subsidy only at those services where direct support is essential. The nature of these businesses has meant that in some cases companies have been franchised - a form of concession - allowing private sector operators to manage public transport services while still receiving subsidies from central government for socially necessary, but otherwise uneconomic, routes. In the UK, this structure was applied to the train operating companies, while Railtrack, the rail infrastructure operating company, was sold by flotation.

The UK also had to develop structures to deal with the circumstances of particular industries. The flotation of British Energy, the electricity generating company which owns and operates nuclear generating stations, involved creating a long-term, ring-fenced, funding structure to allow the company to provide for the liabilities associated with decommissioning nuclear power stations. And the privatisation of some central government functions entailed the Government providing the businesses with a guaranteed workload in the short to medium term, so as to enable them to adjust to their new environment before having to tender competitively for contracts from Government and new work from other sources. As noted above, there are a number of possible methods which can be used to transfer undertakings or businesses to the private sector. These include;

i. a **trade sale.** These may take a number of forms, including: the sale of a (normally controlling) stake in a company to a strategic investor, often linked to commitments to new investment or the introduction of new management. This may be preparatory to the sale of the remainder of the state's interest to a wider audience;

ii. bids by the existing management and workforce to buy the company from the state, known as management buy-outs (MBO) or management-employee buy-outs (MEBO); or

iii. the purchase of an entire business by a third party, often (but not exclusively) operating in the same business sector;

iv. the granting of medium to long-term **concessions** to take over and operate a company or a service on behalf of the Government, with the new private sector management granted operational freedom to manage the business as they see fit, subject to any over-arching guidelines or regulation imposed by Government. This right to operate may be re-offered at the end of the concession period; and

v. the public flotation of all or part of the share capital of a company, either to domestic or international investing institutions, or to individual shareholders (the "retail public"), or to a combination of the two.

When promoted as a policy, privatization attracted major skepticism across the political spectrum (Nigel). It was widely opposed for being both doctrinaire and as a means to 'sell off the family silver'. To that extent, it was seen as a radical economic policy that few believed would deliver material benefits. However the UK government benefited from privatization as outlined by Hawkins (2010) are as follows:

i. Substantial price cuts in the retail telecoms market

ii. Pronounced cuts in electricity and gas prices until the reversal of this trend by large increases in wholesale gas prices from 2003 onwards.

iii. Far better service levels in all utility sectors;

iv. The creation of much greater choice for consumers through a shift to privately-owned utilities;

v. The emergence and growth of Vodafone, the world's leading international mobile player;

vi. Enhanced competition in the electricity generation market, which has delivered very substantial efficiency savings;

vii. The unveiling of the massive subsidies that the nuclear industry had enjoyed during its time as a subsidiary of the Central Electricity Generating Board (CEGB);

viii. Major investment in new fossil-fuel power plant, most of which has been gas-fired;

ix. An £85 billion investment programme in the water sector since privatization in 1989;

x. Heavy investment in new airport facilities by BAA, especially at Heathrow, Gatwick (which it recently sold) and Stansted;

xi. The turnaround of British Airways' fortunes, which has enabled it to surmount – unlike some other European carriers – the industry challenges of recent years;

xii. The payment to government of many £10 billions of proceeds arising from the privatization programme, along with the large Corporation Tax bills that privatized companies pay each year;

xiii. "The private sector financing of large pension liabilities at BAE Systems, British Airways and – in part – British Telecom which would otherwise have fallen on the public sector;"

xiv. The scope for privatized UK companies to expand their operations overseas;

xv. The development of many UK companies supplying these privatized businesses;

xvi. "The very impressive shareholder returns from most – though not all – privatizations have boosted pension fund valuations;"

xvii. The substantial earnings, especially in the City and consultancy sector, that the UK earns from exporting the privatization policy around the world.

However, the policy has stalled in the UK where it began but has continued overseas (Hawkins, 2010).

### 2.15.2 Privatization in a Developing Country: The Ugandan Experience

Over the years, many countries, especially developing ones, have witnessed increasing costs and poor performance of state-owned enterprises (SOEs), resulting in heavy financial losses.

Since the 1970s, in particular, SOEs have become an unsustainable burden in some countries, absorbing large share of budgets of governments in form of subsidies and capital infusion. For instance, SOEs are adjudged to have contributed substantially to public sector deficits and have financed less than one fifth of their investments through internally generated resources (Nair and Filippines, 1988).

As some governments ran into severe fiscal problems such that loans became increasingly difficult to raise at home and abroad, they were forced to consider some radical methods for reviving the SOEs. Such reforms embarked upon by developing countries included privatization. Kikeri et a1 (1994) noted that the high costs and poor performance of SOEs and the modest and fleeting results of reform efforts have turned many government towards privatization. Other reasons include the collapse of communism in Eastern Europe and the Soviet Union, and some successes of privatization undertaken earlier in countries such as the United Kingdom. Fiscal crises have also led some governments to privatize as a way of raising revenues and stemming losses, especially in the face of increasing public debt. Also, many governments are believed to have opted for privatization because of their inability to finance investment in their SOEs than expectations of efficiency gains.

However, the objectives of governments for embarking on privatization vary from country to country. They include the expansion of the role of the private sector to improve mobilization of savings for new investments, modernizing the economy through increased private investment, new technology and efficient management to stimulate growth. Others are to facilitate the development of the competitive environment, provide greater employment opportunities over time and reduce the cost of goods and services to consumers. The need to improve government's cash flow, enhance the efficiency of the SOEs, promote 'popular capitalism' and curb the power of labour unions in the public sector, redistribute incomes and rents within society and satisfy foreign donors who would like to see the government's role in the economy reduced are generally fingered as rationale for privatization.

Uganda embarked on privatization of formally SOEs in 1993. The country slated 194 SOEs for privatization and only 34 four were yet to be privatized (Ssentamu et al, 2001). Privatization in Uganda was intended to result to fiscal benefits and equity enhancing effects through income distribution effects, reduction of inequalities of access to goods and services by limiting opportunities to favouratism, corruption and differential fixing of rents that penetrate economies with extensive state controls and subsidies.

However, there are feelings otherwise. Many felt that government had not facilitated active participation of the locals who felt robbed. Uganda like many other developing economies created and owned Public Enterprises (PEs) as far back as her colonial days.

The most important factors that led to the creation of PEs in Uganda were:

i. The need for the promotion and development of indigenous entrepreneurs;
ii. Inability of the private sector to undertake certain large and strategic economic activities;
iii. The need to maintain control over strategic sectors of the economy;

iv. Political and ideological considerations which led to the takeover of private companies;

v. Forces pertaining to internal growth and diversification;

The absence of indigenous capital and entrepreneurship among the citizens was a compelling force for government to be involved in much of what would have been the responsibility of the private sector. Government inherited almost all enterprises including banks in Uganda. The PEs however performed poorly due to the unfortunate political situation and depressed economy of Uganda. Most enterprises were characterized by low capacity utilization, large operating loss and low profits at best, low productivity and increasing illiquidity and indebtedness. The entire sector was glutted with non-productive and unmotivated labour force riddled with poor management.

Given the appalling state of SOEs in Uganda, and its negative effects on the economy, privatization was the most ideal choice for the government. Also, despite this, there was contention that the process was poorly managed and the timing and sequencing of the programme was ill-timed. There was a lack of an appropriate institutional framework to facilitate the process. A number of SOEs were undervalued and more money was spent on preparing and restructuring the enterprises for divestiture than had been realized from the sales.

Although, the utilization of the divestiture proceeds had been provided publicly, there was discontent about the valuation of the net-worth of the SOEs privatized and collection of the proceeds. For example, by the end of 1993, only 28 out of 55 enterprises sold out, that is 51 percent, had been fully paid for.

Most people interviewed in Uganda showed that they were fairly well informed about the privatization programme. However, their understanding of privatization in Uganda was that it is a sale of SOEs that was imposed on the country by the Brettonwoods institutions to enrich government officials, give foreign investors windfall profits as a way of recolonisation period. According to many Ugandans, no provisions were put in place for an employee preference scheme to increase opportunity to acquire ownership on favourable terms whether in form of share, purchase of physical assets or 100 percent buy-out.

The impact of privatization in Uganda were mixed. A 2001 study revealed that privatization led to increase supply of quality goods and services on the markets especially essential commodities (sugar, salt, soap, etc) that were in short supply and monopoly of SOEs in production and distribution.

Privatization in Uganda also led to increased industrial capacity utilization, profitability and higher employment levels in the private enterprises.

The other side of privatization was that a number of workers in the privatized enterprises reported improved working conditions in terms of real wages and benefits and introduction of better technology though amidst increased workload and in some cases job insecurity.

It was revealing that privatization was more costly to former female workers in SOEs because of their initial conditions that saw women in capacity of low or no specific skills thus forming the highest proportion of the laid off labour force. Post privatization shows female workers as having increasingly gained employment in privatized enterprise particularly in the service sector. However, this was not perceived as an outcome of privatization but rather as being influenced by the overall reform in the economic and social systems.

Laid off workers as a result of privatization in Uganda showed many discontented voices. Many mentioned the lack of support to their families and to the education of their children following being laid off even where they were paid and terminal benefits. The laid off staff felt that they were not adequately paid and never in time. There were also claims that they were not empowered with new skills for survival in a different environment.

In addition, there was a  perception that privatization might have led to exploitation of consumers through pricing mechanisms by the private entrepreneurs. Even when the move was towards rational pricing following removal of subsidies, there was a perception that this could have worsened income inequality. The low-income category was most hurt.

Inappropriate implantation of privatization such as foot dragging by implementing agencies and decision making bodies, structural obstacles such as the absence of well developed financial and capital markets made privatization frustrating.

Therefore, privatization, whatever form it took is no panacea. In Uganda situation, it could better have been introduced at a measured pace, and that due regard should have been given to the fact that some privatization measures would hurt some vulnerable groups in an absolute sense. For instance, low-income earners were believed to have been hurt by the price adjustments on goods and services following removal of government subsidies that were provided through SOEs.

Privatization was simply inevitable in Uganda given the appalling state of the Privatized Enterprises and the negative impact on the economy. Privatizing the enterprises was the most ideal choice for the government. The timing and sequencing of privatization programme were not proper. There was lack of a market-friendly policy framework and a relatively well-developed institutional and regulatory capacity to work alongside privatization. There was a slow evolvement of domestic equity and as a result, the general public was not able to participate fully in the privatization process.

Privatization in Uganda also received inadequate government commitment. It was mainly the president's affair, which was supported by the World Bank that was pushing the divestiture programme and there was much less enthusiasm for the programme in parliament, cabinet or even some members of the DRIC. There was hardly anybody to ensure that decisions were taken and implemented in a timely fashion. Furthermore, decision-making was cumbersome and hindered speedy conclusions of divestitures.

The method adopted for privatization was a top-down approach to setting rules and establishing an approval process without involving the workers. This process created uncertainty in the eyes of the public since it was politically supported.

There was inadequate public education based more on action than words, especially in the beginning. Public perception about privatization was mixed and this owes to the fact that there was lack of transparency and the public was insufficiently informed to appreciate the essence of divestiture. Mechanisms to foster implementation were not in place thus crippling the ability to purse successful privatization. Hence, the programme had limited support.

To some extent, it can be argued that the programme resulted into some success in the aspects of improved efficiency, capacity utilization, productivity, and profitability. There has been an improvement in the quality and quantity of products produced. Certainly, increases in tax contributions and greater employment opportunities had occurred. On the other hand, in view of the objective of broadening share ownership among Ugandans, there were evidence of social political discontent and therefore the progamme had achieved less than what was intended.

The literature on privatization is revealing. It has defined the concept of privatization in varying ways and even based on cultures and economic levels of development. The review has series of theories and models that include the Principal Agent theory, the Growth and Development theory, the Five Stages of Decline Model in a company, the Efficiency Theories: Smithain Allocative Model, the Keynesian full capacity utilization and the Schumpeterian adaptive efficiency.

The review has shown that privatization became inevitable but not absolutely challenges free, hence the need for synergy between the public and the private sectors under a PPP regime. The review has also taken into consideration two international cases, one from a developed society and the other form a developing African society.

Finally, Jim Collins would who want managers to know and note that privatization or public private partnerships do not in themselves generate the necessary results that keep a company successful and decline does not absolutely mean complete failure; but recognition of decline in good time could lead to an early termination of the “disease” of decline and the recovery of an organization. In other words a company may re-launch itself into recovery as long as it has not gone beyond the irrecoverable fifth stage of decline.

CHAPTER THREE

## RESEARCH METHODOLOGY

### 3.0 Introduction

It is the aim of research to systematically search and objectively uncover new knowledge on a subject matter. This chapter describes the strategies employed to achieve the research objectives of this study as outlined in the introductory chapter of the work. The research type is exploratory in nature examining the performance of the Nigerian economy and polity after the privatization of the State Owned Enterprises (SOEs).

The research method is structured under the following subheadings:

i. Data Types,
ii. Sources and Collection/
iii. Acquisition Methods
iv. Sampling Techniques and Sample Size
v. Data Analytical Techniques
vi. Problem of Data Collection

### 3.2 Data Types

The research questions raised from the onset as well as the aims and objectives set out for this study are the determining factors for the data that is required for this study. The research questions include the following:

i. Has privatization of public enterprises attracted more foreign investors?
ii. Has privatization of public enterprises created more job opportunities in the country?
iii. Has privatization of public enterprises improved the standard of living of the people?
iv. Has privatized enterprises performed better than public enterprises?
v. Has privatization of public enterprise curb inefficiency in public services?
vi. Has privatization eliminated wastages and indolence in public service?

To answer the above mentioned questions, the following data types were generated:

1. Visible Trade
2. The Exchange Rate of the Naira to the Dollar
3. Stock values
4. Product values
5. The rate of unemployment
6. Social Cost of Privatization

### 3.3 Sources and Collection/acquisition methods

Books, newspapers, journals and other publication that are relevant to the study were consulted. The current information technology i.e Internet and satellite were used in collecting relevant data. The various data types above were sourced from the following:

1. The stakeholders
2. Published Annual Reports of the Central Bank of Nigeria (CBN) and the National bureau of Statistics (NBS).
3. Published Stock Exchange Market

4. Journals and magazines
5. Relevant texts

## 3.4 Method of Data Collection

The data required were collected using the instruments of questionnaire and desk research.

## 3.5 The Research Population

The term population means the total number of concerns which by direct of common characteristics may lead to the gathering of relevant data on information. In this study the research population refers to professional in various disciplines like Banking Teachers, Brokers, Accountants, has businessmen and women as well as students and the general public who are stake holders in a privatized economy.

### Sample Size

A sample in this study can be defined as a group of items taken from the general population so that the need information can be obtained for the purpose of analysis. Considering the population of Nigerian over (150,000,000) it will not be possible to interview all Nigeria hence the need to use a representative fraction of the population. In this regard a total of 200 Nigerian stakeholders of diverse socio-economic background were interviewed with the use of a structured questionnaires.

### Justification of the Sample Selection

It is practically impossible for every Nigerian to be interviewed on this subject of privatization of public enterprises in Nigeria. The selection of 200 stakeholders for interview on the subject is assumed is representative enough of the Nigeria population if out of about 150,000,000 Nigerians 200 respondent are randomly selected, their majority view can perfectly serve as a representative opinion and a reflection of the views of the generating of all Nigerian. In the subject matter of privatization of public enterprises in the Nigerian economy.

### 3.6 Instruments Used

This research employed the use of a structured questionnaires as well as personal interviews to collect data from the chosen population sample in support of this study. The Likert Style of constructing questionnaires like agree, strongly agree strongly disagreed and unfair responses were used.

### 3.7 Sampling Procedure

In carrying out this research, the researcher went out in to the Kaduna metropolis and randomly administered the questionnaire after introducing questionnaires, after introducing himself, and the subject matter and of course after seeking the approval of their attention. The selected population of interviewees cut across the diverse segment of the Nigerian society.

The researchers sought the cooperation of the participants in given answers to the question in the questionnaire, 200 questionnaires were distributed to the randomly selected groups in Kaduna Zaria and Kano.

## 3.8 Data Analytical Techniques

**Statistical Techniques Used in Analyzing the Data**

The descriptive statistics was used in analyzing the data using percentage distribution and mean and weighted averages from which inferences were drawn. Such results were further represented in charts showing the varying effects of post privatization era on the economy and the polity.

Chi-square statistical tool was also used in analyzing the data.

**Chi-Square Statistics**

$$X^2 = \Sigma \frac{(O-E)^2}{E}$$

Where: 0 = Observed frequency

E = Expected frequency

df= (C-1) (r-1)

where: Number of columns

r= number of rows

level of significance

= 0.05

### 3.9 Justification of the Method

Justification for the use of chi-square ($X^2$)is based on the following parameters. According to Creighton (1980) the chi-square statistics is used under the following:

i. Likart scale has been used for measuring the responds responses such as strongly agree, Agree, strongly disagree etc.
ii. Nominal scale used for measuring response conforms with discrete ordering eg Agree, Disagree etc which is application to the use of Chi-square for proving hypothesis.
iii. The use of discrete data in this study is favorably disposed to the use of Chi-square ($X^2$) as a test of impendence of variables or the compare different between observed and expected (theoretical) frequencies
iv. The tables of observed frequencies eg drawn from data collected have rows and columns which are applicable to the use of chi-square ($X^2$)
v. The researcher has used the normal state for the categorization of response into groups or cells rather than as individuals with unique characteristics. The researcher has used the method of the enumerated reasons above.

### 3.10 Scoring Procedure

The questionnaires used for this study contained 20 questions to which respondents were expected to give answers to. Responses were classified into strongly agree, agree disagree, strongly disagree, and unsure responses. For the purpose of analysis, the Strongly Agree and Agree responses were combined to become a single response of agree. The strongly disagree and disagree responses were equally combined to become a single responses of disagree. While the unsure responses remain unchanged. In the end, we have three responses (agree, Disagree and unsure)

### 3.10 Problem of Data Collection

In the course of carrying out this study, there were difficulties in getting up to date data. The research was originally conceived to cover the period 2006 up to the year 2012, but had to be limited to the year 2010 due to lack of up to date data. Even with 2010, some of the data availed is only up to the year 2009. Notwithstanding, the study has made useful contributions that will guide policy direction and awaken the consciousness of PE managers of uncertainties and a challenging future.

CHAPTER FOUR

## DATA PRESENTATION AND ANALYSIS OF FOR THE ASSESSMENT OF THE EFFECTS OF PRIVATIZATION ON THE NIGERIAN ECONOMY

### 4.0 Introduction

This chapter presents an analysis of data collected in order of the set objectives of this study to show the effects of privatization on the Nigerian economy and polity:

i. To estimate the level of foreign investment into the country following privatization;
ii. To determine the level of fluctuation of the Nigeria currency to the dollar;
iii. To appraise the level of appreciation of stocks under a privatized regime;
iv. To ascertain the levels of service quality under privatization;

v. To assess the degree of employment generated in a privatized regime;

vi. To evaluate the social costs of privatization;

The study has depended largely on secondary data with little primary interaction to achieve the objectives set out at the beginning of the study and restated above.

## 4.1 Attraction of Foreign Investment

One of the key objectives of privatization was to attract foreign investment into the country. Official records of the Central Bank of Nigeria for five years show that foreign direct investment (FDI) into Nigeria increased significantly following the deregulation of the economy in 1986 (Annual Report, 2009:155 and 2010). The reports notes that the FDI inflows increased steadily by 21.6 percent from N624.5 billion in 2006 to N759.4 billion in 2007, but declined by 39.4 percent to N460.2 billion in 2008 due to the global financial crisis, but later rose by 24.4 percent to N572.5 billion in 2009. The major components of FDI in Nigeria are new capital importation and reinvestment.

The level of foreign investment into a country is determined by the overall Balance of Payment (BOP) and International Investment Positions (IIP) recorded. The available records with the Central Bank of Nigeria (CBN) up to the year 2010 shows that both the BOP and IIP were largely in deficit especially in the years 2009 and 2010. The development is reflected in the depletion of the external reserves, huge bills, rising external debts, increased repatriation of investment inflows as well as the weak global economic recovery.

Table 4.1 and Figure 4.1 show the Visible Trade with imports and exports and the Balance of Payment shows the overall BOP deficit represented 6.0 percent of the Gross Domestic Product (GDP) while the recurrent account surplus narrowed from 8.0 per cent of the GDP in 2009 to 1.5 per cent of GDP in 2010.

Provisional data from the National Bureau of Statistics (NBS) shows that Gross Domestic Product (GDP) measured at the 1990 constant basic prices was estimated at N716.9 billion in 2009, indicating a growth rate of 6.7 per cent. This exceeded the 6.0 per cent recorded in 2008 and the average annual growth rate of 6.4 per cent in the period 2005 and 2009, but lower than the target growth rate of 10.0 percent for the year.

Meanwhile the Nigerian currency, the Naira appreciated in the years 2006, 2007, and 2008 but fall in the year 2009 and 2010, thus wiping out the gains that it had made shortly after privatization was at an advanced stage. Tables 4.2 to 4.4 all show the official exchange rates, the exchange rates and the Bureau de Change and the interbank exchange rates showing the appreciation of the Naira in 2006 up to 2007 but a fall in the subsequent years. This shows that the effect on the appreciation of the Naira could not be sustained over a long time.

Table 4.1**Visible Trade (Naira million)**

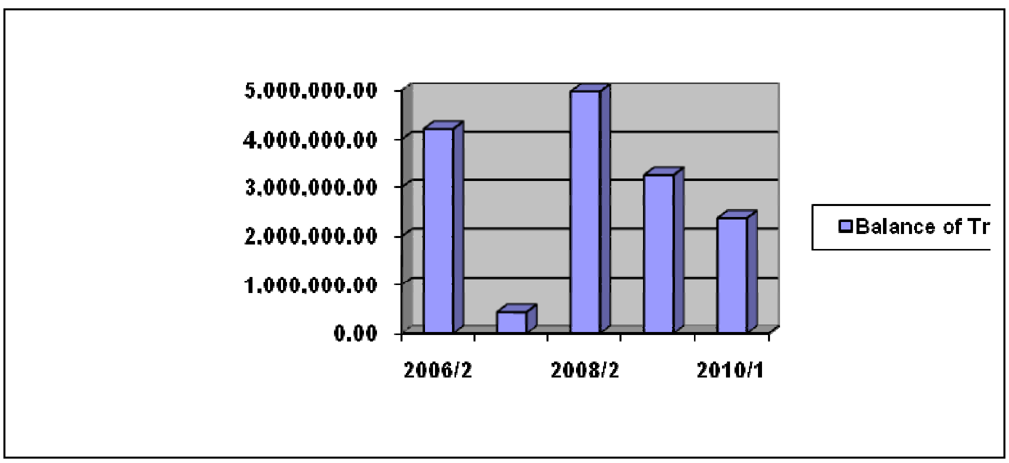
| **Items** | **2006/2** | **2007/2** | **2008/2** | **2009/2** | **2010/1** |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| **Imports (c & f)** | 3,108,519.3 | 3,911,952.6 | 5,189,802.6 | 5,102,534.4 | 8,666,,584.7 |
| **Exports (fob)** | 7,324,680.6 | 8,309,758.8 | 10,161,490.1 | 8,356,385.6 | 11,035,794.5 |
| **Total Trade** | 10,433,199.9 | 12,221,710.9 | 15,351,292.7 | 13,458,919.9 | 19,702,379.2 |
| **Balance of trade** | 4,216,161.3 | 439,805.7 | 4,971,687.5 | 3,253,851.2 | 2,369,209.8 |
| **Effective Central Exchange Rate (N/$)** | 127.5 | 124.8 | 117.8 | 147.3 | 148.5 |

1/ provisional 2/ Revised The figures include estimates made for informal/unrecorded imports and exports

Source: Central Bank of Nigeria

Figure 4.1 Visible Trade (Naira Million)



Source: Central Bank of Nigeria, 2010 Annual Report.

**Table 4.2 Exchange Rates Movements (Naira per Us Dollar) CBN DAS/WDAS Rate**

| Month | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **January** | 130.29 | 128.28 | 117.98 | 145.78 | 149.78 |
| **February** | 129.59 | 128.27 | 118.21 | 147.14 | 150.22 |
| **March** | 128.70 | 128.15 | 117.92 | 147.72 | 149.83 |
| **April** | 128.47 | 127.98 | 117.87 | 147.23 | 149.89 |
| **May** | 128.45 | 127.56 | 117.83 | 147.84 | 150.31 |
| **June** | 128.45 | 127.41 | 117.81 | 148.20 | 150.19 |
| **July** | 128.38 | 127.19 | 117.77 | 148.59 | 150.10 |
| **August** | 128.33 | 126.68 | 117.74 | 151.86 | 150.27 |
| **September** | 128.29 | 125.88 | 117.73 | 152.30 | 151.03 |
| **October** | 128.28 | 124.28 | 117.72 | 149.36 | 151.25 |
| **November** | 128.29 | 120.12 | 117.74 | 150.85 | 150.22 |
| **December** | 128.29 | 118.21 | 126.48 | 149.69 | 150.48 |
| **Average** | 128.65 | 125.83 | 118.57 | 148.88 | 150.30 |
| **End-period** | 128.27 | 117.97 | 132.56 | 149.58 | 150.66 |

Exchange Rate from August, 2005 includes 1% commission

1/ There was no Inter-Bank trade between $18^{th}$ February-$28^{th}$ May 2009

Table 4.2, 4.3 and 4.4 all show the exchange rate of the Naira to the dollar at CBN controlled rate, inter-bank rate and at the Bureau de Change. The exchange rate shows that the Naira made appreciable gains in the post privatization exercise but suffered a failure in the face of the dollar at the peak of the global economic meltdown and thereafter.

Table 4.3 Exchange Rates Movements (Naira per Us Dollar) Bureaux de Change

| Month | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **January** | 144.09 | 130.04 | 120.80 | 149.88 | 153.55 |
| **February** | 145.47 | 130.00 | 119.57 | 156.93 | 152.08 |
| **March** | 148.46 | 129.34 | 119.00 | 174.32 | 151.85 |
| **April** | 147.85 | 129.00 | 118.83 | 180.27 | 152.00 |
| **May** | 142.33. | 129.16 | 118.80 | 180.63 | 153.26 |
| **June** | 136.82 | 128.32 | 118.70 | 166.14 | 153.87 |
| **July** | 130.12 | 127.52 | 119.00 | 155.13 | 152.41 |
| **August** | 130.46 | 127.39 | 119.00 | 158.95 | 152.23 |
| **September** | 130.21 | 126.50 | 119.00 | 158.00 | 153.85 |
| **October** | 130.30 | 126.50 | 119.00 | 153.05 | 153.98 |
| **November** | 129.82 | 123.80 | 119.10 | 152.95 | 153.13 |
| **December** | 129.32 | 121.39 | 137.65 | 153.48 | 154.57 |
| **Average** | 137.10 | 127.41 | 120.71 | 161.64 | 153.57 |
| **End-point** | 129.50 | 121.00 | 139.00 | 155.00 | 156.00 |

Exchange Rate from August, 2005 includes 1% commission

1/There was no Inter-Bank trade between 18$^{th}$ February-28$^{th}$ May 2009

The naira made gains in the years 2006 and 2007 but crashed in 2008 and 2009 and since then it has not recovered nor returned the rates at which it were in the year 2006 when most of the companies slated for privatization became private enterprises. This also shows that the standard of living did not improve much with privatization.

Table 4.4 Exchange Rates Movements (Naira per Us Dollar)Interbank Rate/1

| Month | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| **January** | 129.93 | 128.37 | 117.72 | 146.59 | 150.33 |
| **February** | 129.33 | 128.33 | 117.50 | 149.12 | 150.97 |
| **March** | 128.68 | 128.25 | 116.79 | - | 150.08 |
| **April** | 128.58 | 127.99 | 117.47 | - | 150.38 |
| **May** | 128.57 | 127.62 | 117.79 | - | 151.49 |
| **June** | 128.50 | 127.49 | 117.74 | 148.54 | 151.28 |
| **July** | 129.43 | 127.20 | 117.71 | 149.88 | 150.27 |
| **August** | 128.43 | 126.59 | 117.69 | 155.23 | 150.70 |
| **September** | 128.39 | 125.73 | 117.62 | 153.25 | 152.62 |
| **October** | 128.42 | 123.43 | 117.72 | 150.22 | 151.78 |
| **November** | 128.42 | 119.45 | 117.88 | 151.03 | 150.55 |
| **December** | 128.39 | 118.23 | 134.33 | 149.80 | 152.63 |
| **Average** | 128.67 | 125.72 | 119.00 | 112.80 | 151.09 |
| **End-period** | 128.50 | 118.05 | 140.00 | 149.67 | 152.00 |

Exchange Rate from August, 2005 includes 1% commission

1/There was no Inter-Bank trade between 18th February-28th May 2009

## 4.2 **Stock Values Under a Privatized Regime**

The privatization of public enterprises generally resulted to a high level of appreciation of the value of stock at the initial stages but plummeted during the global economic meltdown. Table 4.5 shows the low prices of stocks about 1989 and in the 1990s when the stock were on sale at the time of privatization. Obadan and Ayodele (2006) had shown the significant change in prices of stocks between 1989/1990 and 2006. National Oil for instance rose in value by 3375% just as African Petroleum Plc rose by 2005 percent. Similarly, Unipetrol Nigeria Plc, rose in value by 3840 percent.

**Table 4.5 Prices of Selected Privatized Enterprises as at September, 2006 and 23rd December, 2010**

| Privatized Company | Date of Offer (1) | Offer Price (N) (2) | Mkt. Price as @ 7/9/06 (3) | Mkt. Price as @ 23/12/10 (4) | % Change as @ 2006 (5) | Capital Appreciation (N) as at 7/9/06 (6)=(3)-(2) | % Change (7) (7)=(8)/(2)*(100) as @ 2010 | Capital Appreciation (N) as at 23/12/10 (8)=(4)-(2) |
|---|---|---|---|---|---|---|---|---|
| National Oil Plc. (ConOil) | 8/5/89 | 2.00 | 69.5 | 34.71 | 3375 | 67.5 | 1635.5 | 32.71 |
| African Petroleum Plc | 27/2/89 | 1.90 | 40 | 21.90 | 2005 | 38.1 | 1053 | 20 |
| Unipetrol Nig. Plc. (Oando) | 27/5/91 | 2.00 | 78.8 | 66.80 | 3840 | 76.8 | 3240 | 64.8 |
| UNIC Ins. Plc | 24/7/89 | 1.20 | 1.8 | 0.50 | 50 | 0.6 | -5833 | -0.7 |
| Crusader Ins. Plc. | 6/11/89 | 1.30 | 2.1 | 0.51 | 62 | 0.8 | -60.77 | -0.79 |
| Niger Ins. Plc. | 6/11/89 | 1.30 | 2.6 | 0.58 | 100 | 1.3 | -55.38 | -0.72 |
| WAPIC Plc. | 6/11/89 | 1.10 | 3.9 | - | 255 | 2.8 | - | - |
| BAICO Plc. | 6/11/89 | 1.10 | 1.6 | - | 46 | 0.5 | - | - |
| Ashaka Cem. Co. Plc. | 5/3/90 | 1.20 | 50.7 | 26.50 | 3438 | 41.25 | 2108 | 25.3 |
| BCC Plc. (Dangote Cement) | 20/8/90 | 0.90 | 21.8 | 120.00 | 2322 | 20.9 | 13233 | 119.1 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Flour Mills Nig. Plc. | 3/1/89 | 0.80 | 50.5 | 69.00 | 643 | 49.7 | 8525 | 68.2 |
| NIYAMCO Nig. Plc | 12/2/90 | 0.70 | 2.16 | - | 209 | 1.46 | - | - |
| Okomu Oil | 2/7/90 | 0.90 | 37.5 | 13.87 | 4067 | 36.6 | 1441 | 12.97 |
| AIICO Ins. Plc | 6/11/89 | 1.65 | 1.9 | 0.89 | 15 | 0.25 | -46.06 | -0.76 |
| Guinea Ins. Plc. | 6/11/89 | 0.80 | 0.6 | 0.50 | -25 | -0.2 | -37.5 | -0.3 |
| Law, Union & Rock Ins. Plc | 6/11/89 | 0.95 | 1.5 | 0.51 | 37 | 55 | -46.34 | -0.44 |
| NEM Ins. Plc | 6/11/89 | 1.15 | 1.1 | 0.52 | -4.3 | -0.05 | -54.78 | -0.63 |
| Prestige Assurance Plc | 3/10/89 | 1.15 | 2.7 | 2.25 | -135 | 1.55 | 95.65 | 1.1 |
| Royal Exchange | 3/10/89 | 1.75 | 2.6 | 0.50 | 48.57 | 0.85 | -71.41 | -1.25 |
| Sun Ins. Plc | 3/10/89 | 1.25 | 0.59 | - | -52 | -0.66 | - | - |
| Afribank Nig. Plc | 11/1/93 | 1.20 | 7.5 | 2.39 | 525 | 6.3 | 99.17 | 1.19 |
| First Bank Plc | 6/1192 | 2.00 | 42 | 13.46 | 200 | 40 | 573 | 11.46 |
| UBA Plc | 10/5/93 | 1.80 | 22 | 9.18 | 1122 | 20.2 | 410. | 7.38 |
| Union Bank Plc | 7/12/92 | 1.00 | 27 | 4.28 | 2600 | 26 | 328. | 3.28 |
| Cement Co. of Northern Nig. Plc | 2/3/92 | 1.00 | 12.3 | 15.74 | 1130 | 11.3 | 1474. | 14.74 |
| Union Dicon Salt Plc | 14/1/93 | 2.00 | 3.4 | - | 0.7 | 1.4 | - | - |

Sources: 1. Obadan and Ayodele (1998) and Business Day (2006).

2. Daily Trust Business/Finance on Nigerian Stock Exchange (NSE) 23rd December, 2010

The stock values generally appreciated after the privatization especially in oil companies, cement companies and banks but it was a poor record of performance for the insurance companies. The effect on the prices of stock could also not withstand the economic meltdown that that featured prominently in the years 2008 and 2009. The stock prices again fall drastically including those of companies that had significantly appreciated in value.

Hence, as at the year 2010, most of the stocks had fallen seriously except for a few companies Dangote Cement Company and the Flour Mills Nigeria Plc. Dangote Cement company's significant rise in value can be explained by the synergy between Dangote and the former Benue Cement Company. Also, the products of the Flour Mills are always in high demands since they are food products and unavoidable by the large population of the country. Of course, the high demand for the products also means that the product quality is high and acceptable by the populace.

Another significant effect as revealed on the stock market is the eventual disappearance of some companies after privatization. This can be explained to mergers and acquisitions. Companies like National Oil and Unipetrol for instance changed names to Conoil and Oando respectively. It is also with privatization that Benue Cement became acquired by Dangote Cement Company, thus BCC could no longer exist on its own. The merger paid off as the stock price of the combined companies rose significantly to a level they wouldn't have probably grown to separately.

## 4.3 The Quality of Products Under Privatization

The determination of the quality of products (goods and services) since the post deregulation era and privatization in particular has been very clear. The Central Bank of Nigeria has placed on record that there was a sharp increase in direct investment abroad by Nigerian Companies owing mainly to growing markets for Nigerian products abroad and banking services in the sub-region (CBN, 2010).

The CBN Annual Reports place on record that direct investment abroad amounted to N58.4 billion in 2007, but later declined by 29.3 percent to N41.3 billion in 2008. It however rose by 80.6 percent in 2009 to N74.5 billion.

The reforms in had very positive impact on the aviation sector. Airport security for instance was stepped up towards the year-ended to ensure the attainment of full strict standards according to the International Civil Aviation Orgainsation (ICAO) regulations. Some of the measures instituted included installation of body scanners at the major international airports in the country and a review of the security check system on passengers. Consequently, Nigeria passed the ICAO security audit as well as that of the Transport Security Administration (TSA). Of the United States in 2009.

On August 23 2010, the United States, FAA, granted Nigeria aviation category 1 Status. This allows Nigerian carriers to fly directly to the US while Arik Air was also issued a US – FAA Operator Certification to operate direct flights to the US.

Impliedly, the positive response to Nigerian products (goods and services) and the expansion of its markets abroad was directly related to the improvement in product offerings by Nigerian companies.

Also considered from the appreciation in the stocks levels after privatization, one can conclude that the goods and services of the companies enjoyed improved quality after privatization. They became highly competitive, which is why they value of the companies also rose. Of course, companies that did not measure up in competition received a very poor market response, hence the fall in their prices.

### 4.4 Employment Generation Under A Privatized Regime

The privatization of public enterprises resulted to the merger and acquisition of public enterprises as can be seen in the random selection of companies listed on the stock market. This resulted in the loss of jobs by many workers. Hence unemployment rate rose as a result. The rate of unemployment in Table 4.6 shows a generally increasing rate of unemployment which worsened in the period of the global economic meltdown. The aftermath of which is reflected in the years 2008 and 2009. Again it is clear that the privatization exercise could not withstand the severe economic situations that were made worse by the global financial challenges.

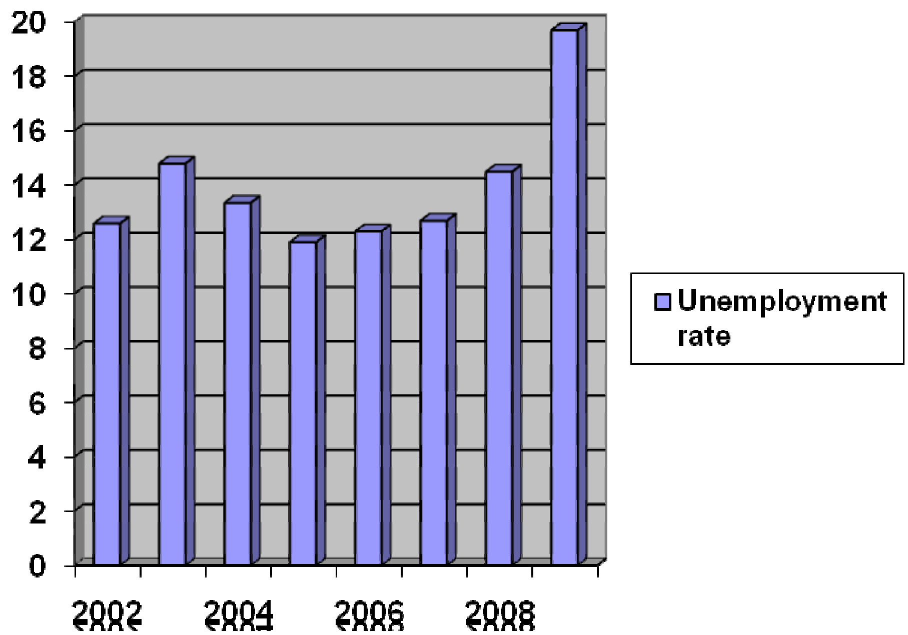
**Table 4.6 UNEMPLOYMENT RATES IN NIGERIA AS OF 2003-2009**

| YEAR | RATE |
|---|---|
| 2002 | 12.60 |
| 2003 | 14.80 |
| 2004 | 13.35 |
| 2005 | 11.90 |

| | |
|---|---|
| 2006 | 12.3 |
| 2007 | 12.7 |
| 2008 | 14.90 |
| 2009 | 19.7 |

Sources: General Household Survey Report/NBS/CBN Surveys

Figure 4.2 Unemployment rates in Nigeria




**4.5 The Social Costs of Privatization**

The post privatization era has witnessed a rises in social cost. The high level of unemployment translated into a social menace with an increasing number of cases of industrial disputes. In the year 2009 for instance, there were 299 cases of industrial disputes as against 52 in the year 2002. Similarly, industrial disputes that resulted to strikes also rose from 25 to 93 in the year 2002 and the year 2009. There were 245 irresoluble cases of industrial disputes in the year 2009 as against 22 in the year 2002.

In the same direction, the man hours lost kept increasing with the number of cases of industrial disputes. It is obvious from this development that the post privatization polity over heated the industry which suffered many breakdowns and loss of man-hours, thereby resulting to less productivity.

In the year 2010, the number of reported cases of attempted and successful fraud and or forgery in the banking industry increased. There were a total of 5960 cases of attempted fraud or forgery involving N19.7 billion and US$ 19.2 million, compared with 3,852 reported cases involving N33.3 billion, US$ 1.0095 Million, 11,000.00 Euros and 2,800 pounds. The banking industry in particular witnessed a lot of cases of fraud some of which were attempted while others were successful.

The CBN Annual Reports (2009, 2010) state that although the value of cases of losses in the banks declined significantly in the year 2010, there were a total of 3, 852 cases of attempted fraud and forgery involving N33.3 billion compared with US$1,009,539.00 11,000.00 Euros; 2,800.00 pounds sterling compared with 1,974 reported cases involving N24. Billion, US$ 1, 362, 446.00, 451,075.00 Euro and 2,635 pounds sterling in the year 2008. It is obvious from the above and as reflected in tables 4.5 and figures 4.5 that the privatization era was characterized by increasing social hardships that forced many people to device the means of defrauding or resorting to strike actions that kept the industries closed for several hours leading to loss in productivity.

Table 4.7 **Summary of Industrial Disputes (2002-2008)**

| ITEMS | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|
| **Number of disputes** | 52 | 77 | 36 | 149 | 189 | 250 | 299 |
| **Number of disputes resulting in strike** | 25 | 28 | 26 | 57 | 63 | 79 | 93 |
| **Number of disputes resolved** | 22 | 57 | 32 | 110 | 79 | 212 | 245 |
| **Duration of disputes (Days)** | 410 | 645 | 277 | 675 | 910 | 1,264 | 1,115 |
| **Number of workers involved** | 49,155 | 249,697 | 127,377 | 280,606 | 208,589 | 414,543 | 473,427 |
| **Total man-days lost** | 2,578,692 | 5,690,952 | 2,737,399 | 4,308,013 | 7,785,993 | 13,227,957 | 9,056,440 |

Source: Federal Ministry of Employment, Labour and Productivity, Abuja

**Table 4.8 WORKERS INVOLVED IN DISPUTES BY INDUSTRY (2003-2008)**.

| **ITEMS** | **2003** | **2004** | **2005** | **2006** | **2007** | **2008** |
|---|---|---|---|---|---|---|
| Agriculture, Hunting, Forestry & fishing | 1,500 | - | 880 | 1,081 | - | - |
| Mining & Quarrying | - | - | 6,436 | 4,287 | - | 1,311 |
| Manufacturing | 1,023 | 8,483 | 10,778 | 4,784 | 7,679 | 14,290 |
| Electricity, Gas & water | Na | Na | 1,272 | 879 | 14 | 20 |
| Construction | Na | 516 | 256 | 31,536 | 590 | 1001 |
| Wholesale & retail Trade, Restaurants and Hotels | 35 | - | 58 | 28,266 | - | 202 |
| Transport, storage & communication | 4,240 | 120 | 4,371 | 167 | 6 | 192 |
| Financing, insurance Real Estate & Business Services | - | 18,805 | - | - | 1 | 300 |
| Community, Social & Personal Services | 9,381 | 36,263 | 227,377 | 30,654 | 266,483 | 231067 |
| Activities not adequately defined | 207,776 | 63,190 | 29,178 | 106,936 | 139,767 | 618,091 |
| **TOTAL** | 223,955 | 127,377 | 280,606 | 208,589 | 414,543 | 868,907 |

Source: nbs, 2009

The above table shows the spread of industrial disputes across the sectors of the Nigerian economy. The manufacturing sector, which is dominated by the private sector has a record high of industrial disputes that worsened in the years 2007 and 2008. Generally, the number of disputes has been increasing annually except for the years 2004 and 2006, when there were a reduction in the number of disputes, while the year 2007 and 2008 recorded a high record of disputes. Again, this can be attributed to the global economic challenges of the time, which the world is just recovering from.

**Bar Chart on Workers in Disputes by Industry (2003-2008)**

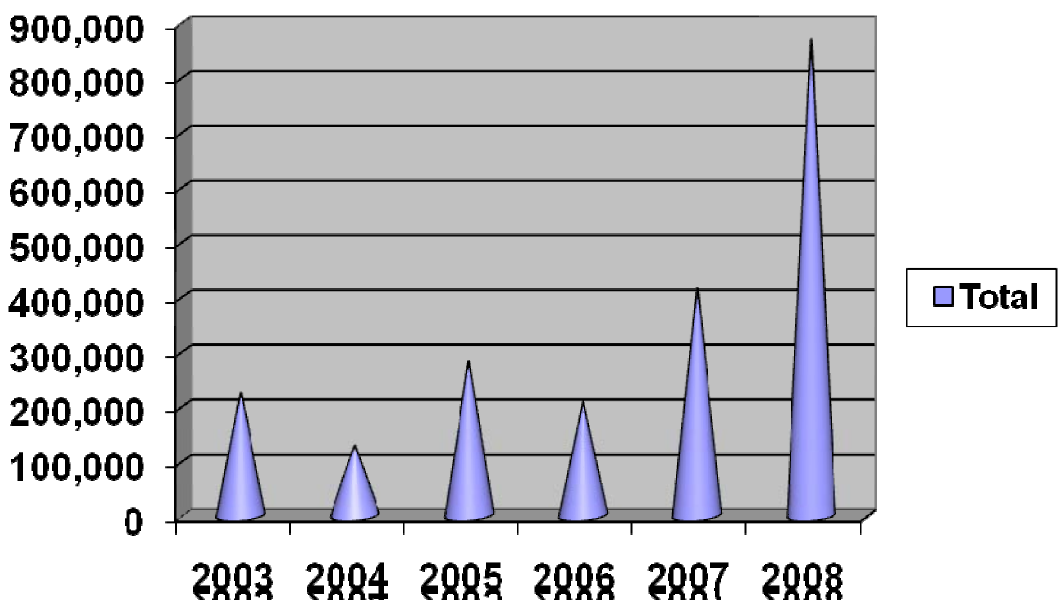


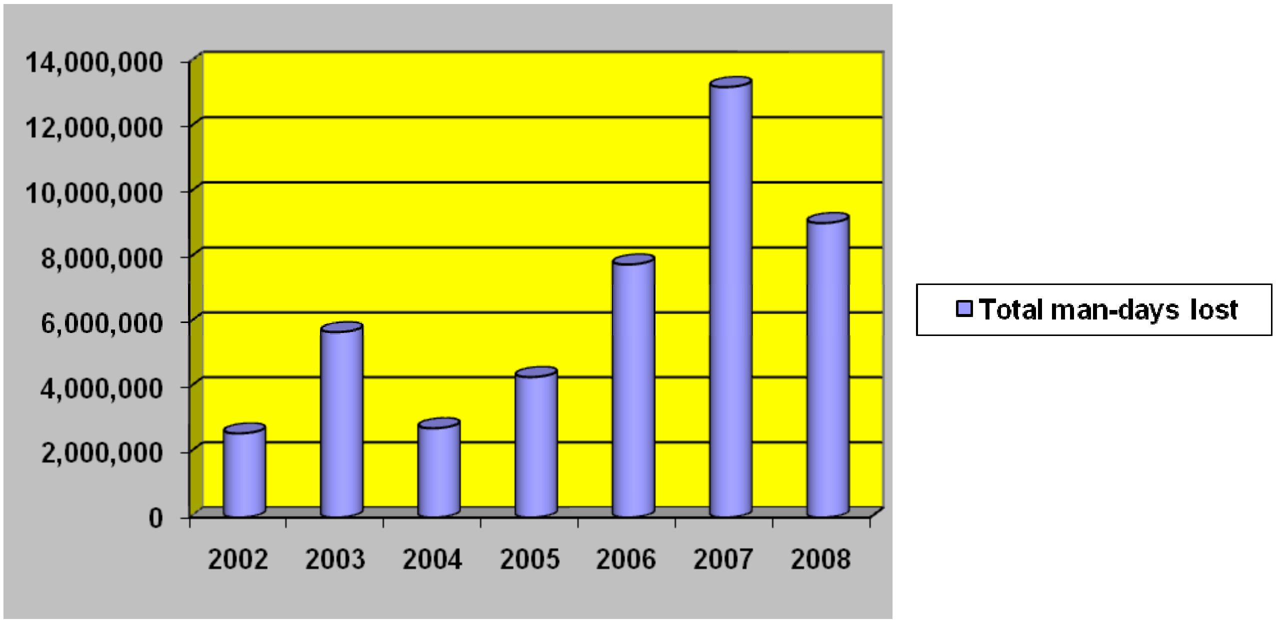

**TABLE 4.9 MAN-DAYS LOST BY INDUSTRIAL DISPUTES (2003-2008)**

| ITEMS | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|
| Agriculture, Hunting, | - | - | 5,045 | - | - | 72,598 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Forestry & fishing | | | | | | |
| Mining & Quarrying | - | - | 1,800 | 13,887 | - | 20,654 |
| Manufacturing | 47,303 | 147,900 | 24,031 | 4,188 | 138,129 | 43,920 |
| Electricity, Gas & water | - | - | 3,436 | 4,404 | 4,800 | 60 |
| Construction | - | 26,592 | - | 10,400 | 3,945 | - |
| Wholesale & retail Trade, Restaurants and Hotels | - | - | - | - | - | 200 |
| Transport, storage & communication | 1,335,827 | 1,080 | 174 | - | 1,920 | 96 |
| Financing, insurance Real Estate & Business Services | - | 3,089 | - | - | - | - |
| Community, Social & Personal Services | 185,191 | 2,190,815 | 2,996.132 | 154,242 | 2,530,663 | 6,630,733 |
| Activities not adequately defined | 4,530,631 | 256,923 | 1,277,395 | 7,598,872 | 736,280 | 2,206,420 |
| **TOTAL** | 6,143,952 | 2,626,399 | 4,308,013 | 7,785,993 | 3,415,467 | 8,974,981 |

Source: Federal Ministry of Employment, Labour and Productivity, Abuja, 2009 (cited in NBS, 2009)

**Summary of Industrial Disputes** (2002-2008)




Source: NBS, 2009

The deregulation of the Nigerian economy and the privatization of state owned enterprises no doubt made some positive effects on the performance of the economy. It attracted foreign investment, raised the value of stocks, resulted to the production of competitive products and created employment opportunities, but did not in any way reduce the crime rate. Obviously, the post privatization era was also accompanied by global economic crises that undermined the effects of the exercises on the Nigerian economy and polity.

It is however clear too that deregulation and privatization led to the disappearance of some companies through mergers and acquisitions. Companies like National Oil and Benue Cement Company now cease to exist on their own. They have assumed new names.

CHAPTER FIVE

# STAKEHOLDERS' PERSPECTIVE OF THE EFFECTS OF PRIVATIZATION ON THE NIGERIAN ECONOMY

## 5.0 Introduction

Stakeholders have different perceptions of a privatization programme (Chottenpanda, 2000). Some of the concerns or perceptions of the varying stakeholders may be legitimate while some are borne out of fear and mistrust of government's past policies and programmes. It is the role of the government and its agency entrusted with the responsibility of restructuring SOEs to undertake a massive education campaign to eradicate any misconceptions and misleading information the stakeholders may have regarding the privatization and its effects (Chottenpanda, 2000).

Stakeholders are important in ensuring that privatization will be socially responsible (Piesse, i.d.). In practice, the process of identifying the stakeholders of privatization is often as important as the substance of change to the success of restructuring. This means respecting the values of the enterprise, seeking the involvement of those affected, practicing open communications and treating all employees with respect and dignity. Then the emphasis can be directed towards overall stakeholder value rather than short-term shareholder gains.

## 5.1 The Stakeholders in Privatization

The involvement of all major constituents or stakeholders in the privatization process is crucial. The stakeholders differ, depending on whether a single State Owned Enterprise (SOE) is being privatized or if it is a mass privatization. In either case, the government is a key stakeholder and in most cases is the major stakeholder and and principal agent in the privatization.

Government is concerned about the fiscal impact, and the reduction of the public sector borrowing requirement (PSBR). But they are also concerned about the social and political impacts. Prior to privatization, government is responsible for devising any necessary regulation and for developing labour strategies that secure the support of employees and provide adequate social provision.

The International Labour Organization (ILO) has identified a legion of stakeholders in privatization as identified by Piesse (i.d.). They include the following:

- Politicians
- Creditors
- Bureaucrats
- The publics
- Environment
- Local communities
- Enterprise management
- New comers
- The private sector
- Local officials
- Workers
- Unions

Chottenpanda (2000) has grouped the stakeholders into six categories:

1. The rank and file of te workforce, whether organized into unions or not. In addition to actual loss of some jobs, they are concerned with the relationship between wage scales in the public and private sector, pensions, seniority and other perquisites.
2. The leaders of the organized labour, who are concerned with the preservation of their own power and prestige, which are based ultimately on membership strength and solidarity. Reduced membership as a result of layoffs will inevitably undermine the position of union heads. Involvement of union leadership in the privatization process and open communication will help the union leadership to take at least a wait-and-see attitude towards initial processes of prioritization.
3. The managers of public sector enterprise being privatized, who have botha labour and management interest. New private owners may seek to replace the entire management team of the former public enterprise or at least the individual members of it. Privatization not only threatens managers with loss of their own jobs, but also even those who are retained may face job insecurity. As a result, management may be as strongly opposed to privatization as is labour, although it is likely to be less vocal in its protest.
4. The government as a seller of the state-owned public enterprises. The government stake in a privatized process and it wants to accomplish it expeditiously without major roadblocks from those who oppose as well from labour. Moreover, in a democratic system, the government may well depend for a significant part of its support on organized labour, without of which could mean defeat of the governing party over the issue of privatization.

5. The prospective buyer, whether individual or shareholder. The position of labour may be critical to the decision to buy a privatized firm. If trade unions oppose privatization, they will continue to be a source of problems to the buyers when the buyers later seek to reduce the workforce. The possibility of an indefinite period of strikes, slowdowns, and protests that would interrupt production, as would delays caused by labour retraining, greatly diminishes the interests of prospective buyers.

Many of these stakeholders, especially the working group (workers, workers representatives or labour unions and mangers) feel increased job insecurity and are very vulnerable. In developing economies this may affect an extended family, while in transitional countries many jobs related benefits, such as health and child-are, will be lost. In addition, the public, both as customers and taxpayers, present managers, potential new customers, bureaucrats, politicians the business sector, and communities are likely to be affected.

### 5.2 Objectives of Stakeholders in Privatization

In most cases, the objectives and the stakeholders involved in privatization and restructuring are numerous and complex. Finally, there may be an impact on the environment, which affects all stakeholders, present and future. In many countries, state owned enterprises have been among the major offenders in pollution and excessive resource utilization. Privatization is an opportunity to encourage greater environmental responsibility. After privatization, the regulators can impose penalties and correct any unpriced externalities.

Typically, the objectives of privatization as outlined by the International Labour Organization (ILO) include the following:

- Political advantage
- Ideology
- Deficit Reduction
- Mobilize private capital
- Economic efficiency
- Distribute ownership

The main the hypothesis of this research are that privatization of public enterprises will significantly attract foreign exchange, raise the value of stocks, lead to higher standard of living, create employment opportunities in the economy and reduced the social cost of living.

Privatization itself implies reduction in the role of government or increase in the role of the private sector in an activity or ownership of assets achieved by transferring the production of goods and delivery of services from the public to the private sector.

It is believed that when more and more investors partake in the production of goods and services this will generate employment for the teaming population of the country. Though, experience from other countries as we had noticed under the literature review shows that there are more retrenchments when the private sector takes over. The private sector appears to be more objective and economical than the public sector’s political decisions with respect to recruitment.

On the elimination of inefficiency in public services, it is generally believed that the public sector is unproductive, non performing and bureaucratic. All these are as a result of the inefficiency and poor attitude to work in the public sector while the private sector which is an embodiment of efficiency, profit maximization and productivity. Measuring efficiency can be very challenging but stakeholders perceive that inefficiencies are intolerable under the private sector.

The success or failure of the privatization of stated objectives and host of government commitments to attainment of especially the socio-economic objectives. The design and implementation of a privatization scheme should reflect well defined objectives government usually choose from a cluster of objectives for privatization. By requiring investors to meet certain conditions government can achieve some of these objectives paramount of which are: increase in operational efficiency and productivity from improved management capabilities it is also the objectives of this programme to enhance quality service in the economy.

Furthermore, it is the objectives of the programme to increase revenue for government from reduced public sector financial demands, which consequently improves the allocation of resources between and within states. It is also the goal of this policy, to stimulate private investment in the country technology transfer through advanced equipment deployment of superior management and operational systems and attendant promotion of innovations. It is therefore clear that a private economy enhances technological transfers and growth of the economy and this can only be made possible with an efficient committed and dedicated workforce in the economy.

The perception of the stakeholders has been evaluated below in the following key areas:

1. Stakeholder Perception of the Public Sector
2. Appreciation of privatization by the publics
3. The expectations of the public about privatization
4. The stakeholder's perception of the effects of privatization

**Stakeholder Perception of the Public Sector**

The questions 1 – 5 from the questionnaire are questions meant to elicit the perception of stakeholders of Publicly Enterprises [PEs]. The study shows that the stakeholders including those in government cycles strongly agree that the public sector is often characterized by inefficiencies, red tape bureaucracies, corruption, overstaffing, poor staff morale and poor revenue generation among other related issues that result to poor delivery of services.

Out of the 200 respondents that returned acceptable questionnaires, over 80 per cent strongly agreed that the public enterprises are often drain pipes and this has been responsible for widespread privatization for the private sector who is a better manager to run the organizations. Table 5.1 below shows that an average of 88.52 percent generally agree with the fact that public sector concerns are wasteful. Impliedly, they opt for an alternative to running public enterprises.

**Table 5.1 Stakeholder Perception of the Public Sector**

| Q | 5 | 4 | 3 | 2 | 1 | WEIGHTED SCORE (stocks/1000) | MAXIMUM SCORE | PERCENTAGE VALUE (weighted score/1000 * 100/1) |
|---|---|---|---|---|---|---|---|---|
| 1 | 115 (575) | 65 (260) | 15 (45) | 5 (10) | 0 (0) | 0.89 | 1000 | 89% |
| 2 | 120 (600) | 50 (200) | 20 (60) | 10 (20) | 0 (0) | 0.88 | 1000 | 88% |
| 3 | 119 (595) | 55 (220) | 17 (51) | 9 (18) | 0 (0) | 0.884 | 1000 | 88.4% |
| 4 | 115 (575) | 60 (240) | 15 (45) | 10 (20) | 0 (0) | 0.88 | 1000 | 88% |
| 5 | 118 (590) | 62 (248) | 14 (42) | 6 (12) | 0 (0) | 0.892 | 1000 | 89.2% |

Source: Field Study, 2013

$\sum=442.6/5=88.52$

**Appreciation of Privatization by the Publics**

Questions 6 -10 from the question were aimed at getting an understanding of the public's regarding privatization. Of the 200 acceptable returned questionnaires, the respondents averagely show an understanding of privatization by 78 per cent and wish that the private sector be given the opportunity to participate in resource management. This is because the mindset of the private sector is about the creative use of resources in an efficient and effective manner, to ensure that government optimizes on the enhancement of quality of life of its citizens.

Majority of the respondents agree that privatization is in most cases a better alternative to Public Enterprise management. The respondents also agree that most of the corporations that still survive today would have gone extinct if not for privatization, hence the private sector is a better manager of resources.

**Table 5.2 Appreciation of Privatization by the Publics**

| Q | 5 | 4 | 3 | 2 | 1 | WEIGHTED SCORE (stocks/1000) | MAXIMUM SCORE | PERCENTAGE VALUE (weighted score/1000 * 100/1) |
|---|---|---|---|---|---|---|---|---|
| 6 | 111 (555) | 50 (200) | 30 (90) | 9 (18) | 0 (0) | 0.863 | 1000 | 86.3% |
| 7 | 90 (450) | 42 (168) | 35 (105) | 25 (50) | 8 (8) | 0.781 | 1000 | 78.1% |
| 8 | 70 (350) | 65 (260) | 60 (180) | 5 (10) | 0 (0) | 0.80 | 1000 | 80% |
| 9 | 50 (250) | 20 (80) | 80 (240) | 30 (60) | 20 (20) | 0.65 | 1000 | 65% |
| 10 | 92 (460) | 48 (192) | 30 (90) | 20 (40) | 10 (10) | 0.792 | 1000 | 79.2% |

∑=388.6/5=77.72

Source: Field Study, 2013

**The Expectations of the Public about privatization**

This study agrees strongly that the Nigerian public expected so much from privatization. The stakeholders expectations were in the area of attraction of foreign exchange, the growth of business, especially the appreciation of stock values in the capital market, the improvement on the standard of living, especially, the quality of goods and services, while at the same time reducing the cost of social interactions. The strength of the agreement averages 86 percent.

**Table 5.3 The expectations of the public about privatization**

| Q | 5 | 4 | 3 | 2 | 1 | WEIGHTED SCORE (stocks/1000) | MAXIMUM SCORE | PERCENTAGE VALUE (weighted score/1000 * 100/1) |
|---|---|---|---|---|---|---|---|---|
| 11 | 120 (600) | 60 (240) | 13 (39) | 7 (14) | 0 (0) | 0.893 | 1000 | 89.3% |
| 12 | 130 (650) | 60 (240) | 05 (15) | 05 (10) | 0 (0) | 0.915 | 1000 | 91.5% |
| 13 | 110 (550) | 70 (280) | 15 (45) | 05 (10) | 0 (0) | 0.885 | 1000 | 88.5% |
| 14 | 105 (525) | 80 (320) | 05 (15) | 10 (20) | 0 (0) | 0.88 | 1000 | 85% |
| 15 | 100 (500) | 65 (260) | 25 (75) | 10 (20) | 0 (0) | 0.855 | 1000 | 85.5% |

∑=442.8/5=88.56

Source: Field Study, 2013

**The Stakeholder's Perception of the Effects of Privatization**

Respondents could not resolutely agree to the fact that foreign exchange has been attracted as envisaged. And stocks have remained very low while the standard of living has improved but with significant increase in social challenges, since unemployed has not being tamed. The point is that, there is also a strength in agree that privatization has resulted to more ills in the society. This means, the performance of the private sector though positive, could not absorb the many challenges of the society.

Table 5.4 **The Stakeholder's Perception of the Effects of Privatization**

| Q | 5 | 4 | 3 | 2 | 1 | WEIGHTED SCORE (stocks/1000) | MAXIMUM SCORE | PERCENTAGE VALUE (weighted score/1000 * 100/1) |
|---|---|---|---|---|---|---|---|---|
| 16 | 15 (75) | 20 (80) | 25 (75) | 50 (100) | 90 (90) | 0.42 | 1000 | 42% |
| 17 | 90 (450) | 50 (200) | 30 (90) | 20 (40) | 10 (10) | 0.79 | 1000 | 79% |
| 18 | 70 (350) | 50 (200) | 40 (120) | 15 30) | 25 (25) | 0.725 | 1000 | 72.5% |
| 19 | 90 (450) | 50 (200) | 30 (90) | 20 (40) | 10 (10) | 0.79 | 1000 | 79% |
| 20 | 150 (750) | 30 (120) | 03 (09) | 02 (04) | 15 (15) | 0.898 | 1000 | 89.8% |

∑=362.3/5=72.46

Source: Field Study, 2013

However, it is the conclusion of this study that the apparent failure of privatization stems from the fact the fact that the period 2008 and 2009 suffered economic paralysis that drove so many businesses below the death line. This development has been explained in the previous chapter. Yet most organizations are on the recovery lane.

### 5.3 Establishment of Evaluation Criteria

Evaluation is the systematic collection of information about a programme or organization activities characteristics, personnel and products for use by specific people to reduce uncertainties, improve effectiveness and make decisions with regard to what those programme and affective (Patton 1978). Thus the purpose of evaluation is to organize and make us of information.

The information is used for description explanation and prediction. As such, evaluation is important in assessing the performance of only organization including a public enterprises, it activities should be monitored and evaluated regularly to ensure that objectives are achieved and there is no displacement of objectives.

But in what ways should a public enterprises be evaluated? Should the criteria for evaluating public enterprises be different from those  in the private sector? How is a private enterprises evaluated? The answers to these questions will provide a limit about how to assess public enterprises.

The criteria being used by General Electric for examples include.

a. Profitability

b. Market position

c. Productivity

d. Product leadership

e. Personal development

f. Pubic responsibility

g. Employee attitude

h. Balance between short-term  and long term objectives (Journal of public enterprises 1988).

The indicators of an enterprises success include the following:

a. Profit

b. Long-term stability

c. Higher share of profit and

d. Social and political acceptance

The conditions under which profit indicates managerial efficiency include the existence

a. Numerous buyers and sellers

c. Perfect information

d. Perfect access to technology absence of constraint on innovation.

**Definition of Profit**

This is profit if all the monetary benefits of an economic activity exceed the monetary costs. All private enterprises have similar cost eg, costs of borrowing capital cost of labour, cost of raw materials and management costs. Hence differential profits in private companies represent different management efficiency. In the public sector both the costs and benefits are governed by public policy rather than the market.

## 5.4 Nature of Public Sectors Cost and Benefits

The various dimensions of public sectors costs and benefit are as follows:

**Cost of Capital**

a. The cost of capital is generally low

b. Free capital or very low rate of interest

c. Capital for expansion does not come from the enterprises surplus

d. Repayment of capital is not usually done by the enterprises it self.

**Cost of labour**

a. The cost of labour is generally high

b. There is usually overstaffing

c. Wages are not related to efficiency

d. The enterprises is a model employer

**Cost of Raw material**

a. The use of indigenous raw materials though these may be more expensive than impacted ones

b. Prices of raw material are decided by government rather than the market

a. Production mix and prices divided arbitrarily by government

b. Prices of act pats are not withered by forces of supply and demand but by political considerations.

c. Prices of outputs are not influenced by forces of supply and demand but by political considerations.

d. Cost reduction is not encouraged as evidenced in the following:

    1. There is no motivation for increasing profits.

    2. Sanctions are not imposed if profits are not made.

    3. The level of rewards may not be increased despite increase in profit

    4. The earning of profit is not the only objective of public enterprises some are expected to provide subsided services. Other are only expected to break even. Still others are required to earn profit and at the same time achieve other social objectives (journal of public enterprises, 1988)

Thus, profitability or reduction of losses can be one of the objectives of evaluation. It is important to note that the profits of private enterprises in developing countries do not arise parse because of management efficiency. It is largely because of scarcity in the economy and protection by government.

In any case, it is important that measurable objectives and targets are set for public enterprises and their performance should be regularly evaluated in relation to the targets. In Nigeria, there is no institutionalized machinery for evaluating the performance of public enterprises (Yahaya and Bur 1994).

Proponents of the privatization programme between that privatization of public enterprises will improve the quality of goods and services in the economy. This is because with many players in the economy, there will be competitions in the market/economy this will promote efficiency, commitment and standard in the quality of goods and services because consumer will have a much of choices to make from a retinue of alternatives

## 5.5 Mechanism of privatization

The methods for privatization may include the following:

1. By imposing a fixed price some enterprises are actually sold at cheap prices to party stewards or top government officials
2. Sale by tender eg the Thatcher government in Britain sold the British Airways by tender
3. Limits may be imposed on foreign shareholding. In Britain, not more than 25.1 percent could owned by foreigners. It may unrealistic to impose such a ceiling in Nigeria s local business men often front for foreign interest.
4. Payment of royalty bows to prevent re-sale of shares
5. There may be government special share to keep an eye on management and to ensure that it is not hijacked by outsiders.
6. Establishment of a ministry of privatization as in the case of France.

**Case for privatization**

The privatization of public enterprises is justified on the following grounds

**Inefficiency of the enterprises**

The first argument which is a negative one deals with the huge losses of public enterprises. The rate of return on investment is generally low or sometimes negative. A major effect of loses is that, the poor sub does the rich since the capital base of these enterprises is mainly from indirect tax. This raises the problem of equity.

The huge losses are as a result of the inefficient utilization of resources and this results from the public ownership of parastatals. These losses may be characterized as planned losses. Eg the objectives of the enterprises foster the loses. What privatization does is to transfer the publicized or non commercial aspects of public enterprise to the private sector. This is because the palm enterprise is seen as a flawed instrument of public policy (Heald, 1985:8)

**Reduction of Government Expenditure**

Privatization may lead to a reduction in government expenditure or deficit. The more the government consumes the worse for private entrepreneurship. By establishing public enterprises and borrowing to sustain them the state would be crowding out the private sector.

The liquidity available for loans to private individually is thus reduced the scope for individual welfare is minimized but this contrasts sharply with Adam Smith's argument that public welfare can only be maximized when private welfare is maximized. This is however a double edged sward it is like shifting the public borrowing to private borrowing sometimes the government even has to guarantee such loans.

**Dealing With the Problem of Economic Decay**

Most of the public enterprises in developing countries have no cash value. For example, the Nigeria Air ways was liquidated in 2003, because it was indebted to the time of 16 million. The public enterprises have in the main, not been exercising growth. They have ignored infrastructures such as power energy, communications water suppliers transportations etc. Thus in spite of the fact that there are continent has the worst infrastructure in the world.

**Solution to Anti-Distributional Biases of Public Enterprises**

Despite its political and economic objectives the public enterprises does not promote the welfare of the people and access to public goods. The proponents of privatization contend that it will do away with the anti-distributional bias of government owned companies.

**De-bureaucratization of Decision making**

Privatization may lead to the collapse of bureaucratic expire or depolarization of economic decisions. But inefficiency is not necessarily the result of ownership etc. all big organization whether public or private) have the tendency to become bureaucratic.

**Maximizing comparative advantage**

It is assumed that the privatization sector enjoys a comparative advantage over public enterprises in the production of goods and services. Nevertheless this claim has not been proved empirically.

## 5.6 Benefits Accruing from Privatization Objectives

The fifth hypothesis states that, the private sector will significantly perform more than the public service in the provision of social services. This hypothesis has been confirmed by the analysis carried out in chapter four. The immediate causes of privatization policy could thus be traced to two or related issues.

First is the poor performance of public enterprises in the country. By 1986, there were 500 government owned companies and parastatals in which the government had invested over N36 billion about 30 billion US dollars at the then exchange rate in the form of equity, loans and grants but returns on investment were below 10 percent a year (Usman, 1989). These enterprises including the Nigeria National Supply Company (NNSC), the Nigerian Enterprises Promotion Board (NEPB), the Nigeria Bank for Commercial and Industry (NBC) and the Securities and Exchange Commission (SEC) and many others however, formed the bedrock of

Nigeria's pattern of state capitalist accumulation that was to become in the 1980s, the focus of attack by the International Monetary Fund (IMF) and the World Bank (Olukoshi, 1991: 91). The vicious attack on these state institutions by the Bretton Woods institutions coupled with their poor performance made them vulnerable to investment.

The second factor relates to the oil glut of the early 1980s which led ton the collapse of oil prices and dwindling revenue profile of government oil prices rose from $14.9 a barrel in 1978 to an all- time high of $44.7 in 1980. But with the dramatic drop in the international prices of oil to less than $30 in 1982, there was a simultaneous decline in government earnings fell from a peak of $22.4 billion in 1980 to $16.7 billion in 1981, $12.8 billion in 1982 and $10 billion in 1983.

As a result of the fall in government revenue, the country's GDP fell by 2 percent in 1982 and declined further by 4.4 percent in 1983. The current account of the country also fall by N4.9 billion in 1982 and 2.9 billion in 1983, while the budget deficit for 1983 was N6.231 billion, more than 50 percent of total government expenditure (Gelb, 1988, 240 and Olukoshi, 1991: 92).

Privatization of Nigerian public enterprises was therefore, necessitated by the collapse of the public sector in terms of performance example can be seen in the failure of such agencies of government to perform such as National Electricity Power Authority (NEPA). The Nigeria Telecommunication Limited (NITEL) The Railway system and of course the NNPC.

### 5.7 The Strengths and Weaknesses of Privatization in Nigeria

The privatization and deregulation programme of the Obasanjo administration has certain strengths and weaknesses.

***Strengths.***

1. There is increased government revenue realized from the sale of assets
2. It has enhance the process of making business plans and decisions.
3. Petroleum products are now more readily available in every part of the country.
4. There is increased domestic and direct foreign investment in the economy especially in the telecommunications sector and the oil industry.
5. The number of telephone lines in the country has increased to about five million from less than 500,000 in 1999.
6. The liberalization of the economy has provided a more table and enabling macro-economic environment that may ensure the safety of investment.
7. There is enhancement of employment opportunities in the long run for example, thousands of unemployment people, now engage in the telecommunication service. All that one need to set up a business center today is a small capital to buy a hand set, a table, a chair and umbrella.
8. It leads to the provision of better infrastructure
9. It promote healthy competition in the market especially in the telecommunication business.

*Weaknesses*

1. The whole process is undemocratic as most Nigerians and major stakeholders are never consulted before decision to direct or increase prices are taken
2. Government is merely a trustee and it has no mandate to sell assets or private public assets without the consent of the beneficiary owners. Ie the Nigeria people
3. It has led to further impoverishment of Nigerians. For example the minister of Employment Labour and productivity Dr. Hassan Lawal averted at a conference held in Accra Ghana in August, 2004 that the poverty level in Nigeria has increased from 50 percent to 70 percent between 1999 and 2004. The success or otherwise of a public policy is measured largely by the level of happiness it brings to the larger majority of the people.
4. Though the sale of the enterprises is transparently done, the same cannot be said of the disbursement of the proceeds of the transaction. The Nigerian leaders never bother to tell Nigerians how the proceed are spent
5. Given the high level of poverty in the country, only top government official and their friends business moguls and multinational corporation can afford to buy the enterprises or assets. The purchase of an auctioned aircraft by a president aid during an auction by the Federal government in September 2004 is a case in point. The second highest holder at the action was a member of the national assembly.
6. The sole o enterprise in major sectional of the economy many compromise the strategic interest of the country.
7. The private sector in Nigeria which is supposed to be the major beneficiary of the privatization programme is largely underdeveloped, this inefficient and corrupt. The

identify cared scan of 2003 is the country in which the federal government sustained huge losses was perpetrated by private sector operators in collusion with top government and party official

8. Ordinarily Nigerians cannot afford to buy shares in the companies being privatized because of the high (bank) interest rate. It is more than 30 percent in Nigeria whereas it is 3.7 percent in Britain 2 percent in the European Union and one percent in the united states of American. In other wards the high interest rate is a disincentive investment. More over Nigerian banks are not reputed for granting credit facilities to small investors without collateral.

9. It has escalated the prices of petroleum produce of the centrality of petroleum products to the Nigerian economy, an upward adjustment of prices usually has a multiplier effect on the whole economy. For example between 60 and 1978, one litre of fuel sold for only 8 kobo. The Obasanjo Military government jacked it up to 15 kobo on October, 1978 for reasons which were unclear, prices have since increased by more than 5000 percent.

10. It has sharpened the class consciousness among Nigerians and carried the relationship between government and labour our one hand and government and the masses on the other hand.

CHAPTER SIX

# SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

## 6.1 Summary of Findings

A number of findings have emerged from this study titled "**The Effects of Privatization of Public Enterprises in Nigeria,**" which has assessed the performance of privatized public enterprises based on six parameters. They are: visible trade, the value of the Nigerian currency (rise and fall of the naira), the market value of stocks, the quality of products (goods and services), the rate of unemployment and overall social cost.

The following major findings are as follows:

1. The privatization of public enterprises resulted to positive improvement in the performance of the nation's economy. The exercise was followed by some visible gains recording positive balance of payment, relative stable currency in relation to the dollar, improved market value of stock lower rate of unemployment at the initial stages and a tendency for lower social cost.

2. The above positive developments could however not withstand the increasingly turbulent and unforgiving global economic meltdown (which heightened in the years 2008 and 2009). Except for some few companies especially those offering products that are basic and

enjoyed inelastic demand such as food processing, fuel, and cement, most other companies suffered losses at the peak of the financial crises.

3. Thus, all oil companies and food processing companies enjoyed significant appreciation in the value of their stock, while other less desirable products offered by insurance companies suffered great losses.

4. Privatization policy suffered a fallow period due to changes in the leadership of the country, with some leaders working against the policy while others made halfhearted efforts at its implementation.

5. After the implementation of the privatization policy, there was a clear record of appreciation in value of the market prices of the companies as shown on the stock market.

6. Nigeria's balance of payments (BOP) also improved, following the implementation of the privatization exercise. The nation's exports were sustained over the imports, posting a significant positive record.

7. The products (goods and services) of most privatized companies gained value. The oil companies in particular and the food processing companies appreciated in their market value as reflected on the stock market. This is obvious by the fact that the products of these companies are daily needed by the citizens.

8. A good number of the companies that were privatized could not continue on their own but had to merge or be acquired by stronger ones in related businesses.

9. The study shows that mergers or acquisitions could pay off handsomely as in the case of the synergy of Benue Cement Company and Dangote Cement Company. The coming together of the two companies coupled with disciplined management has kept the stock on the high side.

10. Privatization has also led to the emergence of new enterprises. Companies that were hitherto not listed on the stock market have also emerged.

11. Privatization of public enterprises has created more companies but less than enough desirable jobs because of changes in technology. Though, it also led to company cannibalism. Some of the companies have seized to exists.

12. Privatization of public enterprises opened up the economy for foreign investors who will not only create more jobs but will also breath the monopoly of some organizations which as a result of such status perform poorly in term of the provision of goods and services.

13. The study makes it obvious that it was inevitable that Nigeria should have adopted the privatization policy along with other nations of the world as government controlled enterprises were running at huge deficit and the demand for government expenditure was growing at different fronts. The continued poor performance of public enterprises also rendered them vulnerable to a policy initiative that would reverse the trend.

14. It is found that in as much as privatization is beneficial to the economy; it is argued that certain agencies of government should not be privatized due to security considerations.

Privatizing agencies like the Nigerian Ports Authority (NPA) the NNPC and the Nigerian securities and mining company (NSMC) etc will pose security threat and so the government should be careful in doing this.

15. There has been a significant rise in unemployment and fraud especially in the banking sector. This shows that the rate of crime has been on the increase, meaning that the social cost effect following privatization is very high.

16. There has been an emergence of public private partnership (PPP).

17. The major arguments against privatization may be summarized as follows.

i. Deregulation and privatization mean reducing the role of the government without necessary reducing its responsibilities.

ii. Privatization widens the gap between the rich and poor

iii. The government implementing the programme lacks the capacity to build or manage the inherited structures.

iv. The lack of transparency and accountability in the sales of public enterprises and the suspicious that top pubic official are the major beneficiaries of the privatization programme exercises a number of questions about the motive of privatization.

v. Some of the funds realized from the sale of enterprises or asset are not usually ploughed back into the economy so as to provide social and economic overheads

vi. It may lead to unemployment especially when the new investors restructure the company.

vii. The fiscal impact of privatization is not clear. If the assets are sold now, revenue may accrue to the government but the government losses or foregoes future revenue when you sell, you get an immediate inflow of assets but you lose the future revenue especially in the case of profitable public enterprises.

viii. If public enterprises are privatized their developmental objectives can no longer be realized

ix. The purchase of the enterprises or assets by foreign companies or their local proxies has grave political consequences.

x. Under external pressures, government may privatize public enterprise eg their inefficiency, remain largely unresolved.

xi. A major argument against privatization is that, government enterprises are a sort of heritage and that privatizing them may be synonymous with allowing a few wealthy individuals in the society to deprive the majority of people of this common heritage. This will amount to passing public monopoly to private monopoly.

## 6.2 Recommendations

Based on the findings of this study the following recommendations are made:

1. Privatized public enterprises and indeed the private sector must anticipate and prepare for unforgiving 'environmental' conditions and the uncertainties of the future.

2. The private sector must devise strategies for thriving in uncertainties and navigating extreme situations by creating their future and not reacting to the extremes. In other words, though companies do not thrive on chaos, they thrive in chaos (Collins, 2005).

3. Nigerian private companies may learn from Jim Collins 10X companies that survive and thrive in spite of roiling storms, destabilizing shocks and chronic uncertainties such as fuel shocks, deregulation, labour strife, strikes, crippling recessions, interest rate spikes, hijacking and bankruptcy threats among other challenges.

4. The government should revisit the entire privatization exercise, with a view to correcting noticeable and perceived loop holes especially bothering on transparency, consultation with stakeholders and due process.

5. Those enterprises considered to be of core value to the country e.g. the NNPC, NPA and the Nigeria security printing and minting company (NSPMC) should not be privatized, due to national security implication.

6. Non-performing organizations like the National Electric Power Authority (NEPA), the Nigeria Railways Cooperation (NRC) and other such government agencies that have not been performing should be privatized.

7. Government should create an enabling environment for investing in agriculture in order to diversify the economy away from over concentration in petroleum.

8. The private sector should seek to detect the decline disease in their organizations in good time. This is because it is harder to detect the decline disease but easier to cure in the early stages, while it is easier to detect the decline disease but harder to cure in the later stages of a company.

9. There is no option to the right people for a functional and high performing organization. The private sector should rely on people who are disciplined fanatics, empirical people, creative people, people who are productive paranoid and people who can lead and build teams to ensure the survival and sustainability of privatized companies.

10. Privatized companies must fall back to sound management principles in order to launch their organizations out of decline, while maintain vigilance for early markers of decline.

11. The privatized companies must not think of engaging in revolutionary changes, which leads to chronic inconsistency, but should stick to their core values. Studies have shown that highly productive companies do not change their recipes revolutionary but evolutionary.

12. Government may foster the cooperation between the public and private sectors in the new economic policy of Public private partnership (PPP).

13. Stakeholders of privatization should be frequently up-dated about the developments including the success stories and progress of Privatized public enterprises.

**Suggested Areas of Further Research**

The following recommendations are made for further research:

1. Public Private Partnership (PPP) and Organizational Performance in Nigeria
2. Causes of Organizational Failure Under a Privatized Regime
3. The Role of Privatization and Technology in Workforce Reduction
4. The Impact of Economic/Financial Meltdown on Privatized Companies

5. The Resilience of Privatized Companies from Economic Meltdown
6. Employee Turnover in Privatized Companies
7. Employee Replacement and Organizational Performance in PEs
8. Leadership Behaviours in Privatized Enterprises in Nigeria

## 6.3 Conclusion

This study has assessed the performance of the Nigerian economy following the privatization of public enterprises. The major finding is that, privatized enterprises showed every sign of high performance but were apparently caught unawares by the global economic meltdown that crept in silently and heightened in the years 2008 and 2009.

Just as many unprepared companies suffered varying setbacks; it was obvious that most of the companies could not withstand the heat of the unforgiving environment arising from the global financial crises. The result was that the balance of payment (bop) of the Nigerian economy began to reduce, the Nigerian currency lost its value and s yet to recover, the market stocks prices plummeted, the quality of products declined, and there has been a rise in the rate of unemployment leading to high social costs.

The Nigerian economy and polity could still do better if only the privatized companies can adhere to fanatic discipline, productive paranoia and empirical creativity to withstand the uncertain business environment. Good enough the Nigerian stakeholders hold strongly that privatization is a much better alternative to public sector control.

**Appendix 1**

**SCHOOL OF POSTGRADUATE STUDIES**

**COMMONWEALTH UNIVERSITY,**

**BELIZE CITY, BELIZE**

September 23, 2013

Dear Respondent,

I am a PhD student of the Commonwealth University, Belize City, Belize undertaking a research on "**The Effects of Privatization of Public Enterprises on the Nigerian Economy.**"

I will be most grateful if you would kindly fill in this questionnaire, which will greatly assist me in my assignment.

Your responses will go a long way in addressing the privatization exercise of government. You may please not write your name or address on the questionnaires if you so wish.

Please make every effort to answer each question as much as possible.

Thank you.

**Haruna Mohammed Jumare**

**Appendix II**

**QUESTIONNAIRE SECTION A: PERSONAL DATA**

Tick/write appropriately.

a. Gender: Male [ ] Female [ ]

b. Age:…………………………………….

c. Educational qualification …………………………………

d. Occupation …………………………………………………..

e. Address:……………………………………………………

f. Stakeholder Group

   i. Politicians

   ii. Creditors

   iii. Public Servant (Bureaucrat)

   iv. The Private Investor

   v. Worker

**SECTION B: QUESTIONNAIRES**

The following statement may refer to the opinion you hold concerning the privatization exercises being executed by the Federal Government of Nigeria.

You may please wish to make some remarks or comments at the end of the questionnaire.

Please read each statement and choose (Tick) a response from the following scale that Strongly agrees or Strongly Disagrees with your opinion.

**KEY:**

5 Strongly Agree

4. Agree

3 Disagree

2 Strongly Disagree

1 Not sure

## QUESTIONNIARE

| S/N | QUESTIONS | STAKE HOLDERS PERCEPTION | | | | |
|---|---|---|---|---|---|---|
| 1 | The Nigeria public sector concerns are characterized by inefficiency, bureaucracies, corruption, overstaffing, poor staff morale and poor revenue generation. | 5 | 4 | 3 | 2 | 1 |
| 2 | The public sector's performance is obviously poor and does not offer satisfactory services to customers. | | | | | |
| 3 | The public corporations have been draining pipes of government budget. | | | | | |
| 4 | The inefficiencies and wastages of the public sector prompted privatization. | | | | | |
| 5 | The private sector is better off managing the business aspect of the economy. | | | | | |
| 6 | Privatization is about private sector participation in resources management. | | | | | |
| 7 | The privatization mindset is about creative use of resources in an efficient and effective manner. | | | | | |
| 8 | Privatization is a better alternative to public control. | | | | | |
| 9 | Privatization is largely responsible for the survival and sustainability of hitherto public enterprises. | | | | | |
| 10 | Privatization was expected to attract foreign exchange. | | | | | |
| 11 | Privatization promised improved value of stocks. | | | | | |
| 12 | Privatization was expected to create job opportunities | | | | | |
| 13 | Privatization of public enterprises has improved the standard of living of the people. | | | | | |
| 14 | Privatization has raised the cost of living | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 15 | Privatized increased foreign investment.. | | | | | |
| 16 | Privatization has not eliminated wastages and indolence in public service. | | | | | |
| 17 | Privatization has increased the values of stocks | | | | | |
| 18 | Privatization has impoverished Nigerians. | | | | | |
| 19 | The Effect of privatization are not significantly felt | | | | | |
| 20 | The physical impact of privatization is not clear. | | | | | |

Please comment freely about the effects of privatization

…………………………………………………………………………………………….

…………………………………………………………………………………………….

…………………………………………………………………………………………….

**Appendix II**

Checklist of Enterprises (parastatals) in Nigeria

1. Niger Delta Development commission (NDDC)
2. Federal Airport Authority of Nigeria (FAAN)
3. Nigerian Ports Authority (NPA)
4. Federal Mortgage Bank of Nigeria (FMBN)
5. National Board for Technical Education (NBTB)
6. National Universities (NUC)
7. National Commission for colleges of Education (NCCE)
8. Nigerian Football Association (NFA)
9. Securities and Exchange Commission (SEC)
10. National Directorate of Employment (NDE)
11. National programme on Immunization (NPI)
12. Nigerian Deposit Insurance Corporate (NDIC)
13. Nigerian National Petroleum Corporation (NNPC)
14. Pan-Ocean Oil Corporation
15. Nigeria Coal Corporation
16. Nigerian Planning Corporation
17. Standard organization of Nigeria (SON)
18. National Fertilizer Company of Nigeria (NAFCON)
19. National primary Health Care Development Agency (NPHCDA)
20. National Agency for the prohibition of trafficking in person (NAPTIP)
21. Federal Fire Service

22. Nigerian petroleum Development Company (NPDC)

23. National Emergency Management Agency.(NEMA)

24. Nigerian stock Exchange (NSE)

25. Industrial Training Fund (ITF)

26. National Inland Waterways Authority (NIWA)

27. Nigerian Agricultural Corporative and Rural Development Agency (NACRB)

28. Nigerian Copy Right Commission (NCC)

29. Skypower Aviation Holding Company Ltd (SAHCOL)

30. Nigerian Tourism Development Corporation (NTDC)

31. Corporate Affairs Commission (CAC)

32. Nigerian Investment Promotion Commission (NIPC)

33. Nigerian Aviation Handling Company (NAHCO)

34. Nigerian Export Promotion Council (NEPC)

35. National Agency For Food, Drug Administration and control (NAFDAC)

36. Independent Corrupt practices and other Related offences Commission (ICPC)

37. Nigerian Postal Service (NIPOST)

38. Nigerian Telecommunication Ltd (NITEL)

39. Federal Road Safety Corps (FRSL)

40. Joint Admission and Matriculation Board (JAMB)

41. National Examination Council (NECO)

42. West African Examination Council (WAEC)

43. National Teachers Institute (NTI)

44. Educational Trust Fund (ETF)

45. Economics and Financial Crimes Commission (EFCC)

46. National Insurance Commission (NAICOM)
47. National Commission for Mass Literacy Adult and Non Formal Education (NCMEC)
48. National Maritime Authority (NMA)
49. Directorate of national Civil Registration
50. Bureau of Public Enterprises (BPE)
51. National Drug Law Enforcement Agency (NDLEA)
52. National Productivity Centre
53. Nigeria Security and Civil Defence Carps (NSCDC)
54. Nigeria Educational Research and Development Council (NERDC)
55. Aluminum Smelter Company of Nigeria (NAN)
56. Central Bank of Nigeria (CBN)
57. Independent National Electoral Commission (INEC)
58. National Orientation Agency (NOA)
59. National Youth service Corps (NYSC)
60. National Human Rights Commission
61. Nigerian Social Insurance Trust Fund (NSITF)
62. Nigeria Security, printing and Minting Company (NSPMC)
63. Nigeria Liquated National Gas (NLCG)
64. Federal in land Revenue services
65. Petroleum production pricing and regulatory Agency (PPPRA)
66. Nigerian Communication Commission (NCC)
67. Nigeria Airspace management Agency (NAMA)
68. Nigeria Civil Aviation Authority (NCAA)
69. National Electric Power Authority (NEPA)

70. Nigerian Railways Corporation (NRC)

71. Federal Capital Development Authority (FCDA)

72. National Institute for social and economic Research (NISER)

73. National poverty Eradication programme (NAPEP)

74. Pipeline and product Marketing Company (PPMC)

75. National Engineering and Technical Company Ltd (NETCO)

76. Nigerian Gas Company Ltd

77. National Population Commission (NPC)

78. National Planning Commission

79. Defence Industry Corporation of Nigeria (DICON)

80. Bank of Industries (BOI)

81. Nigerian Agricultural Bank

82. Federal Housing Authority (FHA)

83. Federal Environmental Protection agency (FEPA)

84. National Broadcasting Commission (NBC)

85. Nigerian Shippers Council

86. Federal Radio Corporation of Nigeria (FRCN)

87. Nigeria Institute of medical Research (NIMR)

88. Nigeria Institute of Oceanography and Marine Research (NIOMR)

89. Nigerian Stored Products Research Institute

90. Cocoa Researcher Institutes of Nigeria (FRIN)

91. Leather Research Institute of Nigeria (LRIN)

92. Kainji Lake Research Institute

93. Nigerian Institute for Oil Palms Research (NIFOR)

94. Robber Research Institute of Nigeria

95. Nigeria's Institute for Tryoparosonniasis Research

96. National Veterinary Research Institute.

97. Raw Materials Research and Development Council

98. National Library of Nigeria

99. National Boundary Commission

100. Project Development Institute

101. Lagos University Teaching Hospital (LUTA)

102. University of Nigeria Teaching Hospital (UNTH)

103. Ife University Teaching Hospital

104. Ahmadu Bello University Teaching Hospital ABUTH)

105. University of Maiduguri Teaching Hospital

106. University of Sokoto Teaching Hospital

107. University of Calabar Teaching Hospital

108. University of Port-Harcourt Teaching Hospital

109. Nigeria Steel Development Authority (NSDA)

110. Small Medium Enterprises Development Agency (SMEDAN)

*Source*: Field Research August, 2013

**Appendix III**

**IMPLEMENTATION OF THE PRIVATISATION PROGRAMME**

**Agriculture**

| No | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 1 | National Parks Board | Decree 36 of 1991 | Commercialization |
| 2 | Ore-ilele Oil palm co. Ltd | Limited Liability | Privatization |
| 3 | Ihechiowa Oil palm Co. Ltd | Limited Liability | Privatization |
| 4 | Ayip Eku Oil Palm Co. Ltd | Limited Liability | Privatization |

**Aviation**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 5 | Federal Airport Authority Of Nigeria | Decree 9 of 1996 | Privatization |
| 6 | Nigeria Airways Limited | Limited Liability | Privatization |
| 7 | Nigerian Air Handling Company Ltd. (NAHCO) | Limited Liability | Privatization |

**Commerce & Tourism**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 8 | Nigeria Hotels Ltd | Limited Liability | Privatization |
| 9 | Festac 77 Hotels Ltd | Limited Liability | Privatization |
| 10 | NICON HILTON Hotel | Limited Liability | Privatization |
| 11 | Capital Hotels | Limited Liability | Privatization |

| | | | |
|---|---|---|---|
| | (Sheraton) | | |
| 12 | Abuja Int'l Hotel (Sofitel) | Limited Liability | Privatization |
| 13 | National Arts Theatre, Iganmu | - | Privatization |
| 14 | Duber Hotel | Limited Liability | Privatization |

**Communications**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 15 | Nigerian Telecommunications Ltd | Limited Liability | Privatization |
| 16 | Nigerian Mobile Telecommunications Ltd | Limited Liability | Privatization |
| 17 | Nigerian Postal Service | Decree 41 of 1992 | Privatization |
| 18 | NITEL/M-tel | - | Privatization |

**Defence**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 19 | Tafawa Balewa Square Investments Ltd | Limited Liability | Privatization |
| 20 | National Arts Theatre | - | Privatization |
| 21 | International Trade Fair Complex | - | Privatization |

**Employment, Labour & Productivity**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 22 | Nigerian Social Insurance Trust Fund | Decree 60 of 1993 | Commercialization |

**Finance**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 23 | NICON Insurance Ltd. | LFN Cap 263 | Privatization |
| 24 | Nigerian Re-insurance Company Ltd. | LFN Cap 325 | Privatization |
| 25 | Nigerian Bank for Commerce & Industry | LFN Cap 296 | Privatization |
| 26 | Assurance Bank Ltd<br>(former Arab Bank) | Limited Liability | Privatization |
| 27 | FSB Int. Bank plc<br>(NNPC/NMA/etc shares) | Limited Liability | Privatization |
| 28 | Afribank Nigeria Ltd<br>(BIAO shares) | Limited Liability | Privatization |
| 29 | National Economic Reconstruction Fund<br>(NERFUND) | - | Privatization |
| 30 | International Merchant Bank Plc | Limited Liability | Privatization |
| 31 | NAL Merchant Bank Plc | Limited Liability | Privatization |

**Information & Culture**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 32 | Daily Times of Nigeria | NICON Acquisition | Privatization |

| | | | |
|---|---|---|---|
| | Plc | | |
| 33 | Federal Radio Corporation of Nigeria | Decree 8 of 1978 | Commercialization |
| 34 | New Nigeria Newspaper Ltd | - | Privatization |
| 35 | News Agency of Nigeria | Decree 19 of 1976 | Commercialization |
| 36 | Nigerian Television Authority | Decree 24 of 1977 | Commercialization |

**Industries**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 37 | National Fertilizer Company of Nigeria | Limited Liability | Privatization |
| 38 | Federal Super-phosphate Fertilizer Co. Ltd | Limited Liability | Privatization |
| 39 | Nigerian Machine Tools Co. Ltd | Limited Liability | Privatization |
| 40 | Nigerian National Paper Manufacturing Co. Ltd | Limited Liability | Privatization |
| 41 | Nigerian Newsprint Manufacturing Co. Ltd | Limited Liability | Privatization |
| 42 | Nigerian Paper Mill, Jebba | Limited Liability | Privatization |
| 43 | Nigeria Sugar Company Ltd., Bachita | Limited Liability | Privatization |
| 44 | Sunti Sugar Company Ltd | Limited Liability | Privatization |

| | | | |
|---|---|---|---|
| 45 | Lafiaji Sugar Company Ltd | Limited Liability | Privatization |
| 46 | Ashaka cement Plc | Limited Liability | Privatization |
| 47 | Benue Cement Plc | Limited Liability | Privatization |
| 48 | Cement Company of Northern Nigeria Plc | Limited Liability | Privatization |
| 49 | Nigerian Cement Company Ltd., Nkalagu | Limited Liability | Privatization |
| 50 | Calabar Cement Company | Limited Liability | Privatization |
| 51 | Anambra Motor Manufacturing Co. Ltd | Limited Liability | Privatization |
| 52 | Leyland Nigeria Ltd | Limited Liability | Privatization |
| 53 | Nigerian Truck Manufacturing Co. Ltd | Limited Liability | Privatization |
| 54 | Peugeot Automobile of Nigeria Ltd | Limited Liability | Privatization |
| 55 | Volkswagen of Nigeria Ltd | Limited Liability | Privatization |
| 56 | Steyr Nigeria Ltd | Limited Liability | Privatization |
| 57 | Nigeria Romania Wood Industries Ltd | Limited Liability | Privatization |
| 58 | West African Portland Cement Plc | Limited Liability | Privatization |
| 59 | Central Packaging, Ilupeju and Others. | Limited Liability | Privatization |

**Petroleum Resources**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 60 | Nigerian National Petroleum | Decree 33 1977 | Commercialization |
| 61 | Corporation Port Harcourt Refinery & Petrochemicals Ltd | Limited Liability | Privatization |
| 62 | Warri Refinery & Petrochemicals Ltd | Limited Liability | Privatization |
| 63 | Kaduna Refinery & petrochemicals Ltd | Limited Liability | Privatization |
| 64 | Eleme Petrochemicals Company Ltd | Limited Liability | Privatization |
| 65 | Nigeria Petroleum Development Co. Ltd | Limited Liability | Privatization |
| 66 | Nigerian Gas Company Ltd | Limited Liability | Privatization |
| 67 | Pipeline Products Marketing Company Ltd | Limited Liability | Privatization |
| 68 | African Petroleum Plc | Limited Liability | Privatization |
| 69 | Unipetrol Plc | Limited Liability | Privatization |
| 70 | National Oil & Chemical Marketing Plc | Limited Liability | Privatization |
| 71 | Dresser Nigeria Ltd | Limited Liability | Privatization |
| 72 | Solus Scholl Nigeria Ltd | Limited Liability | Privatization |

| | | | |
|---|---|---|---|
| 73 | A C M Nigeria Ltd | Limited Liability | Privatization |
| 74 | Baker | Limited Liability | Privatization |
| 75 | Sedco Forex Nigeria Ltd | Limited Liability | Privatization |
| 76 | Flopetrol Nigeria Ltd | Limited Liability | Privatization |
| 77 | Schlumberger Wire Line Co. | Limited Liability | Privatization |
| 78 | Dowell Schlumberger Nigeria Ltd | Limited Liability | Privatization |
| 79 | Key Drill Nigeria Ltd | Limited Liability | Privatization |
| 80 | Bariod Nigeria Ltd | Limited Liability | Privatization |
| 81 | D.C.P Ltd | Limited Liability | Privatization |
| 82 | Other NNPC subsidiaries-Hyson Ltd. Etc | Limited Liability | Privatization |
| 83 | Calson/Bermuda Ltd | Limited Liability | Privatization |

**Power & Steel**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 84 | Steel Rolling Mill, Oshogbo | Decree 60 of 1979 | Privatization |
| 85 | Steel Rolling Mill, Jos | Decree 60 of 1979 | Privatization |
| 86 | Steel Rolling Mill, Katsina | Decree 60 of 1979 | Privatization |
| 87 | Delta Steel Company Ltd | Limited Liability | Privatization |
| 88 | Ajaokuta Steel Company Ltd | Limited Liability | Privatization |
| 89 | Aluminium Smelter Company Ltd | Limited Liability | Privatization |
| 90 | National Iron Ore Mining Company Ltd | Decree 60 of 1979 | Privatization |
| 91 | National Electric Power Authority | LFN Cap 256 | Privatization |
| 92 | Electric Meter Company of Nigeria | Limited Liability | Privatization |

**Solid Minerals**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 93 | Nigerian Mining corporation | Decree 39 of 1972 | Privatization |
| 94 | Nigerian Coal Corporation | LFN Cap 299 | Privatization |
| 95 | Nigeria Uranium Mining Co. Ltd | Limited Liability | Privatization |

**Sports**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 96 | Ahmadu Bello Stadium, Kaduna | - | - |
| 97 | Liberty Stadium, Ibadan | - | - |
| 98 | Nnamdi Azikiwe Stadium, Enugu | - | - |
| 99 | National Stadium, Lagos | - | - |

**Transport**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 100 | Nigerian Ports Authority | LFN Cap 361 | Privatization |
| 101 | Nigerian Railway Corporation | LFN Cap 323 | Privatization |
| 102 | Nigerdock Ltd | Limited Liability | Privatization |
| 103 | National inland Waterways Authority | - | Privatization |
| 104 | National Unity Line | Limited Liability | privatization |

**Water Resources**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 105 | River Basin & Rural Development Authority | LFN Cap 396 | commercialization |

| | | | |
|---|---|---|---|
| | (12 in number) | | |

**Works and Housing**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 106 | Federal Mortgage Bank of Nigeria | Decree 82 of 1993 | Commercialization |
| 107 | Federal Mortgage Finance Ltd | Limited Liability | Commercialization |
| 108 | Federal Housing Authority | Decree 40 of 1973 | commercialization |

**African Investment**

| NO | PARASTALS | ENABLING DECREE | PRIVATISATION/COMERCIALISATION |
|---|---|---|---|
| 109 | Save Sugar Company | Limited Liability | privatization |
| 110 | Onigbolo Cement | Limited Liability | privatization |
| 111 | Chemical Company, Senegal | Limited Liability | privatization |

*Source*: Privatization Handbook 3rd Edition, April 2001 by the National Council on Privatization.

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