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ELSEVIER

Agricultural Economics 24 (2001) 221–228

AGRICULTURAL
ECONOMICS

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Strategies and impact of agro-allied parastatals reform in Nigeria

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Received 1 March 1999; received in revised form 21 January 2000; accepted 27 March 2000

Abstract

This study examines the reform of agro-allied parastatals in Nigeria and determine the impact financially, economically and socially. Three enterprises, Flour Mills of Nigeria Limited (FMNL), Okitipupa Oil Palm Company (OOPC) and Nichemtex Industries Limited (NIL), were privatized in Nigeria under a reform programme aimed at improving the performance of agribusinesses in the country. The exercise was successfully conducted through public offer of shares and private placement. The reform led to an improvement in profitability, productivity, financial leverage and liquidity position of the enterprises. The social impact of privatization was also favourable. It has no adverse consequences on job security, level of employment and participation of employees in trade union matters. Successful implementation of the reform was due to several factors including high level of professional competence and dedication of officials connected with the reform, a high degree of transparency and strict compliance with laid down guidelines. At the enterprise level, the positive changes recorded by the enterprises came about through the adoption of a number of coping strategies such as the maintenance of diverse product mix, expansion of export potentials and upgrading of product quality, improved marketing management, technological restructuring and improved techniques of sourcing raw materials. At the macro level, some policy actions such as trade policy reforms and price liberalization also played significant role in enhancing the performance of the enterprises after privatization. © 2001 Elsevier Science B.V. All rights reserved.

Keywords: Agricultural parastatals; Privatization; Liberalization

1. Introduction

In spite of the large size, diversified structure and the roles played by public enterprises (PEs) in many countries worldwide there is growing concern about the low level of performance of such enterprises especially in the developing world. In many African countries, in particular, the dismal performance of PEs has been attributed to deficient pricing policies, inappropriate investment decisions, capacity underutilization, inability to generate adequate working capital and maintain existing investments, overstaffing and high

level of indebtedness. Other problems include excessive political interference in critical management decisions, lack of incentives to attract competent managers and the incompatibility of civil service procedures with commercial operations (Nellis, 1986). The resultant inefficiency, losses, budgetary burdens, poor products and services indicate the advisability to put the PEs on the path of fundamental reform. Privatization, which involves the transfer of assets or activities from the public to the private sector, has been one of the chosen techniques of reform of the PEs.

Privatization is a key element of the structural adjustment programme (SAP) implemented by several African countries in the 1980s and 1990s but the implementation has been constrained by several factors

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including low level of income, highly imperfect and under-developed markets, rudimentary financial markets, limited demand, uncompetitive private sector (Cook and Kirkpatrick, 1998) and the low value put on public enterprises by the private sector (Adams, 1997). Other impediments include thinness and weakness of the capital market, restriction on foreign ownership of shares, inadequate legal framework and trade union opposition (Gonzalez Fraga, 1991; Pinera and Glade, 1991; Thoumi, 1991). There have been considerable experiences of privatization strategies and outcomes in several parts of the developing world (Hemming and Mansoor, 1988; Glade, 1991; Prager, 1992) but there has been no consistent and reliable pattern (Foreman-Peck and Manning, 1986; Pi'i, 1987; Young, 1987; Yuvapurna and Tantayotin, 1987).

In Africa, the experience in Zambia has been cited as the best so far on account of unwavering government commitment, a rare political consensus, transparency and dedication of programme officials (Cruickshank, 1998). It has created thousands of Zambian shareholders in various companies, led to an influx of major international investors and has generated new jobs. The tax base has widened and government revenue increased substantially. The Ghanaian experience, however, is far less impressive. Only modest achievement was made. The problems encountered include (a) lack of post-privatization regulation in the original design of the programme; (b) significant job losses which created problems because compensatory schemes were not initially worked into the programme; (c) difficulty in monitoring privatization proceeds and (d) lack of effective communication which created doubts, fears, rumours, anxieties, and apprehensions in the minds of many Ghanaians about the ultimate intentions behind the privatization programme, and inadequate attention to the issue of transparency (see Boachie-Danquah, 1998).

In the case of Nigeria, there is no clear indication as to whether the mechanisms adopted in implementing the policy can effectively resolve the issue of inefficiency, and inequity in the ownership of capital and at the same time stem the drain on government budget as intended. This raises the question as to whether government's arguments for privatization and the strategies adopted actually derive from a proper diagnosis of the parastatals' problems. Also of particular concern is the outcome of the policy in social,

financial and economic terms. To date, the efficacy of the privatization policy with regard to the agricultural sector remains largely unsubstantiated. Unless the impact of the policy is ascertained, it will be difficult to make a sound judgement as to how deep the policy should penetrate and as to what modification should be made concerning the objectives, conduct and performance of the enterprises that continue to remain under government control. Thus, it is the objective of this paper to examine the strategies of privatizing the agro-allied parastatals in Nigeria and determine the impact economically, financially and socially.

2. Structure and activities of the selected parastatals

Three enterprises, Flour Mills of Nigeria Limited (FMNL), Okitipupa Oil Palm Company (OOPC) and Nichemtex Industries Limited (NIL), were included in the study. Their selection was based on availability of relevant data, full implementation of the privatization policy and considerable experience of post-privatization operations. Data collection commenced in April 1993 and lasted till June 1994 and it involved the use of questionnaires, interview schedules as well as gathering of secondary data. This study employs micro-level quantitative data in conjunction with meso-level analysis in assessing the implementation and impact of the reform. The approach involves the collection of data from the relevant enterprises and the key agency (Technical Committee on Privatization and Commercialization — TCPC) concerned with the reform for use in conducting the analysis within the framework of the institutions, rules and processes established by law.

There is considerable variation in the business activities and ownership structure of the parastatals. The FMNL was incorporated as a public company on 29 September 1960 with an authorised share capital of ₦ 1,000,000 divided into 5000 ordinary shares of ₦ 200 each. As at 21 September 1988, the issued ordinary shares of the company were held beneficially by Excelsior Shipping Company Limited (40%), Federal Ministry of Finance Incorporated (MOFI) (10.62%) and other Nigerian citizens and associations (49.38%). The principal activities of FMNL include milling of wheat, maize and sorghum and selling of products

such as bread flour, biscuit flour, macaroni, semovita, spaghetti, whole wheat, wheat offals and pellets as well as bulk and bagged cement. The company is highly import dependent for its raw materials and other supplies. Indeed, the decision to locate the company at Apapa, Lagos was based on the need to be proximate to the wharf to ensure easy access to imported raw materials.

The NIL was incorporated on 3 August 1971 and started operations in 1972. The company has its registered office in Lagos and its factory in Ikorodu near Lagos. As on 31 August 1990, the beneficial interest of Directors in the issued share capital of the company stood at 53.55%. The Lagos State Government has 11.5% interest, Nigerian Industrial Development Bank (NIDB) has 11.27%, Federal Government, 8.65% while other interests stood at 15.03%. The principal activities of the company are manufacturing and marketing of textile piece goods, polyester staple fibre and filament yarn.

The ownership structure of the OOPC was far less diversified than that of the other companies. The OOPC started as a project among the World Bank, the Federal Government and the then Western State Government in 1968. With the split of the Western State into Oyo, Ogun and Ondo States in 1976, the project was inherited by the Ondo State Government and was incorporated as a limited liability company wholly owned by the State Government. In 1987, the Ondo State Government interest was vested in the Ondo State Investment (Holding) Company Limited which made the OOPC its wholly owned subsidiary. The main business of the company is the development of oil palm estates to produce fresh fruit bunches for processing into various grades of palm oil and kernel.

It is also engaged in the production of palm wine from raphia palms which grow abundantly in Okitipupa area. The company has its headquarters in Okitipupa where a 20 t/h mill has been installed since 1974. Its location at the edge of the River Oluwa in Okitipupa makes it centrally accessible by road and water for the transportation of fresh fruit bunches from the oil palm estates to the mill.

3. Review of implementation of the reform

The reform of PEs in Nigeria got a legal backing through the promulgation of the Privatization and Commercialization Decree No. 25 in July 1988. The Decree established an 11-member Technical Committee on Privatization and Commercialization (TCPC) which was inaugurated on 27 July 1988 and charged with the responsibility of ensuring the successful completion of the reform of affected PEs. In discharging this responsibility, the TCPC adopted three main privatization strategies — public offer of shares, private placement and sale of assets. The key elements of the privatization of the parastatals are presented in Table 1. Both the FMNL and the OOPC were privatized in 1989 through public offer of shares while Nichemtex was privatized in 1991 through private placement. The FMNL was the first company to be privatized by TCPC on the basis of the strategy of public offer of shares. A total of 65 banks (made up of 19 merchant banks and 46 commercial banks) and 43 stockbrokers were involved in the offer for sale. The privatization was timely implemented and was quite effective judging by the strict compliance with the laid down guidelines. Indeed, the offer was

Table 1
Key elements of the privatization implementation procedure^a

No.	Attributes	FMNL	NICHEMTEX	OOPC
1	Year of incorporation	1960	1971	1976
2	Authorized share capital (₦)	32500500	20809248	30,000,000
3	Government shareholding (%)	10.62	20.15	100
4	Year of privatization	1989	1991	1989
5	Privatization method	Public offer of shares	Private placement	Public offer of shares
6	Gross proceeds from privatization (₦)	6240000	8460000	19,250,000
7	Net proceeds from privatization (₦)	5142056	8167525	18,494,271
8	Preferential share allotment to staff (%)	10	10	Not applicable

^a Source: author's findings.

over-subscribed. With regard to the OOPC, the privatization exercise involved a total of nine banks in addition to stockbrokers and legally required professional experts such as solicitors, auditors and reporting accountants. The exercise was effectively accomplished. The offer was concluded in a timely fashion and the objectives were achieved.

The NIL was the first enterprise to be privatized through private placement. The strategy of private placement was to be adopted on the condition that the affected enterprises did not meet the listing requirements of the Nigerian Stock Exchange or the level of Government shareholding was too small to induce the enterprise to go public. The main guidelines specified by the TCPC for the purpose of private placement are (i) the desired number of shareholders is between 500 and 1000 including staff participation; (ii) no one shareholder other than the 'Core Group' should hold more than 10% of the shares on offer and (iii) as with public offers for sale of shares, formal approval by the National Council of Ministers is necessary in all cases. The 'Core Group' specified in the guidelines refers to prospective shareholders with demonstrated capabilities in similar industries or to workers of the enterprises organising themselves into co-operatives. Public sector investment agencies could also serve as Core Group investors to develop and nurture the affected enterprises to the state of readiness for sale through public offer of shares on the Nigerian Stock Exchange. The Core Group was to be allowed beneficial shareholding of between 25 and 40% so as to provide leadership in the enterprise. The privatization of Nichemtex was slated for 1989, but unlike FMNL the implementation witnessed considerable delay. The offer by private placement was concluded when the allotment result was announced to the public on 9 October 1991.

From the foregoing it is apt to point out that the privatization exercise has been successfully carried out in respect of the selected parastatals. The easiest strategy seems to be the public offer of shares. The factors leading to the successful implementation of the programme include (i) the dedication to duty exhibited by TCPC members; (ii) the fact that the implementation guidelines are well articulated; (iii) the high degree of transparency associated with the exercise as evidenced by massive press coverage and the high priority given to widespread publicity by the

TCPC; (iv) the involvement of sub-committees in the case of privatization through sale of assets, which sub-committees were provided with clearly-stated terms of reference and code of conduct; (v) favourable private sector response; (vi) willingness of employees to participate especially in the case of privatization by private placement which is strengthened by the existence of virile staff unions; (vii) existence of a legal framework to guide the operations of the TCPC including clear specification of the functions of the TCPC and the objectives of the privatization programme and finally (viii) the fact that the TCPC was domiciled within the Presidency enabled it to operate without much financial impediments and administrative encumbrances and to proceed speedily in the discharge of its responsibilities.

4. Impact of privatization

The impact analysis begins with a review of the overall level of performance of each enterprise focusing attention on some crucial variables like turnover, profit before and after tax, value added, earnings per share and dividend per share. Thereafter, we examine the privatization outcomes in financial, economic and social terms. With regard to FMNL, turnover increased from ₦ 129,353 before privatization (1986–1988) to ₦ 1.003 million after privatization (1990–1993) as shown in Table 2 or by about 675%. The ban on wheat importation and the consequent decline in capacity utilization accounted partly for the relatively low turnover before privatization. Rising product prices and the lifting of the ban imposed on wheat importation by November 1992 would largely account for the increase in turnover after privatization. There was substantial increase in profitability over the sub-periods. Profit before tax (PBT) and profit after tax (PAT) rose from ₦ 5560 and 3044 to ₦ 67,343 and 41,072, respectively. The value added also increased from ₦ 56,368 to 222,405 (or by about 294%). In response to the increase in earnings per share (from 11 to 103 kobo), the dividend per share also rose considerably from 3 to 43 kobo or by 1333%.

In the case of Nichemtex, turnover increased from ₦ 468,781 before privatization (1989–1990) to ₦ 1.5 million after privatization (1992–1993). Both PBT and PAT increase from ₦ 46,555 and 21,753 to ₦ 225,678

Table 2
Trends of profitability in the selected parastatals before and after privatization^a

Indicators	Before privatization	After privatization
FMNL	1986–1988	1990–1993
Turnover (N'000)	129353	1003136
PBT (N'000)	5560	67343
PAT (N'000)	3044	41072
Value added (N'000)	56368	222405
EPS (kobo)	11	103
DPS (kobo)	3	43
NICHEMTEX	1989–1990	1992–1993
Turnover (N'000)	468781	1533184
PBT (N'000)	46555	225678
PAT (N'000)	21753	153096
Value added (N'000)	131226	477621
EPS (kobo)	65	466
DPS (kobo)	21	67
OOPC	1986–1988	1990–1992
Turnover (N'000)	9257	50413
PBT (N'000)	1751	12055
PAT (N'000)	1751	9248
Value added (N'000)	5810	27648
EPS (kobo)	12	15
DPS (kobo)	5	7

^a Source: annual reports of FMNL, Nichemtex and OOPC. PBT: profit before tax; PAT: profit after tax; EPS: earnings per share; DPS: dividend per share.

and 153,096, respectively. The value added also increased from ₦ 131,226 to 477,621 or by about 264%. The earnings per share rose from 65 to 466 kobo while dividend per share increased from 21 to 67 kobo. The level and changes in turnover and profitability in the OOPC are much lower than in the other enterprises. Turnover increased from ₦ 9257 before privatization (1986–1988) to ₦ 50,413 after privatization (1990–1992). Both PBT and PAT stood at ₦ 1751 before privatization but after privatization, the former increased to ₦ 12,055 (by 588%) while the latter rose to ₦ 9248 (by 428%). There was a slight increase in earnings per share from 12 to 15 kobo and in dividend per share from 5 to 7 kobo.

4.1. Financial and economic impacts of privatization

The analysis here is based on changes, over the pre- and post-privatization periods, in performance indicators like liquidity and leverage ratios in terms of financial impact and profitability and productivity

Table 3
Comparison of performance indicators of selected parastatals before and after privatization^a

Indicators	Before privatization	After privatization
FMNL	1986–1988	1990–1993
Current ratio (CA/CL)	0.73	0.93
Debt–asset ratio	0.65	0.75
Debt–equity ratio	1.85	3.38
PBT/sales (%)	6.53	3.50
PAT/sales (%)	3.62	2.06
PBT/networth (%)	8.10	42.43
PAT/networth (%)	9.84	25.73
LAPI (1984=100)	126	1278
CAPI (1984=100)	69	457
NICHEMTEX	1989–1990	1992–1993
Current ratio (CA/CL)	1.07	1.34
Debt–asset Ratio	0.60	0.56
Debt–equity Ratio	2.43	1.25
PBT/sales (%)	11.99	14.63
PAT/sales (%)	7.76	9.86
PBT/networth (%)	31.61	47.01
PAT/networth (%)	25.02	31.87
LAPI (1984=100)	302	1694
CAPI (1984=100)	184	210
OOPC	1986–1988	1990–1992
Current ratio (CA/CL)	1.41	1.17
Debt–asset ratio	0.33	0.30
Debt–equity ratio	0.56	0.45
PBT/sales (%)	24.55	25.13
PAT/sales (%)	24.55	19.44
PBT/networth (%)	14.32	23.33
PAT/networth (%)	14.32	17.95
LAPI (1984=100)	59	99
CAPI (1984=100)	39	17

^a Source: underlying data from annual reports of FMNL, NICHEMTEX and OOPC. CA: current assets CL: current liabilities; PBT: profit before tax; PAT: profit after tax; LAPI: labour productivity index; CAPI: capital productivity index.

ratios in respect of economic impact. Table 3 presents the nine indicators employed in the analysis. In the case of FMNL, the current ratio, debt–asset and debt–equity ratios increased over the period from 0.73 to 0.93, 0.65 to 0.75 and 1.85 to 3.38, respectively. Profit before and after tax relative to networkth increased from 18.10 to 42.43 and from 9.84 to 25.73%, respectively. Index of labour productivity increased from 126 to 1278 while that of capital productivity rose from 69 to 457. In other words, there was an improvement in the liquidity position, financial leverage, profitability and productivity after privatization.

Table 4
Summary of changes in performance after privatization

No.	Performance indicators	FMNL	NICHEMTEX	OOPC
1	Liquidity	+	+	–
2	Financial leverage	+	–	–
3	Profitability	+	+	+
4	Productivity of labour	+	+	+
5	Productivity of capital	+	+	–

With regard to Nichemtex, the current ratio increased from 1.07 to 1.34 implying a slight improvement in liquidity. Debt–asset ratio declined from 0.60 to 0.56 while debt–equity ratio also fell from 2.43 to 1.25 implying a deterioration in financial leverage. Profit before and after tax relative to sales increased from 11.99 to 14.63 and from 7.76 to 9.86%, respectively; whereas relative to networth the ratio increased from 31.61 to 47.01 and from 25.02 to 31.87%, respectively. Index of labour productivity rose from 302 to 1694 while that of capital rose from 184 to 210. Thus, there was an improvement in both profitability and productivity after privatization.

As regards OOPC, the current ratio declined from 1.41 to 1.17 indicating a deterioration in liquidity. Debt–asset and debt–equity ratios declined from 0.33 to 0.30 and from 0.56 to 0.45, respectively indicating that financial leverage was lower after privatization than before. Profit before and after tax relative to networth increased from 14.32 to 23.33 and from 14.32 to 17.95%, respectively; implying that there was an improvement in profitability after privatization. Index of labour productivity rose from 59 to 99 while that of capital declined from 39 to 17. Whereas there was some improvement in labour productivity, the productivity of capital continued to decline privatization notwithstanding.

In sum, the changes in the performance of the enterprises after privatization are as presented in Table 4. The positive changes recorded by the enterprises came about through the adoption of a number of coping strategies including (i) maintenance of diverse product mix such as the production of cement and other products in the case of FMNL and palm wine in the case of OOPC; (ii) expansion of export potentials and upgrading of product quality in the case of Nichemtex; (iii) involvement of reputable public companies as major distributors in order to enhance the level of turnover as in the case of Nichemtex; (iv) involvement of

reputable manufacturers in buying products to be used as raw materials as depicted by the marketing strategy of OOPC and (v) vertical (backward) integration for the local sourcing of raw materials as demonstrated by FMNL. The lifting of the ban on wheat importation also contributed largely to the enhancement of the performance of FMNL.

4.2. The social impact of privatization

There has been no unfavourable development concerning the relationship between management and employees of the selected enterprises which can be attributed to the privatization exercise. The existing staff unions continued to operate and are being given due recognition by management. The employees continue to show even more dedication to duty especially in view of their new status as beneficial owners of considerable equity share in their enterprises. Note that 10% of the privatized shares in NIL Plc and FMNL Plc now belong to the employees.

In the privatized enterprises staff training and welfare continue to receive attention from the management. The Flour Mills of Nigeria Plc continues to keep employees fully informed as much as possible regarding its performance and progress and to seek their views wherever practicable on matters which particularly affect their interests. The company's expanding skill base has provided for better training and broadened the opportunities for career development. The company continues to encourage employees to improve their educational qualifications and skills. To date, the company continues to support the provision of lunch meals in the staff canteen at subsidised prices. In the wake of declining capacity utilization following the ban on wheat importation, the company had to embark on staff retrenchment but made a pledge with the labour union to accord priority to the re-engagement of the affected employees if the situation improves. In 1993, a substantial percentage of all cadres of retrenched staff was re-engaged in fulfilment of the pledge following the lifting of the ban by November 1992. For instance, in 1991 there were 2320 workers in FMNL. In 1992, the number declined to only 843 representing a change of –63.66% following the continued retrenchment of staff. However, employment figure rose to 1698 in 1993 or by about 101%. Notably, these changes are responses to government policy.

Furthermore, the policy of the company to contribute directly to societal development persists through modest donations and charitable gifts. In 1991, these amounted to ₦ 1500 but rose to ₦ 41,000 in 1993.

In Nichemtex Industries Plc, industrial relations also appear to be harmonious. Increased equity participation of the employees has been a morale booster. The commitment of the company to staff training and welfare continue undiminished since the privatization exercise. The company continues to give long service awards to deserving employees. In 1991, 1413 members of staff received awards for 10 years service, 280 for 15 years service and 3 for 20 years service. In 1992, the numbers rose to 1,915, 442 and 62 for the 10, 15 and 20 years service, respectively. In terms of donations for charitable purposes, the company continues to make useful contributions. In 1992, the company gave out ₦ 285,000 as donations to state government appeal funds and to various public associations. In 1993, the amount rose to ₦ 572,293 or by about 101%. Another social impact is the diversification of ownership structure of Nichemtex geographically and on the basis of income group. At present the owners of the company are spread across seven states in different parts of the country rather than one state prior to privatization.

In sum, the privatization exercise has not generated any tension at the enterprise level. It has no adverse consequences on job security, level of employment and participation of employees in trade union matters. The implementation guidelines have been instrumental to the curtailment of social unrest especially at the enterprise level. The guidelines accord due recognition to social groups for the purpose of preferential allotment of shares. In the case of privatization by sale of assets, the guidelines specify that the members of staff should be given the first opportunity to purchase certain items like household goods, motor vehicles and so forth. Such provisions have tended to curb unfavourable social impacts and have thus contributed in no small measure to the successful implementation of the privatization programme.

5. Conclusions and policy implications

The privatization of the selected parastatals was successfully implemented mainly because of government

support for the implementing agency TCPC financially and administratively and also because of the competence and dedication of the TCPC members. Besides, the criteria for the choice of a particular privatization strategy were clearly stated; and the implementation guidelines as well as the reform objectives and institutional arrangements were properly articulated. The study reveals that there was an improvement in profitability, productivity, financial leverage and liquidity position of FMNL after privatization. The situation was the same in Nichemtex except that there was deterioration in financial leverage after privatization. There was improvement in profitability and labour productivity in OOPC after privatization. On the other hand, there was deterioration in capital productivity, financial leverage and liquidity.

At the enterprise level, the social impact of privatization was favourable. There were no insurmountable tensions nor any disturbances from employees. Neither was there any threat to their job security on account of the privatization exercise. There was increased equity participation by employees of FMNL and Nichemtex leading to considerable diversification of the ownership structure on the basis of income groups. Diversification on the basis of geographical spread of shareholders has also been achieved.

The emerging results indicate that in a depressed economy other forms of restructuring are required for privatization to yield the desired benefits. This is an important lesson because ownership and management problems may be fundamental but they are unlikely to be the only source of poor performance. Complementary policy and enterprise-level actions are required to facilitate the performance of parastatals after privatization. These include (i) product price liberalization; (ii) trade policy reforms including tariff restructuring; (iii) enterprise-level technological restructuring and quality improvement and (iv) product diversification and improved marketing management.

This lesson is crucial not only for other African countries but also for the privatization of PEs in other sectors of the Nigerian economy. With the successful privatization of the agricultural parastatals, the political and ideological resistance to privatization is now weakened. Nonetheless, the need to pursue the policy with utmost degree of transparency and support of all stakeholders including trade unions cannot be over-emphasized. Irrespective of the type of PEs,

successful transformation from the public to private sector depends on the existence of a competitive environment. Such an environment must be sustained to enhance the performance of enterprises after privatization and to propel the economy towards greater efficiency.

Acknowledgements

The funds for the research that forms the basis for this paper were provided by the International Development Research Centre (IDRC) and administered by the West African Economic Association. I extend profound gratitude to these agencies and to colleagues who provided useful comments during a review workshop in Cotonou, the Republic of Benin.

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