

TITLE PAGE

**THE EFFECT OF PRIVATIZATION AND
COMMERCIALIZATION ON THE NIGERIAN
ECONOMY**

(1970-2010)

BY

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APPROVAL PAGE

CARITAS UNIVERSITY AMORJI NIKE ENUGU

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ECONOMY”

HAS BEEN APPROVED AND ACCEPTED IN PARTIAL FUFILMENT OF
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DEDICATION

I dedicate this work to God Almighty and to my guidance, Mrs Eze stella Ngozi and her humble husband Arch. Eze Celestin Sunday

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It is true to say that no academic work is done in isolation, that no writer writes alone and no thinker thinks alone. On this premise, I am pleased to express my profound gratitude for the assistance rendered to me by several people in the course of writing this project.

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ABSTRACT

The privatization and commercialization of Nigerian enterprises today, faces a lot of challenges in tackling the menaces of corruption and mismanagement of public funds. It is because of social issues like economic inequalities, unemployment that made the state to interfere in economy of Nigeria.

Government chose public sector as a means or medium for economic and social development due to poor managerial skill, weak technological base etc, this enhanced the zeal to establish various enterprises institution in Nigeria. Then, due to inadequate capital and lack of finance, public enterprises in Nigeria are confronted with many problems by the employees, managers and political interference in the affairs of public enterprises. This study concluded by saying that the effect of privatization and commercialization on the Nigerian economy can only take effective progress when the enterprises are wholly or partially in some cases handled and controlled by the private owner whom will not relent in the optimization of profitable enterprises.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

To be able transform into an industrialize economy; an underdeveloped economy has to be privately and commercially developed.

The importance of establishing public enterprises or corporation began during the 19th century with the British telecom in 1884 under the telecommunication act and gained a worldwide support in Britain thereafter. Several nations particularly those in Africa, have come to embrace the principle as a way of eliminating low performance and inefficiency in the public enterprise sector.

Following the trend the Nigerian economy has come to embrace privatization as a cardinal principle of the state's economic policy. Over the years, the Nigerian government has encouraged the development of the public sector, since independence in 1960 and particularly 1970s but has being commonly non successive because of government attitude towards public enterprises business management. In Nigeria, most government owned industries and establishments remain citadels of corruption, studies in inefficiently and consequently a heavy drain on the economy. As a means of combating this menace, the (IMF) and

(World Bank) have advocated the twin policies of privatization and commercialization incidentally Nigeria has fully adopted this policy and is embarking on it with frenzy. For example, Nigerian breweries changed from the most inefficient and loss-making company before privatization to one of the most profitable business in Nigeria. Nigeria has more than 1,800 public enterprises at federal and state levels which can be categorised as follows;-

- i. Public utility providing infrastructural services.
- ii. Strategic industries such as petroleum and petrochemical, fertilizer plants, iron steel.
- iii. Economic /commercial enterprises such as manufacturing of consumer goods insurance ,banks and hotel ,and
- iv. Departmental / stationary boards designed to serve specific social or development roles as university and research institutes. Ake (1981).

It is important to note that the introduction of SAP in 1986 serves as a benchmark in economic policy-making in Nigeria with the resultant, liberalization, deregulation, privatization and commercialization measures.

The critical question here remains how many of these policies have been able to restructure the political economy of Nigeria and in turn alleviating the yearnings and aspiration of the working class.

The world no doubt is moving towards capitalism and liberalization and any nation that is not moving towards this direction is seen as either not developing or even retrogressing. A capitalist economy is a free market economy which allows most economic decisions to be guided by the twin forces of demand and supply. Since capitalism discourages monopoly but encourages competitive market, it therefore enhances efficiency and high productivity which is very vital in any developing economy.

1.2 STATEMENT OF THE PROBLEM.

In a developing country like Nigeria, privatization and commercialization of public enterprises is considered by many as a vital tool for the growth and development of the economy. In Nigeria some of the problems facing privatization and commercialization program include;

- a) lack of accountability
- b) corruption
- c) lack of transparency
- d) inconsistency

it is important to note that the major function that informed the establishment of these public enterprises are to control the resources and raise funds for the

provision of certain infrastructural facilities particularly in services requiring heavy financial investment e.g. railway, electricity, telecommunication etc, also to perform the function of generating revenue that will add to financial development program and projects as veritable instrument for the creation of jobs; and ultimately facilitate economic growth and development.

However it is based on the problems, that the basic propositions of this privatization and commercialization program are being hindered. In trying to look into these discrepancies and proffer a way forward towards a state of privatization and commercialization of public enterprises in Nigeria, that enhances economic growth and development, this research work emanated.

1.3 OBJECTIVE OF THE STUDY.

This study has the main objective of ascertaining the effect of privatization and commercialization of enterprises on the Nigerian economy.

Specifically we intend to compare the pre and post privatization and commercialization era, so as to determine the specific effect.

1.4 STATEMENT OF HYPOTHESIS.

The hypothesis tested in this study is stated in its null form as follows:

H₀: privatization and commercialization has no significant effect on the GDP in Nigeria.

1.5 SIGNIFICANCE OF THE STUDY

This research work will help the government and readers to understand those benefits that privatization and commercialization program embodies which we have neglected and politicized within the past. In understanding this on the side of the government, it will allow them to rethink and work towards real implementation of it and thereby creating a room for the rapid growth and development of this country.

At the other hand, it will go a long way to create an avenue for more academic research. The importance of any research is to finding out solutions that faces mankind and the environment or society. The study creates awareness to every citizen of this country and economic planners on the implication of these privatization and commercialization of public enterprises in Nigeria economic development.

1.6 SCOPE OF THE STUDY

The scope of this research work focused strictly on the effect of privatization and commercialization programmes on the Nigerian economy 1970 to 2010.

1.7 DEFINATION OF TERMS

PRIVATIZATION AND COMMERCIALIZATION; - Privatization can be defined as the transfer of ownership and control of enterprises from the state to the private sector.

IKEME,(1997) define privatization as any of the variety of measures adopted by the government to expose a public enterprises competition or to bring in private ownership , management or control in to public enterprises and accordingly to reduces the weight of public ownership or control or management.

The privatization and commercialization net of 1988 and Bureau of public enterprises defined privatization as the relinquishment of part or all of the equity and other interest had by the federal government or any of its agencies whether wholly owned by the federal government.

Although privatization is not defined in the public enterprises (privatization and commercialization) Net of 1999, we can assume that it deemed to have the

same meaning. From the definition three things are clear first for privatization to take place, there must be the existence of public enterprises which need to be converted into private enterprises; secondly there is the reasoning that private ownership control would be better than public ownership.

Finally privatization is premised that there is a problem with the public ownership of enterprises and privatization is part and parcel of the reform agenda to turn around. They are enterprises so they can deliver goods and services efficiently and effectively. As we shall show later, this is reasoning ideologically loaded and cannot be substantiated by the existential reality of Nigeria.

PUBLIC CORPORATIONS; - public corporation or enterprises as defined by Ademolekun (1983), are organizations that engage as a result of government activity in the capacity of an entrepreneur. These can be seen as those enterprises or corporations built, owned and managed by the government. They are being financed by public funds especially through taxation and also operate on monopoly.

CHAPTER TWO

LITERATURE REVIEW

2.1 THEORETICAL FRAMEWORK

In understanding the concept of theory as a set of interrelated phenomena or variable, Ogban-Iyam (1999) sees it as a concept that is used to explain, describe, interpret and predict this phenomena's or variables. Here structural functional theory is used as settable frame work of analysis for the policy of privatization and commercialization of public enterprises in Nigeria. Structural federalism as a theoretical framework is indented to explain the basis for maintaining order and stability in the society and relevant arrangement with the society.

This theory originated in the biological and medical science. It was adopted as a mode of analysis in economics and sociology as evidenced in the work of Emile Durkihim and Talcott parson. It was developed for political analysis by Gaberial Almondi S.P Verma who stressed that structural federalism is made up of two main concepts such as structural and functions. Structure refers to the arrangement within the system which perform the functions. Also structure is the way in which the part is connected together in order to be arranged or

organised. Functions have been defined by Menton Robert as those observed consequences which make for the adoption or adjustment of a given system. According to Ovan Young, function is defined as objective consequences of a pattern of action for the system in which it occurs. The basic assumption of the structural functional framework is that all system has structures which can be identified and this structure performs functions within the system necessary for its persistence. It refers to the structures that are found in any system and functions performed by structures. Thus political system is defined as the various structure and institution in the society that perform political functions or that bear on the political decision making policy. Eme Awa (1976) clearly defined political system as “the peculiar structures in any particular system performing political functions”.

In analysis there are three branches or structures of government such as the legislative, executives and the judiciary. The structure can be analysed from three main levels as person, institution and subsystems. The whole of the structure is analyzed in parts each dealing with a particular sphere of activities for instance, political economic and social subsystem. There for structure of the government leads to substructure. It is government and their bureaucracy makes rules, administrating, adjudicating and formulating and formulated those economic policies through legislatures and implemented those policies by the executive for the economic growth of the country. A substructure is the basis of

analysis of this research work. It studies the economic laws or policies governing the production and distribution of material benefits on human society at the various stages of its development.

It is by the means of productive activities that he is able to obtain the economic means that he needs to sustain life. Functions have their parallel in three branches of government performing important functions. If the economic structure such as industries, Nigeria Telecommunication limited, power holding company etc. which are established by the government are well organized and harmonized also their various function are performed smoothly there must be well stable economic development in the public enterprises.

This theory can achieve purpose of privatization and commercialization if the government makes use of it and apply it to the various structures of the government or substructure to perform effective functions for smooth running of government activities to enhance economic growth of Nigeria. Take for instance, the Telecommunication which was privatized brought about positive changes in telecommunication sector and contributed to the economic growth of the country.

In application all political systems are therefore proffer two basic functions such as input and output function privatization and commercialization of Tele communication of public enterprises (input) are demand from

government. The legislature and other organs of the government help to process some of the demand that have reached the system in which certain functions should be performed and giving out or allocate values by the means of the” output” law or policy.

Structural – functionalism according to Marxist concept of substructure, superstructure is wholly determined by the substructure. The augment perhaps appears to be that the economic sphere is omnipotent and that the individual consciousness is prisoners of material forces. Also functions must be related to structure of the society. All other activities in the economic revolve around economics; both social and political activities are based on economic activities.

2.2 REASONS FOR THE ESTABLISHMENT OF PUBLIC ENTERPRISES.

Several reasons have been induced as the justification for creating public enterprises. Following are some important ones.

1. Political consideration that influence government involvement in the provision of certain social and economic services. In many African countries, development is closely related 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.

2. The second is the context of developing nations such as Nigeria, is the developing 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 investment required in the construction of hydroelectricity – generating plant or a water scheme for large urban centres is quite enormous and the return in such investment will take a very long time to realize.
3. The third reason for government involvement 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 access to such facilities because of lack of finance or by reason of geographical location.
4. 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 the children who are not capable of making important decisions for themselves, by making education up to a certain age compulsory and free.
5. Another reason for government intervention in the provision of certain goods and services relates to the indivisibility that characterise such

services. Some facilities such as bridge, tunnel, roads, streetlight and waste disposal facilities cannot be divided or partially provided for the benefit of everybody in the community or they are not, facilities of this type must therefore be provided publicly and finance through taxation.

6. The consciousness of the national security is another reason why government embark on public enterprises establishment. Certain facility like the Nigerian port authority and the police are too vital to be left at the mercy of the private citizens.

2.3 RATIONAL FOR PRIVATIZATION AND COMMERCIALIZATION IN NIGERIA

In Nigeria, the issue of mismanagement and under- utilization which led to huge wastage of resources and manpower potentials gave the government of the day no other option but to pursue quickly the privatization and commercialization programme. There are about 600 public enterprises in Nigeria run by or controlled by the federal government. Many are controlled by the state government these comp arises takes a sizeable portion of the federal budget and account for over 5000 appointments into their management and board- a powerful source of political patronage. Transfers into these enterprises run into billion of naira. These transfers were in form of subsidized foreign

exchange import duty, waivers, tax exemptions and /or write off of arrears, unrequited revenues, loans and guaranties and grants / subvention.

These companies were also interested with many problems which became an unavoidable drag on the economy such as;-

1. Abuse of monopoly power
2. Detective capital structure
3. Heavy dependency on treasury funding
4. Rigid bureaucratic structures and bottle neck.
5. Mismanagement
6. Corruption and nepotism.

With all this problems following the economic recession of 1980s the government had no option but to take a positive step. Apparently, the economy can no longer sustain the level of the wastage 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 and commercialization are one of such solution.

2.4 PRIVATIZATION AND COMMERCIALIZATION PROGRAMME IN NIGERIA

Privatization in Nigeria was formally introduced by the privatization and commercialization decree of 1988 as part of the structural adjustment programme (SAP) of the Ibrahim Badamosi Babagida administration (1985-93). As Mc Grew argued that SAP is a neo- liberal development strategy devised by international financial institutions to incorporate national economics into the global market.

The vision of “global market civilization” has been reinforced by the policies of the major institutions of the global economic government namely up to the mid 1990s. Underlying their structural adjustment programme has been a new –liberal development strategy referred to as the Washington consensus which prioritizes the opening up of national economy to global market forces and the requirement for limited government intervention in the management of the economy. Subsidies, reduction in wage bills and the retrenchment of the public sector ostensible to trim the state down to size.

2.5 TECHNICAL COMMITTEE ON PRIVATISATION AND COMMERCIALIZATION ACT OF (1988) (TCPC)

The privatization and commercialization Decree of 1988 set up technical committee on privatization and commercialization (TCPC) under the chairman of Dr. Harunna Zayyad to privatize 111 public enterprises and commercialized 34 others in 1993; the TCPC concluded its assignment and submitted final results having privatized 88 out of the 111 enterprises listed in the decree. 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 enterprises (BPC) to implement the privatization programme in Nigeria. The overall objectives of the privatization exercise were;

1. To improve on the operational efficiency and reliability of our public enterprises.
2. To minimize their dependency on national treasury for the funding of their operations
3. To roll back the frontier of state capitalist and emphasize on private sector initiatives as the engine of growth.
4. To encourage share ownership by Nigerian citizens in production investments either to be owned wholly or partially by the Nigerian government and, in the process to broaden and deepen the Nigerian market.

2.6 BUREAU FOR PUBLIC ENTERPRISES ACT OF 1993.

The TCPC transformed to Bureau for Public Enterprises (BPE). The bureau was to monitor the performance of enterprises privatised in the past exercise and plan for the future phases.

Because of the success of the past exercise, the military government under General Abdusalam Abubakar promulgated the public enterprises (privatization and commercialization) Decree No. 28 in early 1999 (before the hand- over to a democratically elected government). The Decree allows BPE to alter, add, delete or amend the provision in the document in the best interest of the country. Initially, sixty-one (61) enterprises were slated for privatization (36 partial and 25 extra enterprises) (some of which were originally made for commercialization) some of the big government companies being privatized now includes; - National Insurance corporation of Nigeria (NICON), Nigeria reinsurance corporation, Niger dock plc, National Aviation Handling company (NAHCO), the Nigeria Railway Corporation (NRC), Nigerian Postal service (NIPOS) and Savannah sugar company. This is an indication of the enhanced interest in and success that privatization has achieved in Nigeria.

2.7 PUBLIC ENTERPRISES PRIVATIZATION AND COMMERCIALIZATION ACT 1999.

In December 1999, the democratically elected government of President Olusegun Obasanjo picked interest in the privatization exercise and gave it a boosts by establishing the National council on privatization (NCP) with the vice president, Alhaji Atiku Abubakar, as chairman.

The council is empowered among other things;-

- i. To determined the political, economic and social objective of the privatization commercialization programme.
- ii. Approve guidelines and criteria for valuation of public enterprises marked out for privatization – including choice of strategic investors.
- iii. Identification of enterprises to be privatized or commercialized.
- iv. Approve the price for shares or assets of the public enterprises to be offered for sale.
- v. Determining the timing of privatization of particular enterprises.
- vi. Interfacing with the public enterprises, together with the supervising ministries. In order to ensure effective monitoring and safeguard of the management autonomy of the public enterprises.

2.8 POLITICS OF PRIVATIZATION IN NIGERIA

Former Nigeria presidents from Ibrahim Badamosi Babagida (IBB) to Goodluck Jonathan passed the ownership and control of Nigerian state owned to their friends, family and relations and themselves in the name of privatization. For example, some of the celebrated Nigerians privatized public assets during Obasanjo regime (1999-2007) include Ajaokuta steel mill, Oshogbo machine tools and Takpe iron Ore Company. Others include Nigeria Airways, Nigeria Telecommunication Company (NITEL) and its mobile phone subsidiary Company –MTEL, Nicon Hilton Hotel (Transcorp Hilton Hotel) , African Petroleum limited (AP), National oil and petro chemical company, National fertilizer company (NAFCON), cement Companies, oil blocks and banks, just to mention but few. The way and manner in which these assets changed hands and the selection of who owns what and at what price are still generating many unanswered questions and concerns in Nigeria. Their concerns and question were some of the challenges former president Yar'Adua confronted.

Some of the reason why the Nigerian public is not happy with the Obasanjo's privatization policy and programme are largely that they were done in bad faith and were out of tune with the principle of transparency,

accountability and due process. Moreover, they widened the existing gap between the “haves” and the “have –nots”. In addition, the much taunted expected improvements of service and product delivery did not happen. The scheme created a lasting sense of injustice, parochialism and nepotism in the policy. Furthermore, it discredited the anti corruption stance of the administration. The political economy implications of the affair are many. For example the scheme created a new crop of oligarchs in the mould of Transcorp and other similar outfits with concentrated economic and political powers in their hands. These concentrated and economic powers are dangerous to the sustainability of democracy institutions, rule of law and good governance in Nigeria. Privatisation also served as a money laundering instrument to a great extent in order to legalize illegally accumulated wealth, such as income from international drug trafficking.

2.9 PRIVATIZATION AND COMMERCIALIZATION EXERCISES (1999-2010)

The bureau of public enterprises recorded only one deal worth \$32.5m (about N4.27m) within the few years that the former president Yar’Adua stayed in the saddle (Enerst 2009). These contrasts sharply with the speed of privatization under former president, Chief Olusegun Obasanjo when many enterprises that had been poorly managed were sold to private sectors

operators. In 2006, for insistence, the privatization agency handle 39 transaction that fetched 134.74bn while in 2005, it handled 45 deals that fetched N98.08bn. In 2004, the agency succeeded in selling seven companies that brought in N50.11bn.

In 2000 the year Obasanjo marked his first year in the office. BPE handled six (6) major transactions that rated in N14.65bn in to the treasury and got rid of ailing organization that continued to drain federal government purse. It followed this up with 11 transactions in 2001 that brought N12.14bn into the government. The single deal that had recorded under the Yar' Adua presidency is the sale of the Nigeria News print manufacturing company Oku/Bokun Akwa- ibom state, which was sold to Nigerian holdings for \$32.5m on August 12, 2008.

The administration of the late president Yar' Adua have related the sales of Nigerian Telecommunication limited (NITEL) to TRANSCORP by the federal government over non-adherence of due process of privatization of companies by the Bureau of public enterprises (BPE) from 1999 to date. The deputy chairman of the house committee on privatization and commercialization, Rep. Abbas Braimoh (PDP Edo), confirmed the effort launch a comprehensive investigation into privatization of federal government owned companies by the former president Olusegun Obasanjo in Abuja said, we have just done a nationwide tour of all the privatized companies in different geo- political zone

and I can tell you without doubt that most of the companies you visited are not doing well (Elombah 2009).

Believingly, former president Umar Musa Yar'Adua had reversed number of policies actions like the privatization of refineries projects and appointments undertaken at the last hour by the OBJ administration among others. As Barr. Rafindadi noted.

2.10 EMPEIRICAL LITERATURE REVIEW

For a business to be successful it should be carried on a proper form years back, there have been a lot of federal and state government parastatals and enterprises established for the purpose of revenue generation, but unfortunately thing were not moving to that direction for example the corporation of being operated at loss simply because they were government subversion from time to time.

Introducing in the current era of capitalist harmony, the term globalization has become synonymous with global dominance of private market economy through concept of internationalism have long been associated with the political of impossibility of progressive version of globalization are currently overshadowed by the deepening of private market policies in existing capitalist economy and the expansion of socialist countries and to developing countries throughout the world.

The phenomenon has effected all societal institutions through government implementation of privatization policies and deregulation, through the power of global financial institution such as the World Bank and the international monetary fund (IMF) to impose loan conditions that requires government to adopt policies that promotes private market, and through multilateral trade agreement that favour transnational corporations (TNCS). In their pursuit of increased capital mobility and market expression this article addresses the impact of privatization and commercialization on the Nigeria economy. Both the public and the private Non-profit enterprises have been affected by public policies.

As discussed earlier on, the programme is part of the requirement of structural Adjustment programme (SAP) and a process where the federal government designed by wants to disengage itself from a lot of the economy than to divulge in an economy that is highly controlled.

From the insurance news volume 2, no 4 of 1989(an insurance, banking and business magazine) a topic titled why the need for privatization and commercialization was published whereby the responds of some insurance executives was highlighted.

In responds to this question, C .Onyeka in insurance news volume 2 No 4 of 1988, an executive director with the Nigerian reinsurance corporation, one the corporation fully commercialized fully explained that government intervention

have its attendant problems and its bureaucratic aspect. Apart from the economy, there should be an avenue for federal government which can be channelled to other sources. It is possible that when the companies are sold to private entrepreneurs, they will likely turn the country around from loss making wanting the taxpayer money because they receiving subvention from the government out of the precede from organization which another man have been generating income and paying taxes for in these we see the need for privatization and commercialization.

O.Omirin 1979 federal might vol.no.7, the general manager/Director executives of Safeway insurance company limited added that as these organisation were either being privatized and commercialized, there would be changes for good it will give room for better management and thus enable them to justify their existences. It is believed that new owners (the shareholders) will show more interest in running of the companies for the sake of profitability and efficiency.

In agreement with Mr. Onyeka's view, Mr. Omirin said they government moves tied up in this corporation could be realized also for other economic boasting project. I believe that on a final analysis, the revenue to the government from this programme will result into billion of naira. In addition, Mr. Lawrence Nosike in his own contribution published by business time on September 22nd 1986 titled 'case for land against privatization, which way

Nigeria? He commented that and quote “the economic case for privatization are vast on the belief that organization are better able to pursue commercial profit seeking objectives if they are freed from direct political control, it also suggest that the return to private ownership and the financial supervision of bankers will not automatically change managerial and trade union attitudes. He continued further that some top managers can be replaced, but this cannot start a managerial resolution to quickly without upsetting efficiency. ” in many nationalised industries, the problem arises from special condition within the industries e.g. because of the obligation to maintain unprofitable action or because of the special demand problems. He concludes it by saying that a change of ownership does not make the problem any easier to solve.

On the aspect of the reason for inefficiency and unprofitability, M.O Aina Dada, 1984, an accuracy and satiation who also is the managing director of crusader insurance company Ltd said it has being generally agreed that state owned business enterprises tendered to wasteful and inefficient.

Some the decision taken for their operations seems to be based on political experience rather than economics. For example it was revealed some time ago that by the end of 1985, the federal government of Nigeria has invested over 10 billion naira in projects and it was general an average of about #400 million per annual, by calculating this fall in the area of about 1.5% returns on the government was yielding about 2%.

CHAPTER THREE

3.1 RESEARCH METHODOLOGY

In this work certain methods were used, this chapter explains in details the procedure adopted in arriving at the inference of this research work. Research decision is the frame work of investigating a research problem, in other words it refers to the methods used in collecting data which are to be used in investigating and analysing a research problem. Data collection on its own involves a range of activities from the individuals in the library extracting information from volume of materials available as regards to this work. Taking into consideration the fact that two main forms of data collection exist (i.e. the primary and secondary sources). privatization and commercialization (pc) in Nigeria will be handled as a dummy variable.

Secondary data will be used in this research work and will be obtained from the central bank of Nigeria (CBN) statistical bulletin. The method adopted by the work is the multiple regression with OLS technique of estimation.

3.2 MODEL SPECIFICATION.

In this section we pursue our objective further by specifying our model. The model is to verify the performance and effect of privatization and commercialization on Nigerian economy. The approach is to modify the model by specifying a multiple regression equation made up of Gross domestic product (GDP) as a function of the independent variables' (i.e. inflation rate (inf), investment rate (inv), privatization and commercialization (pc)).

$$\text{GDP} = f(\text{pc}, \text{inv}, \text{inf})$$

$$\text{GDP} = b_0 + b_1 \text{pc} + b_2 \text{inv} + b_3 \text{inf} + u$$

DEFINATION OF VARIABLES

GDP== Gross Domestic Product

PC== privatization and commercialization

INF. == Inflation rate

INV. == Investment

U = error term

3.3 METHOD OF EVALUATION.

Considering the nature of the study and the fact that privatization and commercialization being the major explanatory variable is a dummy variable, we evaluate the effect of the variable in a question on GDP with the pre privatization and commercialization era serving as a bench mark.

Some statistical econometric tests will be used to evaluate the regression, this include coefficient of multiple determinant R^2 which measures the extent to which the explanatory variables explains the variation in the dependent variable. The F statistic measures the overall significance, the beta coefficients measures the relative significant of each of the independent variable t-statistic, Durbin Watson – test tests for auto co-relation of errors in the regression equation.

3.4 JUSTIFICATION OF THE MODEL.

In this study, secondary methods of data collection were used in the collection of data. The use of secondary data was chosen for this study because it

considered to be the most appropriate method for the needed information at the least amount of time. However this has been chosen amongst other instrument of data collection for this study because of some added advantage it has over other methods.

3.5 RESEARCH APPROACH.

The approach used in this study is basically obtained from secondary sources. This is regarded as the plan structure and strategy of investigation conceived so as to obtain answers to research problems. It ensures that the required data are collected and that they are accurate. However the secondary data used in this study was obtained from the central bank of Nigeria (CBN) statistical bulletin.

CHAPTER FOUR.

PRESENTATION AND ANALYSIS OF RESULT.

4.1 Presentation and Interpretation of Result:

Dependent variable: Gross Domestic Product.

Method: Multiple Regression

Technique: Ordinary least square (OLS)

Period of study: 1970 – 2010

Included Observations: 41

Variable	Coefficient	Standard error	t-statistics	t-prob.	{95% Confidence Interval}
Constant	10.2941	0.2799506	36.77	0.0000	9.726865 10.86133
PC	2.128441	0.3319783	6.41	0.0000	1.455789 2.801093
INV	2.73	1.34	2.04	0.049	1.86e-09 5.44
INF	0.0058611	0.0096139	0.61	0.546	-0.0136186 -0.0253408

$R^2 = 0.6519$ $F\{3, 37\} = 23.10 \{0.0000\}$ Adj R-Squared = 0.6237
 DW = 0.3016982 Root MSE = 0.62294 for 4 variables and 41 observations.

Table 4.1

From the above, the interpretation of the result as regard the coefficient of various regressors is stated as follows:

The value of the intercept which is 10.2941 shows that the value of the GDP will be 10.2941 when all other variables are held constant.

$$LGDP = 10.2941$$

At 5% level of significance PC is significant.

Table 4.1 above shows that if all other variables are held constant.

Pre PC GDP is,

$$\text{LGDP} = 10.2941 + 2.128441(0)$$

$$\text{LGDP} = 10.2941.$$

Post pc GDP

$$\text{LGDP} = 10.2941 + 2.128441(1)$$

$$\text{LGDP} = 10.2941 + 2.128441$$

$$\text{LGDP} = 12.422541$$

This suggests that the effect of pc on LGDP within the period under study is 2.128441 units. This is in line with the apriori expectation that pc leads to increase in GDP.

The other estimated coefficients which are, 2.73 {INV} shows that a unit change in INV will cause a unit increase in GDP and 0.0058611 {INF} shows that a unit change in INF will cause a 0.0058611% increase in GDP.

4.2 Economic Apriori Criteria:

The test is aimed at determining whether the signs and sizes of the results are in line with what economic theory postulates. Thus, economic theory tells us that the coefficients are positively related to the dependent variable, if an

increase in any of the explanatory variables leads to a decrease in the dependent variable.

Therefore, the variable under consideration and their parameter exhibition of a priori signs have been summarized in the table below.

This table will be guarded by these criteria

When $\beta > 0$ = conform.

When $\beta < 0$ = not conform.

Variables	Expected signs	Estimate	Remark
INV	+	$\beta > 0$	Conform
INF	+	$\beta > 0$	Conform

From the above table, it is observed that all the signs the parameters actually conform to the economic theories.

A positive relationship which exists between PC, INV, INF and GDP indicates that an increase in PC, INV and/or INF will result in a positive change in the Gross Domestic Product. This conforms to the priori criteria because an

increased or high PC, INV and INF over the years will increase GDP in the economy.

4.3 Statistical Criteria {First order test}

Coefficient of Multiple Determinants {R²}:

The R² {R-Squared} which measures the overall goodness of fit of the entire regression, shows the value as 0.6519 = 65.19% approximately 65%. This indicates that the independent variables accounts for about 65% of the variation in the dependent variable.

The Student's t-test:

The test is carried out, to check for the individual significance of the variables. Statistically, the t-statistics of the variables under consideration is interpreted based on the following statement of hypothesis.

H₀: The individual parameters are not significant.

H₁: The individual parameters are significant.

Decision Rule:

If $t\text{-calculated} > t\text{-tabulated}$, we reject the null hypothesis $\{H_0\}$ and accept the alternative hypothesis $\{H_1\}$, and if otherwise, we select the null hypothesis $\{H_0\}$ and reject the alternative hypothesis $\{H_1\}$.

$$\begin{aligned} \text{Level of significance} = \alpha \text{ at } 5\% &= \frac{0.05}{2} \\ &= 0.025 \end{aligned}$$

Degree of freedom: $n-k$

Where n : sample size.

K : Number of parameter.

The t-test is summarised in the table below:

Variables {t-value}	t-tab	Remark
PC {6.41}	± 1.960	Significant
INV {2.04}	± 1.960	Significant
INF {0.61}	± 1.960	Insignificant

The t-statistics is used to test for individual significance of the estimated parameters $\{\beta_1, \beta_2, \text{ and } \beta_3\}$. From the table above, we can deduce that the

intercept {36.77}, PC {6.41} and INV {2.04} are greater than 1.960 {going by absolute values} which represents the t-tabulated implying that the intercept, PC and INV are statistically Significant. On the other hand, INF {0.61} is less than the t-tabulated {1.960} signifying that INF is statistically insignificant.

F-Statistics:

The F-statistics is used to test for simultaneous significance of all the estimated parameters.

The hypothesis is stated;

$$H_0: \beta_1 = \beta_2 = \beta_3$$

$$H_1: \beta_1 \neq \beta_2 \neq \beta_3$$

Level of significance: α at 5%

Degree of freedom: $\frac{k-1}{n-k}$

Decision Rule:

If the f-calculated is greater than the f-tabulated {f-cal > f-tab} reject the null hypothesis {H₀} that the overall estimate is not significant and conclude that the overall estimate is statistically significant.

From the result, f -calculated {23.10} is greater than the f -tabulated {2.84}, that is, f -cal $>$ f -tab. Hence, we reject the null hypothesis $\{H_0\}$ that the overall estimate has a good fit which implies that our independent variables are simultaneously significant.

4.4 Econometrics Criteria.

Test for Autocorrelation:

One of the underlying assumptions of the ordinary least regression is that the successive values of the random variables are temporarily independent. In the context of the series analysis, this means that an error $\{U_t\}$ is not correlated with one or more of previous errors $\{U_{t-1}\}$. The problem is usually dictated with Durbin-Watson $\{DW\}$ statistics.

The Durbin-Watson's test compares the empirical d^* and d_u in d - u tables to their transforms $\{4-d_L\}$ and $\{4-d_U\}$.

Decision Rule:

- 1) If $d^* < D_L$, then we reject the null hypothesis of no correlation and accept that there is positive autocorrelation of first order.
- 2) If $d^* > \{4-d_L\}$, we reject the null hypothesis and accept that there is negative autocorrelation of the first order.
- 3) If $d_U < d^* < \{4-d_U\}$, we accept the null hypothesis of no autocorrelation.
- 4) If $d_L < d^* < d_U$ or if $\{4-d_U\} < \{4-d_L\}$, that test is inconclusive.

Where: d_L = Lower limit

D_U = Upper limit

D^* = Durbin Watson.

From our regression result, we have;

$$D^* = 0.3016982$$

$$D_L = 1.338$$

$$D_U = 1.659$$

$$4 - d_L = 2.662$$

$$4 - d_U = 2.341$$

Conclusion:

Since $d^* \{0.3016982\} < D_L \{1.338\}$, then we reject the null hypothesis of no correlation and accept that there is positive autocorrelation of first order.

Normality Test for Residual:

The Jarque-Bera test for normality is an asymptotic, or large-sample, test. It is also based on the ordinary least square residuals. This test first computes

the skewness and kurtosis measures of the ordinary least square residuals and uses the chi-square distribution {Gujarati, 2004}.

The hypothesis is:

H_0 : $X_1 = 0$ normally distributed.

H_1 : $X_1 \neq 0$ not normally distributed.

At 5% significance level with 2 degree of freedom.

$$JB = n\left\{\left(\frac{s^2}{6}\right) + \frac{(k-3)^2}{24}\right\} = 0.2438$$

While critical $JB > \{X^2_{\{2\}df}\} = 5.99147$

Conclusion:

Since $0.2438 < 5.99147$ at 5% level of significance, we accept the null hypothesis and conclude that the error term follows a normal distribution.

Test for Heteroscedasticity:

Heteroscedasticity has never been a reason to throw out an otherwise good model, but it should not be ignored either {Mankiw Na, 1990}.

This test is carried out using White's general Heteroscedasticity test {with cross terms}. The test asymptotically follows a chi-square distribution with degree of freedom equal to the number of regressors {excluding the constant term}. The auxiliary model can be stated thus:

$$U_t = \beta_0 + \beta_1 PC + \beta_2 INV + \beta_3 INF + \beta_4 PC^2 + \beta_5 INV^2 + \beta_6 INF^2 + V_i.$$

Where V_i = pure noise error.

This model is run and an auxiliary R^2 from it is obtained.

The hypothesis to the test is stated thus;

$$H_0: \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = 0 \text{ \{Homoscedasticity\}}$$

$$H_1: \beta_1 \neq \beta_2 \neq \beta_3 \neq \beta_4 = \beta_5 \neq \beta_6 = 0 \text{ \{Heteroscedasticity\}}.$$

Note: the sample size {n} multiplies by the R^2 obtained from the auxiliary regression asymptotically follows the chi-square distribution with degree of freedom equal to the number of regressors {excluding constant term} in the auxiliary regression.

Using Pc Give software package saves us the above rigour by calculating the chi-square value.

Decision Rule:

Reject the null hypothesis if $X^2_{cal} > X^2$ at 5% level of significance. If otherwise, accept the null hypothesis. From the obtained results, $X^2_{cal} = 25.60 > X^2_{0.05 \{1\}} = 3.84$ we therefore accept the alternative hypothesis of Heteroscedasticity showing that the error terms do not have a constant variance and reject the null hypothesis showing that the error terms have a constant variance.

Test for Multicollinearity:

The term Multicollinearity is due to Ragnar Frisch. Originally it meant the existence of a “perfect” or exact, linear relationship among some or all explanatory variables of a regression model. The tests were carried out using correlation matrix. According to Barry and Feldman {1985} criteria; “Multicollinearity is not a problem if no correlation exceeds 0.80”.

	PC	INV	INF	REMARK
PC	1.000			-
INV	0.3654	1.000		Nm

INF	0.1659	-0.1920	1.000	Nm, M
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Where M = Presence of multicollinearity

Nm = No multicollinearity.

From the above table, we can conclude that multicollinearity does not exist between any of the variables.

CHAPTER FIVE

Summary of findings, conclusion and recommendations

This last chapter of the work presents the summary of the research findings, conclusion and recommendation.

5.1 Summary of finding

The programme of privatization and commercialization is a major opportunity for reform of Nigeria's ailing public enterprises and to prepare them to serve the needs of the Nigerian economy in 21st century. Enterprises will be made more efficient more accountable and more responsible to the need of the clientele it is meant to be serving the Nigerian public.

The Nigerian private sector will also benefit tremendously in the creation of new investment opportunities and a better investment climate. The most of the lucrative companies to be privatized e.g. oil companies are to be partially privatized while others not so viable are to be fully privatized.

Majority of the firms to be privatized arrived at their share prices through the service of professionals, while a few arrived at theirs through stock exchange.

5.2 CONCLUSION

In conclusion, privatization has been seen as a means to government interested in fostering a new division of labour between the public and private sectors in order to increase the effectiveness and contribution to the development of both sectors. Therefore, the success of privatization should be

judged not in terms of the sale, the price paid to the government or expansion of enterprises sold but rather, on the basis of wealth.

It is very clear that we cannot exclude economics from politics and it is well known that the basic problem facing public enterprises in Nigeria is control or management. This cannot be addressed through privatization. Honestly, the exercise reduces real income and encourages people in economic recovery.

As the Federal Government of Nigeria (FGN) 1993 also currently observed the primary agreement for privatization and commercialization is of course, that the efficiency and profitability of the investment would improve after the exercise.

Therefore, the National Telecommunication Policy presents the policy objectives of the Federal Government of Nigeria in promoting the development and utilization of telecommunication infrastructure and services, accelerating the socio-economic and political development of the nation and enhancing the quality of the life of Nigerians.

5.3 Recommendation

For the private and foreign sector to be re assumed of government's good faith towards privatization and commercialization after declaration of its

intention, it should go about it by gradual process and with root and branch rapidity.

The following areas would go a long way to demonstrate the validity of this intentions start with the profit making business.

- a) The government should make an open declaration that private sector autonomous investment would be allowed to establish electricity generating companies, water supply companies, telecommunication and postal services, additional private airlines, while at the same time take steps to introduce management of corresponding public sector institutions.
- b) The financial sector is a rough and ready candidate for initial steps in the field of privatization and commercialization. Government should sell to the local private sector 50% its existing holdings in commercial banks and insurance companies and their shares should be quoted on the stock exchange.
- c) All loss leading industrial establishment belonging to the public sector with a view to sell them eventually.
- d) In the auto mobile industry, the government should turn over 50% of its share in the motor vehicle assembly plant to the local sectors investors in order to make the foreign investor the largest single block of shareholders. It would make them more efficient.

- e) The proportion of the income used for buying shares is deducted from taxable income.
- f) The privatized business can be allowed to pay tax, free dividends to new buyers, the potential of wealth to a few privileged.

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