Privatisation and economic growth

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CHAPTER ONE INTRODUCTION 1. 0BACKGROUND OF THE STUDY 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 programmes in the last one and a half decades or so, as a means of fostering economic growth, attaining macroeconomic stability, and reducing public sector borrowing requirements arising from corruption, subsidies and subventions to unprofitable SOEs.

By the end of 1996, all but five countries in Africa had divested some public enterprises within the framework of macroeconomic reform and liberalization. Yet despite the upsurge in research, our empirical knowledge of the privatization programme in Africa is limited. Aside from theoretical predictions, not much is known about the process and outcome of privatization exercises in Africa in spite of the impressive level of activism in its implementation.

Current research is yet to provide useful insights into the peculiar circumstances of Africa, such as the presence of embryonic financial markets and weak regulatory institutions and the manner in which they influence the pace and outcome of privatization efforts. As in most developing countries, Nigeria until recently witnessed the growing involvement of the state in economic activities. The expansion of SOEs into diverse economic activities was viewed as an important strategy for fostering rapid economic growth and development.

This view was reinforced by massive foreign exchange earnings from crude oil, which fuelled unbridled Federal Government of Nigeria (FGN) investment in public enterprises. Unfortunately, most of the enterprises were poorly conceived and economically inefficient. They accumulated huge financial losses and absorbed a disproportionate share of domestic credit. By l985, they had become an unsustainable burden on the budget.

With the adoption of the structural adjustment programme (SAP) in 1986, privatization of public enterprises came to the forefront as a major component of Nigeria’s economic reform process at the behest of the World Bank and other international organizations. 1. STATEMENT OF PROBLEM Despite compelling evidence from other developed and developing countries that privatization is viable and capable of injecting dynamism into previously dirigisme economies, only a few countries in sub-Saharan Africa have made appreciable impact in privatizing their SOEs.

And although the timing, extent, technique and motivations for privatization have varied considerably across countries, there is an unacceptably low level of success in the implementation of privatization programmes in Africa Nightingale, and Pindus (1997). The existing body of research is yet to provide useful insights into the peculiar circumstances of Africa and the manner in which they influence the outcome of privatization efforts.

The case of Nigeria is even more puzzling, given the high potential for successful privatization Nwoye,[1997]. Yet, current research efforts have proved inadequate in unravelling the major causes of this scenario. Nigeria’s stalled privatization programme was resuscitated recently and informed inputs are being sought from various sources to enhance the success of this second attempt. Here in lies the potential benefit of this study.

Giving the substantial number of enterprises that are yet to be privatized, the study would provide insights into the desirability, feasibility and sustainability of future reforms Public enterprises in Nigeria were established to propel socio-economic development and to grand against the control of the economy from foreign domination and exploitation Aboyade (1974). This accounts for why a larger proportion of the National Budget has been voted for the creation and sustenance of public enterprises.

In view of the above problems of implementing privatization and commercialization reforms in Nigeria, the following research questions would be answer in the course of this study, these are: i. What is the extent and pattern of privatization in Nigeria? i. What have been the results of privatization in Nigeria? iii. Has privatization improved enterprise performance as anticipated? 1. 2 Objectives of the study

In spite of this, the magnitude, scope and persistence of failure in Nigeria’s Public enterprises requires Continuous massive subsides but deliver only intermittent and substandard services, industrial enterprises typically operate at 10%-35% capacity. The return on these large investment by the growth have generally been poor and in number of cases negative. However, for the purpose of this study, the objectives of the study are to examine. 1. Examine the affect of privatization and commercialization of public enterprises in Nigeria. 2.

To evaluate the financial and operating performance of the public enterprises before and after privatization. 3. To evaluate on the privatization and commercialization of public enterprises reform issues. 4. To evaluate technical efficiency of the public enterprises before and after privatization. 1. 3 SIGNIFICANCE OF THE STUDY . Today, we are witness to sweeping changes that are taking place in the economies of both developed and developing countries. These changes relate to efforts to move away from government ownership, control or participation in the economy towards free enterprise and increased operation of market forces.

On the whole, the changes are making for a reduction in the role of government in the economy, with a corresponding expansion in private sector ownership, control and participation. We are thus observers of the evolution of a New World Economic Order which is characterized by the liberalisation or deregulation of economic activities, with the aim of achieving efficiency and effectiveness in resource allocation and utilization. In order to justify further the critical importance of this study Nigeria flower mill be used as case study.

The pre and post privatization financial performance of the Nigeria flower mill will be analyse in order to critically examine the effect of privatization and commercialization in Nigeria. This will be undertaken with the view of proffering some policy recommendation for committee for privatization and commercialization programme in Nigeria. This study will also enhance the environment for the other researcher particularly student in management science in there future research effort. 1. STATEMENT OF HYPOTHESES H0: privatization and commercialization do not have significant effect on Nigeria economy. H1: Privatization and commercialization have significant effect on Nigeria economy. 1. 5LIMITATION AND SCOPE OF STUDY In view of the vital roles played in regulating in the Nigeria economy, the food manufacturing industry will be considered. To ensure accurate representation of food sector, age will be borned in mind, Therefore, Flour mills of Nigeria PLC shall be choosing.

The company was established in 1960 and started full operation in 1962. The grains grinding and the installed capacity of 3640mlt per day make it the largest flour mills of Africa. It represents the first three generations of flour companies that have been privatized by the government. Hence, the study will concentrates on the financial performance of this company between 1978 and 2010 representing the pre and post privatization period. 1. 6 Organization of the study

This project will be divided into five chapters, chapter one covers the introduction with the purpose of the study, statement of the problems, significant of the study, hypothesis of the study and the scope of the study. Chapter two deals with literature review, chapter three is theoretical framework and model specification, and four is data presentation and analysis of result while chapter five will be summary, recommendation and conclusion. These will be followed by references and appendix. 1. 7DEFINITIONS OF TERMS SOES-State Owned Enterprises

PES-Public Enterprises NEPD-Nigeria Enterprises Promotion Decree SAP-Structural Adjustment Programmes ROA-Return on Asset ROCE-Return on Capital Employed ROE-Return on Shareholders Equity GPE-Gross Profit

Margin EPS-Earning Per Share REFRENCES Aboyade, O. [1974]: “ Nigerian Public Enterprises as an Organizational Dilemma” in Public Enterprises in Nigeria. Proceedings of the 1973 Annual Conference of the Nigerian Economic Society. 455-458 Federal Republic of Nigeria [1986]: Structural Adjustment Programme for Nigeria. Lagos: Federal Government Printers, 3-9.

Nightingale, S. M; andPindus, M. N. [1997]: Privatization of Public Social Service: A Background Paper. Unpublished. Nwoye, M. I. [1995]: Small Business Enterprise: How to Start and Succeed. Benin: Benin Social Science Series for Africa, 1- 35. Nwoye, M. I. [1997]: Management Practices and Performance Determinants of Public and Private Sector Enterprises in Anambra, Edo and Delta States of Nigeria: A Factor Analysis, 20-78 World Bank [1994b]: World Development Report, 1994: Infrastructure for Development. Washington, DC: The World Bank,. p20-50. CHAPTER TWO

LITERATURE REVIEW 2. 0 conceptual frameworks 2. 0. 1 The concept of privatization In a broad sense, privatization refers to any of a variety of measures adopted by government to expose a public enterprise to competition or to bring in private ownership or control or management into public enterprise and accordingly to reduce usual weight of public ownership or control or management. However, in a strict sense, privatization means the transfer of the ownership (and all the incidence of ownership, including management) of a public enterprise to private investors.

The latter meaning has the advantage of helping one to draw a line between privatization and other varieties of public enterprise reform. It is also the sence in which the term has been statutorily defined in Nigeria. Also, 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 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. 0. The concept of commercialization The term commercialization is regard as the process of making state owned corporations, parastals and enterprises to make more profits. Commercialization can be full or partial. Full commercialization means that rhe enterprises so designated will be expected to operate profitably on a commercial basis and to be able to raise funds from the capital market without government guarantee. Such enterprises are expected to use private sector procedures in the running of their business.

Partial commercialsation , on the other hand, means that such enterprises so designated will be expected to generate enough revenue to cover their operating expenditures. The government may consider giving them capital grants to finance their capital intensive projects. The decree also distinguishes between full and partial commercialization. The fully commercialized enterprises are expected to operate on a commercial basis to raise fund from the capital market without any form of government guarantee, such enterprises are expected to use private sector procedures in the running of their business.

It is expected that such enterprises would require no government subvention because of their high social service content; their operation cannot be left to individual shareholders. A typical example is the Nigerian National Petroleum Corporation (NNPC) which is a pivot to the national economy. Partial commercialization is those enterprises with high social service component. Such enterprises are expected to generate enough revenue to cover their operating expenditures. The government may therefore give them subventions to finance their capital-intensive projects.

It should be noted that both full and partial commercialization does not require that government would divest her equity holdings. Essentially commercialization exercise also calls for a “ performance contract” to govern the post commercialization financial relationship between government and the commercialized enterprises. The contract requires: 1. Specifying long-term objectives of the enterprise; 2. Establishing agreed (between the enterprise and the government) performance criteria; 3. Having an agreed level of enterprises performance; and . Having a performance bond that specifies penalties for not meeting agreed levels of performance or rewards for surpassing them. In sum, a performance contract establishes a two-way relationship between the government and commercialized enterprises. 2. 0. 3 Mode Of Privatization And Commercialization In Nigeria Public Enterprises (Privatisation & Commercialisation) Act recognized the following as the modes of privatisation: in the area of privatisation, the TCPC has so far evolved five methods as follows: 1.

Public offer for sale of shares of affected enterprises through the Nigerian Stock Exchange. To date, we have floated the shares of over 30 public enterprises. More enterprises are expected to be floated before the end of the current programme. 2. Private placement of shares of affected enterprises. We resorted to this method of privatisation in cases where government holding is so small that it cannot force public offer of shares even where the enterprises fulfil the listing requirements of the Stock Exchange. To date, only one enterprise has been so treated. 3.

The third method is the sale of assets where the affected enterprise cannot be sold either by public offer of shares or by private placement of shares. Such enterprises have a poor track record and a future outlook which is hopeless. To date, a total of twenty-seven enterprises have been so treated, including the eighteen dealt with by the Ministry of Agriculture before the TCPC was established. 4. Management Buy Out (MBO). Under this method, the entire, or substantial part, of the enterprise is sold to the workers. It is entirely up to them to organise and manage it.

To date, we have privatised only one enterprise this way. 5. Deferred Public Offer. This is the fifth method of privatisation developed. It occurs in enterprises which are viable, but if sold by shares the value to be realised will be out of tune with the value of the underlying assets of the enterprise. To date, some five enterprises have been privatised this way and another three are likely to be so treated. Our choice of public offer for sale as the predominant method of privatisation was informed by the need for wider share ownership, and the desire to extend the frontiers and depth of the Nigerian Capital Market.

We recognise that there are advantages and disadvantages of using the Stock Exchange as a medium of disposal of the shares, particularly in a developing economy like that of Nigeria. The major disadvantages are: ·In a society with a high level of illiteracy, the cumbersome formalities of prospectuses, a multiplicity of professionals, and complicated application forms that are to be returned through the few, and sometimes unapproachable, banks and stockbrokers, can prove quite daunting, incomprehensible and therefore unattractive, not only to the illiterate, but also to a large section of the semiliterate population. There are also geo-political imbalances arising from unequal regional distribution of income, education and banking and stockbroking facilities. For example, out of the approximately 2, 200 branches of banks and stockbroking companies in the country, as at 31 December 1988, nearly 300 branches were based in Lagos alone. 13 But the Stock Exchange medium also has numerous advantages, among which are the following: ·It enables us to reach a much larger audience, and provided a more objective allocative mechanism devoid of the rancorous suspicion of favouritism, more likely to occur in the sale of the shares under private placement. If properly published, it can create a large body of new shareholder class who have a vested interest in seeing that the enterprises are run profitably, and consequently higher accountability and a check on the management. ·It has deepened the Nigerian Stock Exchange and facilitated the development of Unit Trusts as a medium of investment for small holders, thereby creating democratic or popular capitalism. ·The Stock Exchange approach, when compared with asset-stripping or private placement, is much more creative, with the focus of all parties being to ensure that the enterprise is sold as a going concern.

The Journey So Far In the three years since the implementation of the privatisation programme began, the Technical Committee on Privatisation (TCPC) has been able to complete privatisation work on 62 out of the 73 enterprises slated for full privatisation, and 22 out of the 25 enterprises slated for partial privatisation. On the commercialisation aspect of the programme, the number of public enterprises with whom Performance Agreements have been entered into stood at 22, as of mid-1992.

So far, the exercise has generated (for the Government) over N1, 6 billion as privatisation revenue, created over 600, 000 new shareholders in the country, bridging both income and geo-political divides, radically changed the structure and depth of the Nigerian Capital Market and created awareness of the virtue of share ownership as a form of savings. The programme has relieved the Federal Government of what was the huge and growing burden of financing debts and deficits of public enterprises. It has improved the allocative efficiency of the national economy, and enhanced the volume of corporate taxes accruing to the national treasury. . 1 Theoretical Literatures In both developed and developing countries, privatization and in some cases commercialization have grown in popularity and acceptability. It has also become an important instrument that government can use to promote economic development, improve the production and distribution of goods and services, stream line government structure, and reinvigorate industries controlled or managed by the state. (Rondinelli and Iacono 1996). Privatization has become an acceptable paradigm in political economy of states. It is a strategy for reducing the size of government and transferring assets and service unctions from public to private ownership and control. Privatization is based on four core beliefs (Ugorji, 1995): 1. Government is into more things than it should be. It is intruding into private enterprise and lives ; 2. Government is unable to provide services effectively or efficiently; 3. Public officials and public agencies are not adequately responsive to the public; and 4. Government consumes too many resources and thereby threatens economic growth. On the theoretical plane, four distinctive schools of thought have tried to explain variations of policies applicable to privatization.

First, there is the free-market ideology of the liassez-faire classical economic theory, which favours the unleashing of the competitive profit motive by emancipating free- market pricing from the interfering hands of state regulation (Samuelson; 1980). It argues that the character of the traders and that of the sovereign are inconsistent, that public administration was negligent and wasteful because public employees have no direct interest in the outcome of their actions. Privatization according to this theory would reap the advantages of the market system and competition, namely effectiveness, productivity, and efficient service.

This trend will also strengthen market forces with some degree of deregulation, economic liberalization, relaxation of wage and price controls (Ugorji, 1995). The second school of thought is the ‘ public choice approach to policy and political analysis. This approach tries to explains the behaviour and provide sets of standards about what the government does. The theory assumes that people are rational, utility-maximizing individual and that economic efficiency becomes the prime criterion for judging the political, social and economic system.

Consequently, all the government does is judged in terms of the impact on individual choice and economic efficiency. Public choice posits that the nature of goods and services determines whether they should be provided through the market system or through the public sector. The point is that private goods should be provided by the market whereas government should provide public goods. In sum the theory posited that where public goods provide separable private benefits (e. g. education) the recipients of the private benefit should be required to pay for net portion of the cost that represents the private benefit (Ostrum & Ostrum 1991).

Like many other developing countries, Nigeria government has been seen over the years, as having gone beyond the effective and efficient provision of public goods to the provision of private goods. And it has not only failed on both scores, it has also over extended itself in its public sector commitments through the establishment of too many state enterprises and through continued financial support of those enterprises that have continued to lose money. This scenario has created unprecedented high level of public sector deficits financed mostly through heavy external borrowing, high inflation rates and balance of trade deficits.

The end product of this tendency is that privatization would enable government to cut public expenditures and reduce its involvement in activities the private sector can undertake (Ugorji, 1995). Thirdly, populist approach on the other hand argues for allowing citizens more choices in terms of sources of services they purchase. This position is geared towards community enterprises that could be more responsive to the needs of the people they serve. Empowered is seen as the other half of the equation. As privatization compels government to embrace the efficiency and effectiveness of the market, it must also embrace the community.

The fourth school of thought is the pragmatist, which advocates alternative approaches to enable the government to provide services with the highest possible efficiency. They believed that private sector may operate efficiently in resource allocation and service provision; they held that some functions are essential to the public purpose. Such functions like the provision public transportation, education and health should be retained by the government and operated on the basis of the advantages that characterize the market operation. The Nigeria’s commercialization policy is in consonant with this school of thought.

Arising from the above, empirical evidences points to the global acceptability of privatization policy. Rondinelli & Iacono (1996) viewed that Latin American countries such as Chile and Argentina had transferred large-state controlled telecommunications, railways, power and energy, airline, mining and oil and petroleum industries to private ownership or management during the 1970s & 1980s. Mexico has also privatized enterprises in industry from agricultural business, airlines, mining, metals, pharmaceuticals, real estate, hotels and automotive parts to fish processing, fertilizers telecommunications and banking.

In Asia, private sector had started to participate in providing urban shelter, social services and physical infrastructure. In the 1980s in the Republic of Korea, Indonesia, Thailand and the Philippines sold or solicited private investment in state-owned manufacturing and public service enterprises. In some Communist countries such as Poland, Hungary, the Czech Republic, and some of the republics of the former Soviet Union, the government privatized some state-owned enterprises after the collapse of the communist regimes.

The success story of privatization reform were also recorded in western industrial countries such as United Kingdom, France, Italy, Spain, Austria, Sweden, Portugal, Netherlands, Germany, the United States, Japan and Canada. These countries have reformed their state-owned enterprises to achieve administrative and economic objectives. Countries of the developing world are not left out of this crusade of privatization. Quite a number of public sector enterprises are operated without respect to financial costs or returns.

Not all such investment is expected to yield immediate financial returns as some of the benefits are social rather than private in character that is, they accrue to society as a whole rather than exclusively to particular or denominated individuals (Okigbo, 1998). Some services yield benefit to the community generally as well as to individual citizens. In the production of most of other private consumer goods and services, it is easy to determine whether the outlays are justified or not lay virtue of the financial returns to investment.

It suggests therefore that the production methods must be efficient and that the price change should at least cover the costs of operations. Therefore, commercialization which differs from privatization is one of the policy thrust of the reform of state-owned enterprises. Operationally, Nigerian commercialization and privatization Decree No 25 of 1988 defines commercialization as “ 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”. 2. 2 Empirical Issues On Privatization And Commercialization

The privatization and commercialization Act 1988 (The Laws of the Federation CAP 369) introduced commercialization and privatization as measures for the re -organisation of state – owned enterprises in Nigeria. According to section 14 of the Act, privatization means “ the relinquishment of part or all of the equity and other interests held by the Federal Government or its agency in enterprises whether wholly or partly owned by the Federal Government …” In order to deal with the general issues of reform, which apply to all Public Enterprises in Nigeria, government promulgated the commercialization and privatization Decree No. 5 of October, 1988. The Decree provides for the necessary legal framework for planning, organization and implementation of government’s anticipated programmes on public enterprises privatization as integral parts of Nigeria’s on-going restructuring of its national economy. According to the Decree, the policy is aimed at the following objectives: (i) Restructuring and rationalization of the State-

Owned Enterprises (SOEs) to lessen the dominance of unproductive investments in the sector; (ii) Re-orientation of SOEs towards a new horizon of performance, improvement, 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.

At the inception of our nascent democracy in Nigeria, commercialization and privatization Act 28 of 1999 was enacted, which brought into existence the National Council on Privatization. However, the proposals for the reform of public enterprises (PEs) in Nigeria was based on the findings of the Onosode Commission (1984), government blamed the poor physical and financial performances of PEs in Nigeria on managerial inefficiency and incompetence.

It is important to note that in most cases, particularly in the case of NEPA, product prices of PEs were subsidized to the tune of between 36% and 52% of the production cost in the pre-SAP period (Ayodele 1998: 29). Thus, the continued deterioration of government's financial and fiscal posture especially in the mid 1980s when crude oil prices declined to below $10. 00 per barrel, created additional financial difficulty for government to maintain its hitherto statutorily determined product prices which were below enterprises have also been established for olitical reasons. Many government undertakings are used to provide jobs for constituents, political allies, and friends. The location of public enterprises and the distribution of government employment have further been defended on the need to maintain " federal character" and promote national integration. Other factors that accelerated the growth of Nigeria's public sector was the indigenization policy of 1972 as enacted by the (Nigerian Enterprises Promotion Decree).

It was designed to control the commanding heights of the economy. The policy further provided the much needed legal basis for extensive government participation in the ownership and control of significant sectors of the economy. It also reinforced the increasing dominant of the public sector in the economy. In spite of the impetus given to public enterprises especially in Nigeria some criticisms are leveled against them. Their problems are so enormous that even left the Nigerian public in a state of great disillusionment.

These criticisms vary from lack of profitability and reliance on large government subsidies. Ogundipe (1986) once argued that between 1975 and 1985, government capital investments in public enterprises totaled about 23 billion Naira. In addition to equity investments, government gave subsidies of N11. 5 billion to various state enterprises. All these expenditures contributed in no small measure to increased government expenditures and deficits.

Similarly, public enterprises suffer from gross mismanagement and consequently resulted to inefficiency in the use productive capital, corruption and nepotism, which in turn weaken the ability of government to carry out its functions efficiently (World Bank, 1991). Hall and Winstein (1959: 71-75) identify four categories of efficiency: efficiency in use; managerial efficiency, target or technical efficiency and return on equity capital. This has prevented a meeting of minds not only among management practitioners, but also among scholars. e Grazia (1961: 571), for example, calls attention to the value – orientation in the definition of the term “ As an instrumental objective in administration, efficiency means that a given method of performing a task is most ‘ pleasing’ to those controlling the method. Often ‘

pleasing' has to do with material values such as input-output ratio of machines, and clerks, but frequently the most efficient way of performing a task is conditioned on a clear triumph of executives' interests over the interests of others.

Since scholars have been objected to the idea of using predetermined goals as a yardstick for measuring the relative success or failure of an organization. Etzoni (1960: 258) maintains that goal – attainment is not a fair test of an organization's strength. Speight (1970: 1), in a more general way, says that an economic system was economically efficient so long as it was technically efficient and provided it succeeded in rationing out its scarce resources, and the scarce products of the resources, in the most desirable way. In any case, it is essential that an organization should fulfill certain objectives which are basic to its survival.

Balogun (1972: 21-34) argued that in Nigeria, the raison d'etre of many governmental or quasi-governmental organizations is being challenged simply because these organizations have failed to " deliver the goods" promised with the amount of resources at their disposal and within a given period. It is widely accepted that government enterprises are managed to achieve a variety of objectives that relate to the complexities of politics, while private enterprises are largely managed to earn profits, and cost efficiency and market responsiveness are important to that pursuit.

The more competitive the markets in which the private enterprises operates, the more it is compelled by its objectives of profits and survival to operate efficiently (Willig, 1993: 155-180). According to Akinlo (1998: 56-65), the most widely vaunted argument for privatization is efficiency. His study revealed that evidence from the Nigerian experience shows that the fiscal and efficiency impacts of privatization have been low.

Performance evaluation in business according to Reid and Dubas (1978: 83-105) distinguish among various key aspect of performance measurement namely: economy, productivity, quality and level of service and effectiveness. From the existing literature, performance evaluation of a given firm could be done through intra or inter-company analysis. The intercompany analysis could not be easily achieved in Nigeria because of problem of inadequate data. In Nigeria it is possible to adopt the intra-company analysis by adopting financial ratios which is simply the relationship between two accounting figures.

Woelfel (1979) suggests two ways of analysing the performance of a firm, namely, comparative financial statement and ratio analysis. 2. 3A BRIEF HISTORICAL PERSPECTIVE ON DEVELOP OF ENTERPRISES IN NIGERIA The private sector was the traditional structure of the world’s economies. The Nigerian economy is largely private-sector based. 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 griculture, 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. Given the fact that the initial impetus for privatization in Africa came from creditor institutions, especially the IMF and the World Bank, as part of the push for structural adjustment, many believed that there must be a hidden agenda in the form of economic exploitation.

It is principally the conditionality that was attached to privatization vis-a-vis debt relief and financial assistance that provoked resentment from the public view, especially labor, which views privatization as creditors' initiative. As in some of the other African countries, resentment is intensified because a good number of the larger enterprises being privatized are bought over by foreign interests. Several of the arguments against privatization are as follows: • Rising Prices – Opponents fear that the private sector will exploit consumers where there is monopoly or oligopoly power such as by raising the prices of goods. Creating Poverty – At the heart of the criticism of privatization is the perception that it has not been fair – hurting the poor and the vulnerable work force, while benefiting the rich, the powerful, and the privileged – thereby perpetrating poverty. • Breaking of Unions – Workers dismissed as a result of privatization have great difficulty finding other work; the large number of people out of jobs is forced to accept jobs with lower pay, less security, and fewer benefits.

They, therefore, believe that the aims of privatization are to reduce labor costs and numbers, and to break union power. • Corruption – There is this argument that even if privatization contributes to improved efficiency and financial performance, it has a negative effect on the distribution of wealth perhaps arising from corruption. Corruption is the single most destructive factor responsible for the pitiable state of affairs in many developing countries. It distorts the economy through waste and misallocation of resources and creates need for external assistance.

Transparency International has for a long time decried the evil consequences of corruption and has identified acute corruption in many developing countries. For example, in 1997 [2] , its Annual Corruption Index rated Nigeria as the most corrupt country on earth, followed by Pakistan and Kenya. By 1998, the index moved and Cameroon displaced Nigeria as number one. [3] Some misguided Nigerians have argued thus "…after all, corruption is everywhere, including industrialized countries. It is true that corruption is a worldwide phenomenon, and so are industrial development and technological advancement. Why is it then that when industrialized countries are pushing for technological invention, African countries are busy expanding only the frontiers of corruption and poverty-prone ventures? • Public Enterprises Should Stay – There is this strong belief that privatization is not necessary. Public enterprises need not run at a loss; all they require is good managers, less political interference, competent boards of directors, and especially more rational pricing policies. Injustice – There is an assertion that it is the politicians and bureaucrats that caused the public enterprises to perform poorly but only labor is asked to carry the burden of reform. Critics view this as injustice. • Exploitation by Capitalist Countries – Privatization is seen as an imposition by foreign capitalists and agencies like the IMF and the World Bank; therefore, privatization must be meant to exploit the developing countries. • Privatization Is Foreign – Some critics have argued that privatization is neo-colonialism since the policy is being pushed by International Monetary Fund, World Bank, and their agencies.

It is not an indigenous idea; therefore, it will not work. • Labor's Demands for Job Protection -Right from the onset, the most publicly persistent and organized opposition of privatization in Nigeria has come from the labor movement. There always have been strikes and counterstrikes against any decision to privatize a government agency. Sometimes workers have succeeded in blocking or slowing down the privatization of specific enterprises. In other cases the government simply has brushed aside the labor opposition leaving a legacy of anger and political tension.

What is obvious is that workers are reacting against threatened jobs or the possibility that benefits might be jeopardized under new management. Perhaps it may be likely that it is the continued pressure from World Bank to get the reform process moving and to keep it on track that causes some of these humanitarian issues somehow to be brushed aside. These indictments are not a rarity. The fears about privatization are not only Nigerian-made apprehensions. Worldwide, proponents of labor have been the most vigorous and persistent.

Critics of privatization are consistently portraying its negative effects on income distribution and worker welfare. Not enough is yet known empirically about the impact of privatization in Nigeria to form definitive judgment; the current statement on the issue still lie between propositions and conclusions. 2. 3. 1 Problems of Nigeria Economy in the 1980s 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. 2 . 3. 2Justification for Establishment of Public Enterprises in Nigeria Many reasons have been adduced as the justification for creating public enterprises. Following are six important ones: • The first of these, especially in the context of developing countries such as Nigeria, 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. • 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. • 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. 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. • 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. • 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” [1] are predetermined and postulated. These two processes have characterized the evolution of public sector enterprises in Nigeria, which dates back to the precolonial era. 2. 3. 3Government Policy on Commercialization and Privatization During the 1980s and early 1960s, the prevalent wisdom in development economic tended to discredit the conventional arguments for free trade and the principles of comparative advantages on the developing countries, who exported primary commodities.

The advantages of free trade were said to have essentially favoured capital accumulation of growth in industrialized countries. Instead, authoritative voices like Myrdal, Prebisch, Futado and Rosenstein – Rodan led the intellectual revolt in favour of state intervention, substituting Commercialization and Privatization and planning in the less developed countries (L. D. Gs) as the only way to achieve rapid development.

However, by the end of the 1960s and during the early 1970s there emerged a widespread disenchantment with the pervasine planning and state intervention models, and the re-assention of the free market that lead to growth models. These are the major difficulties which had emerged in the solvent planning system; generalized crises in the developing world, and the spectacular success of the newly instralising countries (NICS) of South-East, based on marked signals and incentices.

Between 1965 and 1978, the NICS has achieved annual rates growth of GDP of between 8% and 20-40% annual rate of growth of manufactured exports. By 1995, they accounted for 62% of LDC manufactured export. On the basis of this performance of the NICS, a number of economists including Krueger, Balassa and Westpal, among others, argued that the way forward for LDCS would entail a pursuit oriented strategy within a market context. Most situation studies they conducted indicated a positive and significant relationship between a GDP growth rates.

A development strategy that emphasized such orientation would mean significant Commercialization and Privatization exchange rate adjustment and suitable trade, fiscal and monetary policies. These arguments dovetailed into the international Monetary Fund / World Bank models for structural adjustments in GDCs, providing them with greater poignency and compelling power, especially for the high indebted countries. The international context provides the setting for which much of Nigerian planning strategies emerged, and within which is Commercialization and Privatization were derived, despite considerate lags in response. . 3. 4 Reasons for privatization and commercialization in Nigeria. Different goals motivated privatisation in different countries. Country studies reveal that these goals included improving a government’s cash flow, enhancing the efficiency of the SOE sector, promoting “ popular capitalism”, curbing the power of labour unions in the public sector, redistributing incomes and rents within society, and satisfying foreign donors preference for in the role of government in the economy.

Moreover, it is more prudent to direct our scarce resources to attacking poverty through investment in health, education and rural development – social programme s that will benefit millions of Nigerians, not just a few thousand urban elite that are employed by, or capture the subsidies granted to the public enterprises. Public enterprises have also contributed to income redistribution in favour of the rich over the poor, who generally lack the connections to obtain the jobs, contracts or the goods and services they are supposed to provide.

The annual burden of over N200 billion that PEs imposes on the economy has become untenable, unbearable and unsustainable. The above reasons notwithstanding, the political will to make difficult decisions and stand by them, play perhaps the most significant role in determining candidates for privatisation. However, various studies conducted on the performance of PEs in Nigeria by public Commissions, committees and Study Groups revealed the presence of the following as compelling reason for privatisation: Abuse of monopoly powers, · Defective capital structures resulting in heavy dependence on the treasury for funding, · Bureaucratic bottlenecks, · Mismanagement · Corruption · Nepotism · Inefficiency utilisation of resources. Economic liberalisation and privatisation is therefore justified by gross failure of PEs to provide the goods and services and operate efficiently and profitably. . 3. 5Objectives of Privatization and Commercialization in Nigeria Privatization has been promoted with Nigeria since the year 1991 moreover globalization and the increasing popularity of a market economy are two other factors that have strengthened the importance of the private sector in Nigeria. As for the objectives of the private sector, the first objective revolves around the prospect of creating better on.

Another objectives of privatization is the improvement of productivity and profitability which would also contribute towards enhancing the image of the country in the international circles. Next in line is the objective of reducing the heap burden that is on the shoulders of the government regarding the allocation. It is possible that some of these popular and critical perceptions and assertions about privatization are accurate.

There is no doubt that mistakes have been made in the past and that promises have not been kept, for instance the incidence of interference from political office holders. However, it may turn out to be a mistake to judge privatization from a limited perspective. The set of objectives privatization programs are meant to achieve is broad and involved; it has many fundamental components that can act together for the enhancement of microeconomic efficiency.

There are, indeed, some critical long run objectives to be achieved through privatization including the following: • increasing productive efficiency; • strengthening the role of the private sector in the economy, which will guarantee employment and higher capacity utilization; • improving the financial health of public services with savings from suspended subsidies; • freeing more resources for allocation to other needy areas of governmental activities (for example, finances that would have been applied for subsidies should now be channeled to the development of rural ommunities); and • reducing corruption because interference by politicians will cease. Invariably, a privatization program ought to be judged and assessed by the extent to which the stated objectives have been met. Furthermore privatization could take a slow but steady developmental speed. In summary, the objectives and benefits of privatisation in Nigeria include the following: · Reduce corruption; · Modernise technology Strengthen domestic capital markets; · Dismantle monopolies and open markets; · Promote efficiency and better management; · Reduce debt burden and fiscal deficits; · Resolve massive pension funding problems; · Broaden base of ownership · Generate funds for the Treasury · Promote corporate governance · Attract foreign investment · Attract back flight capital

The table below shows the organizations that are already commercialized | S/N | Sectors | No of companies | Types | | 1 | River basin development authorities | 1 | Partial comm | | 2 | | | | | 3 | | | | | 4 | | | | | 5 | | | | | 6 | | | | 7 | | | | | 8 | | | | | 9 | | | | | 10 | | | | | 11 | | | | | 12 | | | | | 13 | | | | | 14 | | | | | 15 | | | | | 16 | | | | | 17 | | | | | 18 | | | | | 19 | | | | | 20 | | | | | 21 | | | | | 22 | | | | | | Total no. of enterprises to be commercialised | 35 | | The table below shows the organization that are already privatized and their status. S/N | Sectors | No of companies | Types | | | | | | | | Total no. of affected enterprises | 111 | | 2. 3. 6 THE BODY RESPONSIBLE FOR THE PRIVATIZATION AND COMMERCIALIZATION OF PURBLIC ENTERPRISE IN NIGERIA Globally, Privatization has been a controversial issue in recent years especially in Africa. In Nigeria, privatization was view as reforms that is not quite good enough and has undergo indefinite criticism by different groups and individuals such as labour union, academicians, civil servants and the populace at large.

Critics argue that privatization will inflict damage on the populace especially the poor through loss of employment, reduction in income, and reduced access to basic social services or increase in prices of goods and services. Commercialization is the process of managing public enter prise in order to maximize profit and has been in existence years ago in Nigeria Privatization and commercialization had gain popularity in recent years in Nigeria and a body is charge with the responsibility of its regulation. Privatization and commercialization in Nigeria was formally introduced by the privatization and commercialization act of 1988, which later set up the technical committee on privatization and commercialization (TCPC) chaired by dr hamza zayyad with a mandate to privatize 111 enterprises and commercialize 34 others. n1993, having privatized 88 out of 111 enterprise listed in the decree, the TCPC CONCLUDED its assignment and submitted a final report . Based on the recommendation of the TCPC, the federal military government promulgated the bureau for public enterprises act of 1993, which repealed the 1988 act and set up the bureau for public enterprise (BPE) to implement the privatization program in Nigeria. In 1999 the federal government enacted the public enterprise (privatization and commercialization) act, which created the national council on privatization chaired by the vice president, Alhaji Atiku abubarkar This body is established under S. 9 of the Privatisation and Commercialisation Act. It onsists of: the Vice-President as Chairman; the Minister of Finance as Vice Chairman; the Attorney-General and Minister of Justice; the Ministers of Industry and

National Planning; the Central Bank Governor, the Secretary to the Government of the Federation, the Special Adviser to the Head of State, Commander-in-Chief of the Armed Forces on economic affairs, and four other members appointed by him, and the Director General of the Bureau of Public Enterprises. The Council's powers and functions include:- 1. Making policies on privatization and commercialization. 2. Determining the modalities for privatization and advising the government accordingly. 3. Determining the timing of privatization for particular enterprises. 4. Approving the prices for share and appointment of privatization advisers 5. nsuring that commercialized public enterprise are managed in accordance with sound commercial principles and prudent financial practices, and interfacing between the public enterprises and the supervising ministries in order to ensure effective monitoring and safe guarding of the managerial autonomy of the public enterprises 6. Approving policies on privatisation and commercialisation, the entities to be privatised or commercialised and the time frames involved; 7. Approving guidelines and criteria for valuation of public enterprises and the choice of strategic investors; 8. Approving the legal and regulatory framework for the enterprises to be privatised; 9. Approving the appointment of advisers and consultants as well as the budgets of the council and bureau; and 10. Receiving regular reports from the bureau on programme implementation;

The level of representation in the council shows more than any other thing the government's seriousness with the privatisation programme. However, it is remarkable that there is no labour representation in the council. This lapse it is feared may engender industrial disharmony in future, since labour needs to be carried along from the very beginning. From the point of view of investment security which can only exist in an atmosphere of industrial peace and stability2. This lapse can be cured by the President appointing the majority of the four additional people he has power to appoint into the council from labour. Bureau of Public Enterprises;

The 1999 act also established the Bureau of Public Enterprises which is the next institution form under S. 12 of the Decree as the secretariat of the national council on privatization. Its functions with Respect to privatisation is to:- 1. implement the council's policy on privatisation; 2. prepare public enterprises approved by the council for privatisation; 3. advise the council on further public enterprises that may be privatised; 4. advise the council on the capital restructuring needs of the public enterprises to be privatised; 5. carry out all activities required for the suc