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Privatisation and Commercialisation in Nigeria: Problems and Prospects

Unuigbokhai Olufemi Anthony [1], Unuigbokhai A. Blessing [2] and Iregha, M. Rahmat [3]

[1,2]Department of Accountancy, Auchi Polytechnic, Auchi, Edo State. [3]Cash Office, Bursary Unit, Auchi Polytechnic, Auchi, Edo State.

Corresponding author: tonypraise1@gmail.com

Abstract

The twin-problems of mismanagement and corruption encountered by the state-owned corporations constitute the impetus for the recent privatization and commercialization of those corporations in Nigeria. It goes on to reason that a decaying public sector would give rise to inefficient private sector. This paper examined the problems and Prospects of privatization and commercialization of public enterprises in Nigeria is the attempt to help the general public to know about the privatization and commercialization and how they have affected the development of the Nation. Although, some of the problems facing public- owned enterprise were examined as well. It looked at the pressure on the International Monetary Fund (IMF) to fully implement the structural adjustment program that leads to massive deregulation, privatization, and commercialization of public owned enterprises. In addition, it looked at the merits if any, of privatization and commercialization through extensive theoretical review of the performance of the private enterprise in Nigeria. Theories, rationale, and challenges of privatization and commercialization were addressed. The conclusion was that privatization is a good policy measure, which must be pursued with vigor, truth, sincerity, and transparencies even though the government is using such policies to foster a new division of labour between the public and private sectors in a bid to order, increase the efficiency and contribution to the development of both sectors. Privatization and commercialization in Nigeria will be a mirage unless institutional reforms take place. The government should create an environment favorable for private economic activity. This can be done by showing zero tolerance for corruption, nepotism, and misuse of public funds and property by both government and non-government officials.

Keywords: Privatization; Commercialization; Public Enterprises; Corruption; Nigeria.

Introduction

Basically, the concepts of privatization and commercialization were first put to practice during the golden age of the Han Dynasty in China. In this era, the Mining Dynasty of China handover manufacturing industries private individuals in the society to managed. Subsequently, Winston Churchill's government privatized the British steel industry in the 1950s. This was followed by Western Germany's which sold its majority stake in Volkswagen to small investors in a public share offering in 1961. The success of these privatized enterprise and the perception that privatization would go a long way in addressing market deficits and capital shortfalls, promote economic development, reduce mass unemployment made leaderships of Margaret Thatcher, Ronald Reagan, World Bank and International Monetary Fund clamored for large-scale privatization in the 1980s through the introduction of structural adjustment programme (Oji, Nwachukwu, & Eme, 2014). Accordingly, the introduction of structural adjustment program propels much government in different countries to embark on the massive transfer of public owned companies to private individuals (Alabi, 2010).

In Nigeria, structural adjustment program did kick start not until 1986 when the International Monetary Fund (IMF) insisted that one of the conditions the foreign loans requested by the then Shehu Shagari's Administration can be granted was to divest ownership in the management and control of some public enterprises (Adeyemo & Adeleke, 2008).This debate resonated to Buhari/Idiagbon and General Ibrahim Babangida government that finally announced an intention to divest its holdings in certain key sectors of the economy and subsequently promulgated the Privatization and Commercialization Act No. 25 of 1988. Against this backdrop, privatization has hitherto been described by some authors as neo-liberal policies and idea packaged and sold by the western metropolis through their agencies such as World Bank and International Monetary Fund (IMF) (Gberevbie, Oni, Oyeyemi & Abasilim, 2015).

However, several other studies have noted that privatization of public enterprises would help to overcome the misuse of monopoly power, defective capital structure, mismanagement, corruption and nepotism (Abdullahi, 2014; Dapp & Omi, 2014). Indeed, a public enterprise in Nigeria tends to be characterized by incessant corruption, inefficiencies, ineffective to they're bureaucratic in nature that is responsible for many government failures. These low performances in addition to technological shortcomings of many public enterprises appear to have made many studies to suggest that privatization or divesting inefficient public enterprises could save costs and generate more revenue to the government. Nwoye (2011) argued privatization and commercialization of public enterprise will not only facilitate the provision of capital and technology to strategic areas where the private sector either shy away from or lacked the capacity to invest, it will also increase capital formation, encourage foreign direct investment, production of essential goods at lower costs, create employment and generally contribute to the economic development of the country. Several other evidence has revealed that because many of the public Enterprises in virtually all tiers of government in Nigeria were either equipped with low or second-grade machinery, the performance of these public enterprise has remained very dismal with no options but to privatized them (Obadan, 2000).

The problem of this study emphasized that though a sizeable number of studies have been carried out on privatisation and commercialization in Nigeria, only a limited number of such studies have attempted to review the problems and prospects it has brought to bear on the economic landscape of Nigeria and her teaming population. The main reason for this gap, perhaps, could be that privatisation and commercialization is a new phenomenon. Privatisation and commercialization as an economic reform policy, reduces the inefficiencies of the public sector, provides greater scope to the private sector, attracts more investments and more importantly, revives the ailing productive sectors of the economy through ownership restructuring. This noticed lacuna justifies the present efforts to examine and analyse the challenges and prospects of privatisation which has come to occupy the centre stage in the economic policies of various Nigerian governments.

Review of Related Literature

In this section, the study reviews relevant literature related to privatization and commercialization of public enterprise. It specifically reviews the concept, theories, rationale, performance and challenges facing privatization and commercialization of public enterprises.

Conceptual Framework

Enwogbara (1998) opines that since independence in 1960, the Nigerian government in its yearly budget has been spending a substantial part of taxpayers, money to keep the state-owned enterprises going. The financial aid received from the federal government made these enterprises fun as if they were not for profit companies. During the oil boom of the 1970's, the deep fiscal crisis of the 1980's caused by the rapid decline in oil revenue, budget drastic changes in the management of these state owned enterprises. The concept of privatization and commercialization has been used interchangeably. However, the two concepts have a different meaning. According to (Ayodele, 2004), privatization is the process of transferring ownership and control of a government owned business to private individuals. It is a transfer of ownership right from a public agency to the private sector. It is the sale of government-owned assets and the opening of certain markets to the private sector.

Privatization has also been defined by Privatization and Commercialization Act of 1988 and the Bureau of Public Enterprises Act of 1993 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. This definition means that privatization can be full or partial. Partial privatization occurs through equity dilution, joint ventures, management contract and lease. Full or complete privatization is the complete transfer of ownership and control of a government enterprise or assets to the private sector. It is the transfer of the ownership (and all the incidence of ownership, including management) of a public enterprise to private investors.

The terms commercialization and privatization cannot be defined without first of all having a clear understanding of Public Enterprise. According to Nwoye (2011), public enterprise is a corporate body created by the legislature with defined powers and functions in which public authorities hold the majority of the shares and/or can exercise control over management decisions. It is a corporate body owned and controlled by the central or regional government. It is established with no privately exchangeable rights to the profits. The government has the legal right to appoint and dismiss directors. Ayodele (2011) opined that the absence of private rights to profits and the power of the government to appoint directors are conditions which are compatible with a wide range of public institutional forms. Public Enterprises may cover any commercial, financial, industrial, agricultural or promotional undertaking owned by the public authority, either wholly or through majority shareholding which is engaged in the sale of goods and services and whose affairs are capable of being recorded in balance sheets and profit and loss accounts. Such undertakings may have diverse legal and corporate forms, such as departmental undertakings, public corporations, statutory agencies, established by Acts of Parliament of Joint Stock Companies registered under the Company Law (Dimgba, 2011).

Drawing from the above definition, public enterprises appear to take three distinct forms; (i) Departmental undertaking; (ii) Statutory Corporation and (iii) Joint Stock Company with shares owned by State. This means that there are public enterprises established for privately remunerative - provided by market through Directly Productive Investments (DPI); socially profitable but not privately remunerative provided by State, like road building, irrigation, through Social Overhead Capital (SOC); privately remunerative but not capable of private execution, like heavy industry, high technology involving capital-intensive investments like power, transportation, etc also provided by the State with/without the help of the market; and natural monopolies. The privately remunerative but not capable of private execution provided by the State with or not the help of the market can be transferred to the private sector when the capitalist development in privatization and commercialization of public enterprise usually take place along with fundamental restructuring, planning, and policy by the government.

Origin of Privatization and Commercialization

Though there was a formal declaration of a national debate on privatization of public enterprises in Nigeria, as was the case with the contemplated loan from the international monetary fund (IMF), and the structural adjustment programme (SAP), there has been a heated argument for and against privatization and commercialization, ever since the federal government declared its intentions to privatize, commercialize some public enterprises.

We will recall that the idea of privatization was made a conscious policy when President, Ibrahim Babangida in the 1986 Budget speech, clearly stated that the federal and state government of Nigeria will embark on transfer of government interests in agricultural industrial and commercial enterprises to the private sector. Investigations have shown that privatization involves more than the mere will to sell shares to interest individuals.

Perhaps, the Government had regarded the whole exercise simply as the transfer of government holding in essence the whole exercise. But the process of accomplishing this exercise and the implications are another side of the story. It took the government more than one year to determine the enterprises to be affected.

Privatization is still a new concept in this part of the world and the use of the word lends itself to a number of misinterpretation Nigerians first became aware of the inability of government to have adequate resources to continually provide rising standard of living for its citizens in 1982, when the austerity measures, were announced. The issue of privatization had been coming up from time to time until the decision was taken to privatize some parastals and commercialized others as part of the structural adjustment programme to turn the economy around. In taking this decision, government was not unaware of the sensible nature of the issue and therefore was quick to explain the conditions under which any privatization would be undertaken.

These include the following:

- It will be a gradual and deliberate process.
- The methods used will ensure access to ownership by diverse groups and income classes across the country.
- Divested holdings will not be concentrated in the hands of individuals or in any particular areas of the country.

A Brief Historical Perspective on Development of Public Enterprises in Nigeria

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 the 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 examples 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 (Abubakar, 2011).

The colonial administration was the nucleus of necessary economic and social infrastructural facilities that private enterprise could not provide. Facilities included railways, road, 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 Missions. But at this initial stage government itself moved positively into some of the directly productive sectors of the economy; the stone quarry at Aro, the colliery at Udi, and the sawmill and furniture factory at Ijora. Those were the early stages (Dimgba, 2011). 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 control of the Nigeria 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 Enterprise 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 (Obadan, 2000). Before long, the range of Nigerian Public Enterprise 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 the public interest in terms of majority equity participation or fully-owned by states and local governments, 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 Enterprise (Nwoye, 2011).

Reasons for Privatization and Commercialization

Government involvement in business enterprises in most post-colonial African and the predominance of state-owned enterprises reflected a desire to control the economy after wrestling political control from the colonialists.

Nigeria found that, in the absence of local enterprises and viable indigenous private sector, the government had to more into the large government had to move into the large empty space left by society to take over the budding economy.

At the end of the day, Nigeria had a rather bloated public sector with well over 1500 public enterprises at the federal and state levels with a regulated private enterprise. The Economic recession which started in 1981 was when attention began to be focused on the activities of those parastatals.

The 1983 presidential commission on parastatals, examined the operations of all parastatals with a view to determining the basis for a new funding scheme, appropriate capital structure, as well as incentive measures to enhance their productivity and general efficiency. The report showed: misuse of monopoly power, defective capital structures, resulting in heavy dependence on the treasury for funding, bureaucratic bottlenecks in their relation with supervising ministries, mismanagement, corruption and nepotism's.

The federal government could not fund the monumental waste and inefficiencies of these public sectors with problems such as ill-conceived investments, political interference in decision making, costly and inefficient use of public resources, growing budgetary burden etc anymore. In 1985, for example, the federal government of Nigeria had invested total sum of N23 billion in the public enterprises. In addition to this a total of N11.5 billion was recorded as subventions to various parastatals and companies.

The government revealed that the total dividends received from the investment during the period 1980 October, 1985 was N933.7 million averaging approximately N155 million per year. Thus, in real terms the returns to investment were not more than 2%.

It was with this back ground that a programme for the reform of public enterprises to make them productive and self-reliant was embarked on by the Federal Military Government in

1988. Nigeria Airways had a monopoly of air routes and as the state-owned corporation, there was inefficiency caused by bureaucracy and political considerations.

In addition, there were few air routes because the Airways could not cope with demands of covering the whole country. The fact is that Nigeria is determined to shore up its investment porofile and tread the path of enhanced political, social and economic development on a sustained basis. National development plan observed that the actual performance of many Nigeria public enterprises was unsatisfactory. Many of them were not responsive to the changing requirements of a growing and dynamic economic. Some of them do not possess the tools of translating into reality the hope of successful commercial operations.

The reason why government embarks on privatization includes the government desire to bring optimum efficiency into the industrial sector the economy. This shows that government can more effectively achieve its social and developmental goals by reducing the widespread administrative over commitment of the public sector and by developing and relying on the managerial capacities of private individuals and firms which can response to local needs and conditions particular is small scale industry, marketing and service activities in Nigeria.

There is need to hand-over to Nigeria to control their investments and de-emphasis big government privatization is an imperative for revamping our economy that has been characterized by typical problems of a state dominated economy namely;

- Declines in real gross domestic product.
- Deep seated corruption and political instability fueled by the concentration of wealth and power at the centre.
- Unfair shift of resources from the mass public to the government causing widespread poverty.

Total dividend receipts by government amounted to N93.7 million on an investment of N11 billion i.e. N1.39% returns. This reflected the more reason why the government felt the need to reduce the financial burden with the belief that the private sector would be able to record higher profits.

Types of Privatization and Commercialization

Privatization and commercialization can be full or partial:

Full Privatization: This means divestment by the Federal Government of all its ordinary shareholding in designated enterprises particularly affected are enterprises which produce goods that are not essential in nature.

Partial Privatization: It involves divestment by the Federal Government of part of its ordinary shareholding in the designated enterprises. Those enterprises are the ones, which the government considers strategic because of the essential nature of their goods and services. The government exercises some influence over them to the extent of its representation on the broad of directors.

Commercialization

Full Commercialization: This takes place when the affected enterprises are to operate profitably on commercial basis and be able to raise funds from the capital market without government guarantee. They are to use private sector procedure in running their business and may fix rate, price and charges for goods and services rendered; capitalized assets; borrow money and issue debenture stock; sue and be sued in their corporate names.

Partial Commercialization: It takes place when the affected enterprises are to generate enough revenue to cover their operating expenditures. The government might consider giving them capital grants to finance their capital intensive projects so as to keep the price of their goods and services as low as possible given the essential nature of their goods. As in the case full commercialization the affected firms enjoy operational autonomy and have powers to operate strictly on commercial basis.

Objectives of Privatization and Commercialization in Nigeria

Below are the objectives as listed by Etieyibo (2011):

i. To restructure an rationalize the public sectors in order to loosen the dominance of unproductive investment in that public sector
ii. To re-orientate the enterprises for privatization and commercialization towards a new horizon of performance improvement, viability and overall efficiency.
iii. To ensure positive returns on public sector investments in commercialized enterprises.
iv. To check the present absolute dependency on the treasury for funding by otherwise, commercially oriented parastatals and so, encourager their approach to the Nigeria capital market.
v. To initiate the process of gradual secession to the private sector of such public enterprises which by their nature and type of operation are best performed by the private sector?
vi. To ensure over sight responsibility of the board of Port Harcourt refinery on operational matters and on all issues relating to its privatization, the panel would also review all major decisions needed for expediting the privatization exercise for recommendation to President Olusegun Obasanjo for approval. The committee team appointed by President Olusegun Obasanjo was intended to give impetus to government's divestment of its 51 percent equity in each of the refineries while the balance will be retained by the NNPC.

Benefits of Privatization and Commercialization

1. Economic growth. This being subjected to markets discipline; decisions are based on national economic consideration. This improves resources allocation, capacity utilization and economic performance of privatized state-owned enterprises (SOES). A reduction sector of the economic, improved output and economic growth.

2. Labour relations. It provides a good opportunity for implementation of employees' ownership scheme resulting between management and labour.
3. Exchange rate: It encourages capital inflow and arrests capital flight, especially where foreign investors are encouraged to participate. The resulting incremental equity inflow improves the balances of payment position of the country and enhances the value of its currency.
4. Development of entrepreneurial spirit in the citizens as the private sector would fill the vacuum being created by the exits of government. It discourages frame leaching and patronage driven economic system. It also reduces the culture of parasitic dependence on government by those who cannot function in a competitive environment.
5. Social infrastructures: The financial gain from privatization would be used to upgrade social services such as roads, education, health as well as the maintenance of law and order. These will improve the quality of life of people as well as reduce intangible transaction costs of doing business thereby improving the profitability and growth of enterprises and economy.
6. The benefits of privatization and commercialization reactions can from the general public, individuals, workers intellectuals in various fields of specialization; this justified its implementation on the grounds that the presence of a substantial element of privates' interest will impose of efficiency which would intimately lead to profitability.
7. The significant intervention moves taken by the administration of President Olusegun Obasanjo with a view to ensuring some level of stability in the nation's downstream sector include: Increasing crude oil allocation from 300,000 to 455,000 barrels per day refineries to cope with increased gasoline demand from 13 to 30 million liters per day (Ikechukwu, 2013).

Theoretical Framework

The privatization policy in Nigeria is anchored on efficiency. The government claimed that privatization is an instrument of efficiency allocation and management. It would reduce poverty by improving the economic indices of the country and over time lead to less corruption and red tape strengthens role of private sector in the economy thus guaranteeing employment, improved quality of life and leads to higher utilization of capacities. According to Omoleke and Bisiriyu (2005) privatization "is a system that is grounded in the basic principles of privatization falls. Economic efficiency refers to the use of resources so as to maximize the production of goods and services. An economic system is said to be more efficient than another in relative terms; if it can provide more goods and services for the society without using more resources. A situation can be called economically efficient if no one can be made better off without making someone else worse off, no additional output can be obtained without increasing the amount of input and production proceeds at the lowest cost.
Privatization is a programme of divestiture of public enterprises (PE) introduced within the framework of macroeconomic reform. It involves the transfer of ownership and controlling share from public to private sector. Commercialization involves reform of the public

enterprises (PE) sector to subject them to market discipline while still remaining a public enterprise (PE). In Nigeria, the main drive of privatization is that it is an instrument of efficient resource allocation and management is based on the argument that under public ownership enterprises are often used to pursue noncommercial objectives of government, including employment maximization and uneconomic investment choices. These activities are very often inconsistent with efficient and financially viable performance and lead to poor managerial supervision and economic woes in Nigeria. Microeconomic theories used to justify PE reform, particularly privatization, derive from theoretical perspectives on the ownership issue drawn from property right theory, public choice theory and principal-agent analysis (Egwenu, Kifordu & Ukpere, 2016)). The key theoretical elements underpinning the argument for a change of ownership from public to private relate to two main considerations. First, is the view that public ownership led to the pursuit of objective that detract from economic welfare maximization. Second, is that an ownership change could improve economic performance by changing the mechanisms through which different institutional arrangements affecting the incentives for managing enterprises (Vickers & Yarrow, 1988). The logical conclusion is that ownership change leads to economic efficiency.

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 & 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 functions from public to private ownership and control.

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 liasse-fair 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. Like many other developing countries, Nigeria government has been seen over the years, as having gone beyond the effective and efficient provision of public goods to the provision of private goods. And it has not only failed on both scores, it has also overextended itself in its public sector commitments through the establishment of too many state enterprises and through continued financial support of those enterprises that have continued to lose money. This scenario has created unprecedented high level of public sector deficits financed mostly through heavy external borrowing, high inflation rates and balance of trade deficits. The end product of this tendency is that 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. 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 and 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. Omoleke and Adesopo (2005) opine that 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 stories 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 policies 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". 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:

i. Specifying long-term objectives of the enterprise;
ii. Establishing agreed (between the enterprise and the government) performance criteria;
iii. Having an agreed level of enterprises performance; and
iv. 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 (Daniel, 2014).

Privatization and Commercialization of Public Enterprises in Nigeria

Ezeani (2005) opined that many countries of the world embarked on privatization programs at different times. Chile introduced privatization program in 1974. The United Kingdom implemented a rigorous privatization program during the regime of Margaret Thatcher in the 1980s. The British decision to embark on privatization program was largely informed by the need to cut back on public spending rather than the need to promote efficiency and competition. The 1990s witnessed the implementation of privatization programs in many countries of the former eastern bloc like Russia, Romania, Czechoslovakia etc. Indeed, it has been documented that more than 8,500 State-owned enterprises in over 80 countries have been marked privatization exercised which started with commercialization of some enterprises like the Nigeria Railway Corporation (NRC), National Electric Power Authority (NEPA), Nigerian Telecommunication Limited (NITEL), the postal services, Nigerian Port Authority in which BPE employed concessions rather than outright privatization. A concession entails allowing some private company to run ports for five to ten year. The company is automatically granted some level of ownership right.

Essentially, privatization program in Nigeria started with the 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 be a cost accountability centers as done in the private sector. Thereafter, certain enterprises like the Ikoyi Hotel, Federal Palace Hotel, African Petroleum, National oil and Unipetrol were sold to Nigerian. Others privatized enterprise were Aluminum Smelter Company Plc, Anambra Motor Manufacturing Company Ltd, Peugeot Automobile of Nigeria Ltd, Nigeria Airways, National Fertilizer Company Nigeria, Jos Steel Rolling Company Ltd, Oshogbo Steel Rolling Company Ltd, Katisina Steel Rolling Company Ltd, Calabar Cement Company Ltd were all short down prior their privatization.

It is also important to note that public enterprises Act in 1999 empowered Bureau of Public Enterprises (BPE) to take over the activities of The Technical Committee on Commercialization and Privatization (TCPC) initially served as the secretariat and implementation of privatization reform. 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 (Omoleke, 2008).

The study showed that between 1975 and 1999, $200 billion was spent on public enterprises and that the funding of these enterprises has been a drain on the treasury (Jerome, 2008). President Olusegun Obasanjo argued that about USD800 million dollars were lost due to the unreliable power supply by NEPA andanotherUSD4000 million through inadequate and inefficient. This means almost all the public enterprises privatized were not effective. For examples, the Delta Steel Company Plc was shut down in 1995 until privatized in 2005, Ajaokuta Steel Company Ltd and National Iron Ore Mining Company Ltd were not

completed, Aluminum Smelter Company Plc was shut down. Similarly other than the Anambra Motor Manufacturing Company Ltd and Peugeot Automobile of Nigeria Ltd, all the motor vehicle, and truck assembly companies were shut down. Other than non-performance of this enterprise prior their privatization, there was a high level of debt overhang, staff and pension liabilities and corruption. Due to a debt level of Nigeria Airways, National Fertilizer Company Nigeria, Jos Steel Rolling Company Ltd, Oshogbo Steel Rolling Company Ltd, Katisina Steel Rolling Company Ltd, Calabar Cement Company Ltd, Nigeria Sugar Company, Bacita, and Nigeria Newsprint Manufacturing Company Limited were liquidated (Obasanjo,1999).
More striking, the reform in power sectors appears that privatization is disgust for self-serving interest. For examples, 10 billion dollars were invested in PHCH during Obasanjo's regimes yet the sales of the company did not cover the accumulated arrears or benefits of their former staff let alone to pay the creditors of the former NEPA. Similarly, $500 million paid by Transcorp for 51% of NITEL shares was insufficient to cover the staff benefits. Study there noted that privatization carried in many sectors of the economy was avenues to promote the interest of few elites, foster the welfare of a particular group, encourage employee ownership, and restore full rights to former owners of property expropriated by previous regimes. As a matter of fact, from 1999 to 2010 the objectives of privatization were not been achieved due to various factors including debt overhang, pension liabilities, tax liabilities, staff salaries, unfavorable economic climate, and corruption.
Drawing from this, the paper is in doubt if the successor companies (SC) that took over the generation, distribution, and transmission of PHCN would perform to the expectation of Nigeria. A critical look at the unfair seven hundred and fifty (N750) naira charge on electricity consumers without improvement in the electricity supply over a year show the insensitive of the 11 successor distribution companies (Transmission Company of Nigeria (TCN) which include Abuja Electricity Distribution Plc, Benin Electricity Distribution Plc, Eko Electricity Distribution Plc, Enugu Electricity Distribution Plc, Ibadan Electricity Distribution Plc, Ikeja Electricity Distribution Plc, Jos Electricity Distribution Plc, Kaduna Electricity Distribution Plc, Kano Electricity Distribution Plc, Port Harcourt Electricity Distribution Plc, Yola Electricity Distribution Plc. The generation companies are Shiroro Hydro Power Plc, Kainji Hydro Power Plc, Afam Power Plc, Sapele Power Plc, Ughelli Power Plc and Geregu Power Plc (Odukoya, 2007).

Rationale for Privatization and Commercialization of Public Enterprises in Nigeria
Privatization and commercialization are based on the premise of efficiency management. Against this back drop, Gberevbie et al (2015) highlighted the following rationales, these which include:
To Overcome Inefficiency Enterprises: over the years government enterprises have become so inefficient, as epitomized by the epileptic services they render to the public. This is in spite of the fact that the government has and still continues to pump in a lot of money into them. Instead of improving, most of them seem to be retrogressing. Acting as drain

pipes on the economy without making any meaningful contribution to our economic development via service delivery, the government decided to transfer them to private hands that have over the years proved to be better managers in order to reduce wastage. It is assumed that because public enterprises are funded wholly or partly by government and also run by the government they are run inefficiently. Consequently, in terms of public enterprises, privatization will introduce new technologies and promote innovation while the private investors will upgrade plant and equipment, increase productivity, including utilization of industrial plant, improve the quality of the goods and services produced, introduce new management methods and teams and allow the enterprise to enter into domestic and international alliances essential to its survival.

To Manage Economic Recessions: The Nigerian economy has been in a very poor state for quite some time now. The level of unemployment is simply unacceptable. The excruciating foreign debt food crisis, poor infrastructure etc. are all evidence of the economic decay which the nation has found itself in. Apparently, the economy can no longer sustain the level of wastages associated with public enterprises. Also, as a step to get out of this malaise, a solution has to be found on how to reduce wastes. Privatization is one of such solutions.

Structural Adjustment Purpose: Following the downturn in the Nigerian economy in the early eighties, the government of Alhaji Shehu Shagari stated the Austerity measures which were aimed at bringing about a reduction in government expenditure and imports. These measures did not achieve much before the government was booted out of office by the military which also continued the search for policy measures that will review the economy. In 1986, the Ibrahim Babangida government introduced the World Bank/IMF. A deepening effort towards salvaging the worsening situation culminated into the1986 Structural Adjustment Programme (SAP), which aimed at the restoration, in the medium term of the healthier path of national economic development. A key course of action of SAP towards the realization of policy intention was to reform public enterprises so as to lessen the dominance of unproductive investments in the economy improve their efficiency and intensify the growth potentials of the private sector. To achieve the above desired culminated into the packaging of a public enterprises reform program whose main thrust were divestment of government interest in a number of non-strategic enterprises and commercialization of others. A supportive decree, privatization and commercialization Decree was promulgated in 1988. This decree makes provision for the privatization and commercialization of federal government enterprises and other enterprises in which the federal government has equity interests. This decree gave breath and life to effective public enterprises reforms in Nigeria with the expectation that private sector would do better in managing the economies. For instance, the proponents of SAP opined that implementation open up the economy for private individuals would reduce the high level of inflation, huge domestic debt, and high level of unemployment and low growth rate of the national economy, the chronic deficit in the balance of payments position. Thus, the privatization of the economy would lead to greater accountability, better factor allocation, the ceasing of public subventions of industries.

Other rationale for privatization were to reduce the financial drain on the state in the form of subsidies, unpaid taxes, loan arrears and guarantees given, mobilization of private resources to finance investments that can no longer be funded from public finances, generation of new sources of tax revenue, limitation of the future risk of demands on the budget inherent in state ownership of businesses, including the need to provide capital for their expansion or to rescue them if they are in financial crisis. A cursory look at the appropriations made between 1970 and 1999 and 1999 and until present day will show that no appropriations were made to the public enterprises listed for privatization. Instead, the proceeds of the sale were paid to the government treasury for the purpose of the appropriation.

Advantages of Privatization and Commercialization in Nigeria

Omoyibo (2011) highlighted the advantages to be derived from the privatization process. He was of the view that privatization would create greater incentives for investment, wider share ownership and a filling to the stock market.

i. Budgeted savings on substantial resources which were hitherto used to subsidizes the operations of the government would be generated which could be used to develop the economy. Privatizing the share holdings of companies ensures that they were more efficiently run and managed, since new shareholders would have boards and management that would be answerable to them.
ii. The corollary of the above is increased profits which is the bottom line for any private business organization. The sale of government equity shares would bring significant sums of money into the government. The privatized formerly sick enterprises are very likely to be revived and become prosperous one indicator of the revival is their ability to now make profit.
iii. Government revenue is further increased by the collection of profit taxes if properly assessed and promptly collected. Creation of more productive jobs: Many public businesses are known to have failed because of their avoidable poor performance in terms of low output and income generation. A natural consequence of this failure is the massive lay off of labour thereby creating severe unemployment.
iv. Those in favour of privatization then believe that if such dormant enterprises are privatized and revived, those qualified labour will be immediately reabsorbed. As the businesses further proper and expand, more employment will be made. Reduction in Financial Malpractice's. The degree of financial malpractices and general looking of the assets of the enterprises experiences under government control will be drastically reduced. Such businesses now become somebody's concern instead of nobody's.
v. The private owners will monitor the activities of the various officers of these privatized ventures very closely. Those financial malpractices are readily

discovered and exposed corrective measures are promptly taken against the offenders to serve as a discientive to other intending culprits.

vi. Financial Relief for the Government. Government is relieved of the heavy financial burden which had been subjected to in terms of the enormous regular subventions it had been making to sustain the hitherto unlivable ventures. This relief can now enable a responsible government to direct its energies to other social programmes which can generate greater social benefits.

vii. Higher productivity and Quality. The enterprises are likely to be more productive after privatization that when under the government ownership. This assertion is rooted in some considerations. For one thing, the private owners who are desirous to succeed are very likely to hire competent professional to run their business. The professionals, for other things, would be given free hands to organize the ventures more efficiently both in the technical and economic sense.

viii. Furthermore, the work force is expected to be more devoted to the goals of the organization. This because private ventures are usually ill disposed to accommodate indolent behaviour patterns.

ix. Again, there is little or no room for disguised unemployment easily accommodated by the enterprises under government control. Moreover, the privatized enterprises may be able to products than was possible before. These because they will discover that there are now other competitors that can displace them with more superior items. The monopoly power which they previously exercised under government ownership is very likely to be withdrawn.

Problems Facing the Implementation Privatization and Commercialization of Public Enterprises in Nigeria

The idea of privatization is that the state should ensure the supply of services where necessary. It should ensure that essential goods and services are provided but not aimed to be the sole producer or delivered.

Whereas in the past government was seen as often squeezing out market supplies, it is now expected to support their development and promote competition. The task now is that with the fast incorporation of Nigerian State into the market-oriented system, there seem to be some hindrances to grapple with in actualizing the dreams of public enterprises reform. According to Obadan and Ayodele (1998) and Obadan (2000), the relative success in the public enterprise's reform has some crucial problems which are economic, political and ideological. These problems are enumerated up as follows:

1. Socio-political and ideological: Theoretically privatization of Public Enterprises (PEs) has some ideological underpinnings as conceptualized by the classical or neo-classical and the liberal neoliberal schools of thought. Privatization was seen by some as a carryover of the structural adjustment program and also seen is a caricature of the international capitalist imposition especially the World Bank/IMF. The structural adjustment of the 1980’s was seen as an inevitable circumstance that

the world economy orders then. The socialist ideologue also sees public enterprises reform as a path towards consolidating capitalism (Efang,1987).

2. Uncooperative Attitude of some government officials (Enterprises managers and staff): Some officials were recalcitrant over the policy or privatization as this would undermine the status quo, particularly the supervising ministries. Obadan (2000) argued that the former supervisory ministries misconceived the program as a way to reduce their power as the affected PEs will be insulated from all ministerial controls and interference, and somehow silently opposed to the policy arrangements. Similarly, managers and staff of this privatized PEs are against the reform as it would undermine their position. Some of these criticisms overtly or covertly may have devastating implication on the program.
3. Weak market alternatives: As applicable to poor developing countries, Nigeria has less mature formal business sectors, with higher start-up cost, less capacity to invest, and less exposure to competition.
4. Geopolitical and income-group spread: The enabling decree laid emphasize on equity in the spread of shareholding. But contrarily there was marked imbalances in equity shareholders distribution among income groups and the different segments of the society. Some income groups or geopolitical entity tends to have cornered the market.
5. Government capacity: Closely related to the attitude of the public officials and managers of PEs over the delays in the implementation of PE reforms has to do with whether the government has the administrative and political ability to undertake its new roles. The government must have the capacity not only to make initial diagnoses and assessments to decide on policy implementation and also to administer the state's roles once PEs reforms have been established.
6. Poor funding of the National Committee on Privatization and Bureau of Public enterprises: The essential economic reform mandate of the Bureau and the various NCP sector steering committees is threatened by poor funding.
7. The Problem of inaccessibility to credit: Many prospective equity holders did not have enough funds to process their application forms, contrary to the expectations of government. The perceiving problem of financial limitations, the government directed all licensed commercial banks to extend to all interested persons. In spite of this directive, banking system did not respond favorably due to what they called “operational lapses”. The financial problem thus dampened the enthusiasm, particularly of paid workers whose salaries are not high enough to cope with the financial requirement to benefit from the policy. However, it may, therefore, be necessary for Employer’s Association to provide assistance for their employees, in terms of share purchase loans that will relief and relax the high tension of workers with respect to this program.
8. Institutional Investors versus Small Individual Investors: On many occasions, there were reports of over-subscription in the shares for the offer of sales. This, in most

cases, arose from the intervention of institutional investors to broaden their investment portfolios. This intervention, incidentally, obstructed the chances of small individual investors in getting the quantities of equity shares they desired.

Prospects of Privatization and Commercialization

Privatization and commercialization study when completed will be advantageous to the national economy, the following are the most obvious:

1. The programme has relieved the federal government of what was the huge and growing burden of financing the investment needs and operating deficits of public enterprises. Although we have not qualified this, we reckon it would run into billions of naira annually, such funds can be diverted to other deserving areas such as education, health, or hospitals etc.
2. The performance of privatized enterprises so far has meant considerable improvement in the volume of corporate taxes accruing to the national treasuring. Thus not only has the drain on public finance, been removed, it has become a positive bonus, with subsidy soaking deficits – being replaced by tax yielding profits.
3. The programme has greatly minimized the scope of political patronage in the form if board appointments, eluder current phase of the programme, the federal government has relinquished 750 directorship positions in the privatized enterprises.
4. Privatization has massively expanded personal share ownership in Nigeria. To date, over 200,000 shareholders have been created almost twice as many as there were in 1988 when we started. The programme has also demystified the operation of capital market, created a new awareness in the virtues of share holding as a form of savings rather than an elitist past time which it was thought to be and this is good for capital formation and development of this country.
5. By reducing the reliance of public enterprises on the government for finance, the programme of privatization has encouraged new investment in the enterprises concerned. The cold hands of treasury control have been replaced by the warm hands of the capital market which are as stimulating as they invisible.
6. The new operational economy autonomy of public enterprises and freedom from interference in day-to-day management has improved the internal efficiency of these enterprises allowing them to liberalize purchasing and rationalize labour practice and so increase massively their profitability. An improvement in the overall efficiency of the economy has therefore resulted (Bala, 2004).

Conclusion and Recommendations

Privatization and commercialization of public enterprise is an end itself, but as a means to get government interested in fostering a new division of labor between the public and private sectors in order to increase the efficiency and contribution to the development of both sectors. Therefore, the success of privatization should be judged not in terms of the sale or contract itself or the price paid to government, or even the survival or expansion of the enterprise sold, but rather, on the basis of whether there are net benefits to the economy. Privatization must result in better service at lower prices as desired by consumers who, oftentimes, are not much bothered about economic philosophies. If privatization does not bring tangible benefits in one form or another, the opponents of privatization who argue that the benefits are not worth the cost would feel justified. On the basis of this the following recommendation is made:

Privatization is a good policy measure; it should be pursued with vigor, truth, sincerity and transparency.

The privatization equity loan program of government should be reactivated and made available. In addition, the government should endeavor to set aside politicking when privatizing or avoid selling off public property to cronies and family members. Put differently, privatization and commercialization in Nigeria and the attraction of private investors to infrastructure delivery will be a mirage unless institutional reforms take place.

The government should create an environment favorable to private economic activity. This can be done by truly committed to the reduction of the opportunities for corruption and misuse of public property by government officials.

Most importantly, there should be infrastructure privatization as this may unleash large inflows of foreign direct investment and help develop local capital marks. In addition, bold privatization programs can send a clear message to international capital markets, the wider investor community and the local populace that governments are committed to improvement economic management. The need to manage the Nigeria's economy efficiently can also be felt when considered along183 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, 118in 2009, 125in 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. Globally, the last two decades have seen a fundamental shift in the paradigm of infrastructure delivery around the world. Governments in industrial and developing countries alike are retreating from owning and operating infrastructure and are focusing more on regulating and facilitating infrastructure delivery services provided by private firms. This shift will offer the promise of more efficient investment in and operation of infrastructure services, as well as the potential to shift the burden of new investment from public budgets to the private sector. 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.

Consequently, the Nigerian Ports Authority Act, No 38 of 1999 should be repeal, the government should separate landlord from operations and regulatory functions in ports and harbour; promote efficiency in ports operations nationwide; encourage competitive, qualitative and cost effective sports services; encourage private investment in port infrastructure and implement bill for the creation of a National Ports and Harbour Authority that will perform regulatory functions. Similarly, the government should create a conducive business environment for petroleum operations through the implementation of petroleum bills in order to establish a commercially oriented and profit driven National Oil Company; deregulate and liberalize the downstream petroleum sector; create efficient and effective regulatory entity; promote transparency, simplicity and openness; promote the development of Nigerian Content in the petroleum industry; protect health, safety and environment; and optimize domestic gas supplies, in particular for power generation and industrial development. More so, the Nigerian Railway Corporation Act, 1955 should be repeal; clearly separate the roles of policy making, regulation and operation; provide a platform for the introduction of private sector concessionaires, Furthermore, provide economic and safety regulation by establishing National Transport Commission; to promote competition in the provision of railway services nationwide, provide compulsory acquisition of land and Greenfield developments; and finally repeal the Nigerian Postal Service Act, 1992 in order to promote the implementation of the National Postal Policy; establish a regulatory framework for the postal industry; promote the provision of modern universal, efficient and easily accessible postal services; encourage private investments; ensure fair competition in the postal industry.

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