



NATIONAL OPEN UNIVERSITY OF NIGERIA  
FACULTY OF MANAGEMENT SCIENCES

**COURSE GUIDE**

<b>Course Code:</b>	PAD 724
<b>Course Title:</b>	Public Enterprise Management
<b>Course Writers:</b>	
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## **Introduction**

Public Enterprises Management (PAD 724) is a second semester course work of 2 credit units taken by post graduate students of the National Open University of Nigeria (NOUN) in the Faculty of Management Sciences. The importance of public enterprises to a nation's economic growth and development cannot be overemphasized as it has been used by governments across the globe especially developing countries to advance welfarism and promote development. This course acquaints you with the basic philosophy behind public enterprises; their classifications; organisation, management and control; capital structure and funding; as well as the various reforms that public enterprises particularly in Nigeria have witnessed.

## **Course Aims**

The aim of the course is to acquaint you with the fundamentals of public enterprises; their organisation, management and control; their capital structure and funding; their personnel; as well as the several reforms that have been carried out with the objective of making public enterprises more effective and efficient in their various endeavours.

## **Measurable Learning Outcomes**

Upon successful completion of these modules, you will be able to:

- i. Define and discuss the philosophy behind public enterprises
- ii. Trace the origin and growth of public enterprises
- iii. Identify the characteristics of public enterprises and state reasons for their establishment
- iv. Identify the various classifications of public enterprises
- v. Explain the organisation, management and control of public enterprises
- vi. State the capital structure and sources of funds for public enterprises
- vii. Evaluate performances of public enterprises in Nigeria and factors responsible for their under performance
- viii. Explain the various reforms that public enterprises have undergone

## **Course Guide**

This course acquaints you with public enterprise and its management, particularly as tool or mechanism for driving development and promoting welfarism. The course concerns itself with the basic philosophy behind the emergence of public enterprises; their

classifications; organisation, management and control; capital structure and funding; as well as the various reforms that public enterprises have witnessed particularly in Nigeria with the objective of them more effective and efficient in their various endeavours. The course consist of 5 modules and 25 units. Contents of the modules dwell on fundamentals of public enterprises; organisation, management and control of public enterprises; capital structure and funding of public enterprises; context of civil service in public enterprises and public enterprises reforms.

### **Self-Assessment-Exercise (SAEs)**

Self-assessment Exercises are incorporated in the study material for each unit. Self-assessment Exercise helps students to be a realistic judge of their own performance and to improve their work. Promotes the skills of reflective practice and self-monitoring; Promotes academic integrity through student self-reporting of learning progress; Develops self-directed learning; Increases student motivation and Helps students develop a range of personal, transferrable skills.

### **Summary**

Each Unit contained a summary of the entire unit. A summary is a brief statement or restatement of main points, especially as a conclusion to a work: a summary of a chapter. A brief is a detailed outline, by heads and subheads, of a discourse (usually legal) to be completed: a brief for an argument.

### **Possible Answers to Self-Assessment Exercise(s) within the content**

The materials contained Possible Answers to Self-Assessment Exercise(s) within the content. The possible Self-assessments answers enable you to assess your level of assimilation or comprehension of the course contents. It is a way of analysing your work performance and any areas for growth. Reflecting on your strengths, weaknesses, values and accomplishments can help you determine what goals to work toward next.

### **Course Materials**

The major components of this course are:

- i. Course Guide
- ii. Study Units
- iii. Further Readings
- iv. Activities and Tutor-Marked Assignments

Everything is contained in each unit except the textbooks, which you may have to acquire. You are expected to study the materials carefully and attempt the exercises. Practise the tutor- marked assignment questions as well. You are also expected to consult the textbooks under references/further readings for additional information. However, you may contact your tutor where you encounter any problem about recommended textbooks.

## **COURSE MATERIAL**

The course material package is comprised of the following Modules and unit structure:

### **MODULE 1: Fundamentals of Public Enterprises**

Unit 1 Definition/ Meaning and Objectives of Public Enterprises

Unit 2 Origin of Public Enterprises

Unit 3 Nature and Scope of Public Enterprises

Unit 4 Characteristics, Creation and Reasons for the Establishment of Public Enterprises

Unit 5 Classifications of Public Enterprises

### **MODULE 2: Organisation, Management and Control of Public Enterprises**

Unit 1 The Theory of Principal and Agent

Unit 2 Organisation and Management of Public Enterprises

Unit 3 Control and Accountability in Public Enterprises

Unit 4 Performances, Probes and Commission into Public Enterprises

Unit 5 Factors Affecting Performance of Public Enterprises

### **MODULE 3: Capital Structure and Funding of Public Enterprises**

Unit 1 Capital Structure of Public Enterprises

Unit 2 Government Appropriations as a Source of Funding

Unit 3 Private Investments as a Source of Funding

Unit 4 Self Financing as a Source of Funding

Unit 5 Budgeting Process of Public Enterprises

### **MODULE 4: Public Enterprises Reforms**

Unit 1 Meaning of Reform and Public Sector Reforms

Unit 2 Public Enterprise Reforms: Privatization

Unit 3 Public Enterprise Reforms: Commercialization

Unit 4 Privatization and Commercialization in Nigeria

Unit 5 Challenges of Privatization and Commercialization in Nigeria

### **MODULE 5: Context of Civil Service in Public Enterprises**

Unit 1 Definition and Principles of Civil Service

Unit 2 Features and Function of Civil Service

Unit 3 Evolution of Civil Service

Unit 4 Personnel Management in the Civil Service

Unit 5 Reforms in the Civil Service

## **MODULE 1: FUNDAMENTALS OF PUBLIC ENTERPRISES**

Unit 1 Definition/ Meaning and Objectives of Public Enterprises

Unit 2 Origin of Public Enterprises

Unit 3 Nature and Scope of Public Enterprises

Unit 4 Characteristics, Creation and Reasons for the Establishment of Public Enterprises

Unit 5 Classifications of Public Enterprises

### **UNIT 1 MEANING/DEFINITION OF PUBLIC ENTERPRISES**

#### **Unit Structure**

1.1 Introduction

1.2 Learning Outcomes

1.3 Main Content

1.3.1 Definition of Public Enterprises

1.3.2 Meaning of Public Enterprises

1.3.3 Objectives of Public Enterprises

1.4 Summary

1.5 References/Further Reading

1.6 Possible Answers to Self-Assessment Exercise(s) within the content



#### **1.1 Introduction**

In this unit, you will be introduced to the concept of public enterprise. This is to enable you know the definition and meaning of public enterprise as well as the philosophy behind public enterprises. The comprehension of any concept depends on analysis of its features and this is the reason you are being introduced to them firstly.



#### **1.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. Define of public enterprise
- ii. Explain what public enterprise means
- iii. State objectives of public enterprise



## **1.3 Main Content**

### **1.3.1 Definition of Public Enterprises**

The multiplicity and diversity of the perspectives from which individual scholars and practitioners view public enterprise have naturally resulted in a plethora of definitions. However, certain key elements remain prominent in these definition of public enterprises. Let's examine some of the popular definitions.

What do you understand by public enterprise? According to Obikeze and Anthony (2004), public enterprise refers to an organisation that is set up as a corporate body and as part of the governmental apparatus for entrepreneurial or entrepreneurial-like objectives. They emerge as a result of government acting in the capacity of an entrepreneur. Public enterprises otherwise known as public corporations are public institutions or government agencies, which are created, solely owned and managed by the state to run certain activities of a specialized nature, requiring business-like administration. They are established by Acts of Parliament, which define their powers, functions, structure and their relationship with other government institutions. (Eneanya, 2020)

Public enterprise is a publicly-owned enterprise that has been chartered under federal, state or local government law for a particular business or financial purpose (Dimock and Dimock, 1970:69). The United Nations (1971), defined a public enterprise as an incorporated or large unincorporated enterprise in which public authorities hold a majority of the shares and/or can exercise control over management decisions.

Public enterprise also refers to an economic organisation belonging wholly or partly to the government and which has a legal status, financial autonomy, and under state control. It includes those "mixed enterprises" which are controlled by the state as well as those enterprises which are, on occasion, established for non-business purposes to escape the shackles of existing bureaucracy.

Public enterprises provide many services which include utilities such as telecommunications, electricity, gas supplies, water and sewage; transport such as airline, rail, shipping services and urban public transport; financial services notably banks and insurance, motor vehicles; companies such as tobacco and alcohol companies.

Examples of public enterprises in Nigeria include Nigerian Railway Corporation (NRC), Central Bank of Nigeria, (CBN), Water Boards/Water corporations across the country, Nigerian Postal Service, Nigerian Defence Industries Corporation, National Universities Commission, several government owned or controlled manufacturing enterprises (breweries, textiles, cement, steel, flour and vehicle assembly plants (PAN) fertilizer company, mining etc.)

### **1.3.2 Meaning of Public Enterprises**

Going by the definitions presented above, public enterprises essentially have the features of several individuals who act as one. As such, the enterprise is viewed as an artificial person authorised by law to carry on particular activities and functions. It is described as a corporate body created by the legislature with defined powers and functions and

independently having a clear-cut jurisdiction over a specified area or over a particular type of commercial activity (Ekhatior, 2002:167). As a corporate body, a public enterprise has a legal personality separate from that of the government that establishes it. It can own property, enter into contracts, and sue and be sued.

Public enterprise is part of government apparatus and three implications are hereby highlighted. Firstly, a public enterprise, by virtue of its intricate relationship with government, is an instrument of public policy and its primary mission is in connection with governmental objectives and programmes. It is therefore naturally under governmental control. Secondly, a public enterprise, by its nature, mostly manages public resources, especially public money and this means that attention must be paid to mechanisms for enforcing accountability. Thirdly, the combination of financial and economic objectives with social and political aims invariably makes it difficult to devise appropriate performance measurement instrument (Obikeze and Anthony, 2004: 248-249).

### **Self-Assessment Exercise 1**

What do you understand by public enterprises?
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#### **1.3.3 Objectives of Public Enterprises**

Having been acquainted with the meaning of public enterprises, what readily comes to your mind as the objectives for their establishment? The major objectives of public enterprises could be summarized as follows:

- a) To promote rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development. Public enterprises are established with the objective of fast tracking economic growth and industrialisation. The setting up public enterprises to engage in economic and productive activities boost the gross domestic products (GDP) of a country and provides infrastructure needed for economic development.
- b) To earn return on investment and thus generate resources for development. Public enterprises are established in certain cases to make returns (profits or revenue) so as to give the government more resources needed to execute development projects and programs. However, making returns is not the major purpose of governments for setting up public enterprises.
- c) To promote redistribution of income and wealth. This objective of public enterprises means that collective resources of the people (common wealth) are used to provide welfare services to certain disadvantaged segments of the population such as the aged, unemployed, handicapped, poor, etc.
- d) To create employment opportunities. One of the main objective of setting up public enterprises is to provide jobs for the citizenry. Public enterprises provide opportunity for people to get enlisted into public service.
- e) To promote balanced regional development. Public enterprises are established with the objective of promoting balanced regional development since public enterprises are spread across all regions of the country. The establishment of

public institutions and organisations in different regions and geo-political zones of the country is to achieve this objective.

- f) To assist the development of small scale and ancillary industries. Small scale and ancillary industries depend on certain services provided by public enterprises to survive and grow. The services of Power Holding Company of Nigeria (PHCN), Nigeria Port Authority (NPA), Bank of Industry (BOI), etc. aid the growth of small scale and ancillary industries.
- g) To promote import substitution, and to save and earn foreign exchange for the economy. One main objective of government setting up public enterprises is to encourage the production of certain goods and services in order to discourage their importation; thus substituting for imports.

### **Self-Assessment Exercise 2**

State five objectives of public enterprises?



#### **1.4 Summary**

Public enterprise, otherwise referred to as public corporation is a publicly-owned enterprise that has been chartered under federal, state or local government law to undertake certain business or economic activities. Public enterprises are either wholly or partly owned and controlled by the government. Objectives of public enterprises include promoting rapid economic growth and industrialization of the country and creating the necessary infrastructure for economic development; earning return on investment and thus generate resources for development; promoting redistribution of income and wealth; creating employment; promoting balanced regional development; assisting the development of small scale and ancillary industries; and promoting import substitution, and to save and earn foreign exchange for the economy



#### **1.5 References/Further Reading**

- Ekhaton, V.E. (2002). *Rudiments of public administration*. Kaduna: Joyce Graphic Printers and Publishers Co.
- Eneanya, A.N. (2020). *Theory and practice of public administration*. Lagos: University of Lagos Press and Bookshop Ltd.
- Obikeze, O.S. & Anthony, O.E. (2004). *Public administration in Nigeria: A developmental approach*. Onitsha: Book Point Ltd.
- World Development Report (1971), *Report of public enterprises*, Oxford University Press, New York.



## **1.6 Possible Answers to Self-Assessment Exercise(s) within the content**

### **Possible Answers to Self-Assessment Exercise 1**

*What do you understand by public enterprises?*

Public enterprise refers to an organisation that is set up as a corporate body and as part of the governmental apparatus for entrepreneurial or entrepreneurial-like objectives. They emerge as a result of government acting in the capacity of an entrepreneur. Public enterprises otherwise known as public corporations are public institutions or government agencies, which are created, solely owned and managed by the state to run certain activities of a specialized nature, requiring business-like administration.

Public enterprises provide many services including utilities such as telecommunications, electricity, gas supplies, water and sewage; transport such as airline, rail, shipping services and urban public transport; financial services notably banks and insurance, motor vehicles; companies such as tobacco and alcohol companies. Examples of public enterprises in Nigeria include Nigerian Railway Corporation (NRC), Central Bank of Nigeria, (CBN), Water Boards/Water corporations across the country, Nigerian Postal Service, Nigerian Defence Industries Corporation, etc.

### **Possible Answers to Self-Assessment Exercise 2**

*State five objectives of public enterprises?*

- i. Promote rapid economic growth and industrialization of the country and create the necessary infrastructure for economic development. Public enterprises are established with the objective of fast tracking economic growth and industrialisation.
- ii. Earn return on investment and thus provide resources needed to drive development. Public enterprises are established in certain cases to make returns (profits or revenue) so as to give the government more resources needed to execute development projects and programs.
- iii. Promote redistribution of income and wealth. This means that collective resources of the people (common wealth) are used to provide welfare services to certain disadvantaged segments of the population such as the aged, unemployed, handicapped, poor, etc.
- iv. Create employment opportunities. Public enterprises are established to provide jobs for the citizenry. Public enterprises provide opportunity for people to get enlisted into public service.
- v. Promote balanced regional development. Public enterprises are established with the objective of promoting balanced regional development since public enterprises are spread across all regions of the country. The establishment of public institutions and organisations in different regions and geo-political zones of the country is to achieve this objective.

## UNIT 2 ORIGIN OF PUBLIC ENTERPRISES

### Unit Structure

2.1 Introduction

2.2 Learning Outcomes

2.3 Main Content

2.3.1 Origin of Public Enterprises

2.3.2 Origin of Public Enterprises in Nigeria

2.4 Summary

2.5 References/Further Reading

2.6 Possible Answers to Self-Assessment Exercise(s) within the content



### 2.1 Introduction

Having known what public enterprise means and what it stand to achieve as discussed in the previous unit, this unit will therefore take you through events, occurrences and factors that led to the emergence of public enterprises across the globe as well as in Nigeria. Emphasis will be laid on the origin, growth and development of public enterprises in Nigeria. Public enterprise origin and development in Nigeria will be discussed in four major phases.



### 2.2 Learning Outcomes

At the end of this unit, you should be able to:

- i. Narrate events and occurrences that birth public enterprises across the globe
- ii. Narrate events that gave birth to public enterprises in Nigeria
- iii. Highlight key factors that contributed to the growth and development of public enterprises in Nigeria



### 2.3 Main Content

#### 2.3.1 Origin of Public Enterprises

What do you understand by origin of public enterprise? The origin of public enterprises could be traced to early twentieth century when government intervened in economic management through departmental organisations which did not involve creating autonomous public bodies. In the alternative, it granted license to a private enterprise for the management of natural or national monopolies and where public bodies were involved in managing economic ventures, such bodies did not enjoy financial autonomy. Public enterprises made a very strong appearance after World War I for a variety of reasons, including managing the consequences of the war, especially the economic crisis of the 1930s. However, public enterprises sector developed rapidly because of the spread

of Keynesian Interventionist. Between the two World Wars, political and ideological consideration prompted the establishment of parastatals in the former colonial metropolis. The movement toward the establishment of public enterprises received a new impetus after World War II for reasons related to both ideological considerations and economic efficiency. Economic nationalism and the success of the Soviet Revolution paved the way for nationalization and strong state intervention in national economic management. When the former European colonies in Africa became independent in the late 1950s and the 1960s, there were only a few public enterprises in different countries. To attain some measure of economic independence and fast track national development, the public enterprises sector then developed at a tremendous pace in the immediate years after independence through the 1980s and a huge public enterprise sector was firmly established in most countries.

The weakness of the private sector, the lack of infrastructure, the low level of social and human development, and the unfavorable social, economic and financial environment are some of the reasons given to explain the proliferation of public enterprises in all areas of economic and social development. Other reasons include the urge to generate revenue to limit foreign economic domination, and to provide a substitute for private initiative where it was not forthcoming.

### **Self-Assessment Exercise 1**

State four (4) main factors responsible for the emergence of public enterprises across the world?

### **2.3.2 Origin of Public Enterprises in Nigeria**

Public enterprises in Nigeria own their early origins to Britain her colonial mentor. This is because early public sector organisations were established by Britain to facilitate their exploitation of the country's resources and potentials. The origin, growth and development of public enterprises in Nigeria can be categorized into four (4) phases as submitted by Ozor (2004). They are:

- i. The colonial (foundation) period (1900 – 1960)
- ii. Independence (consolidation) period (1960 – 1970)
- iii. Oil boom (expansion) period (1970 – 1980)
- iv. Economic recession (privatization and commercialization) period (1980 - ?)

#### **Phase I: The Colonial (Foundation) Period (1900 – 1960)**

This phase witnessed the first set of public enterprises own by the government. However, the establishment of the public enterprises by the colonial master was not borne out of the need to promote socio-economic development but out of sheer exploitative interests of the colonial master.

Britain was compelled to embark on the provision of some infrastructure without which the colonial exploitative policies of her overseas territories would not have been accomplished. Thus, the British colonial Nigerian government began to construct some semblance of infrastructure as railways, ports, roads, airways, financial institutions (e.g

commercial banks) and utilities such as electricity, water works, etc. According to Ozor (2004), it was under this condition that the nucleus of the Nigeria public enterprises emerged. Corroborating this view, Ake (1981) submitted that the colonizers could not exploit the colony's wealth at no cost at all. In some cases, the extraction of the colony's resources necessitated some investments in the infrastructural development such as roads, water resources, railways, electricity, administrative structures, etc.

In order to evacuate the raw materials especially ones from the producing centers to the coast for onward shipment to Europe, the railway system was established by the colonial government and Nigeria Railway Corporation (NRC) was established in 1955 to manage the railway system. In same token, ports were established and controlled by the Nigerian Ports Authority (NPA) in 1954 to manage water transportation. Air transportation was also established with the name Nigeria Airways Corporation in 1957. Post and telegraph were also established during this period. In the old industry, the Nigerian National Petroleum Corporation was established to oversee activities of players in the sector.

In a nutshell, many enterprises including banks, companies and corporations were established and managed by the colonial government through the Royal Niger Company.

### **Phase II: Independence (Consolidation) Period (1960 – 1970)**

At independence, the enterprises were inherited by the Nigerian national government. The Nigerian government soon realised that political independence was not matched by economic independence and that the Nigerian economy lacked a home base. Public enterprises established during the colonial period were few, weak and could not satisfy all thirsty aspirations generated by the hopes and expectations of political independence. This situation was aggravated by the fact that there was no strong local capitalists and native entrepreneurs to fill the yearning gap to carry on the economic development of the country. As a result of this lack of private indigenous funds, personnel etc. required for such economic development, the government had to embark on establishment of public enterprises since it was the only body capable of generating enough of the required capital and personnel. Consequently, the Nigerian government (both the federal and the then regional governments) established public enterprises which championed economic development and social upliftment in the country. It was during this time that such enterprises as the Central Water Transportation Company, Nigerian National Oil Company (NNOC), Nigerian Steel Development Authority, Nigerian External Telecommunication (NET), (state) Rural Electrification Boards, etc. were floated.

### **Phase III: Oil Boom (Expansion) Period (1970 – 1980)**

The failure of the first national development plan with regards to the development of a vibrant economy dominated by the private sector, which was caused by the weakness of the indigenous entrepreneurs and machinations of foreign of the foreign powers, made the Nigerian government change its policy from that of seeing private sector as the main engine of development to that of the government itself becoming the major purveyor of economic and social development through the use of public enterprises. This therefore marked the beginning of another phase in the growth and development of public

enterprises in Nigeria. Public enterprises during this phase assumed a stimulator and accelerator of national development in the face of capital scarcity and structural defects in private business organisations. Presumably, public enterprises were to become the main engine of growth rather being one of the instruments of promoting the development of an economy in which the private sector would be dominating. The economy was very buoyant during the period under discussion and consequently made it possible for the government to expand, create and finance the ever increasing number of public enterprises. Indeed, because of the abundance of resources made possible by the revenues from crude oil earnings, the inherited public enterprises were expanded and new ones created during this period. The ports were improved as further dredging were carried out, the rail system improve by the purchase of steam locomotives which makes it faster and more comfortable and air transportation expanded with the acquisition of more aircrafts by the Nigeria Airways corporation

#### **Phase IV: Economic Recession (Privatization and Commercialization) Period (1980 - ?)**

During this phase, the tempo with which public enterprises were expanded and consolidated and wane. This was as a result of the gap revenue and costs of these enterprises continued to widen and, in many cases, losses started to appear. Government blamed poor performance of the public enterprises on managerial inefficiency but on the other hand, the chief executives of these enterprises tried to explain it off in terms of intrusive government policies and obstructive controls which of course, were easily discernable. There was also massive corruption visible everywhere both within the government and public enterprises.

The decline in oil revenues which occurred during this period brought the lapses and the financial burden of the public enterprises on the government to the limelight, hence the questioning for the first time, of the very rationale of public enterprises as engine of growth. In relation to the state of the Nigerian economy, which made inefficiency of the public enterprises open and therefore vulnerable to attacks and mutations for their eventual privatization. According to Usman (1987), this was triggered by the collapse by the world market price as well as the decline in the volume of crude oil exports. Nigeria depends almost completely on the export of crude oil for foreign exchange earnings.

The continued deterioration of government fiscal fortunes made government reverse its policy of using public enterprises as engine of growth and development. This was partly because of the poor performance and partly because of the general poor state of the Nigerian economy. It was this situation that made ex-president Ibrahim Babangida introduced the Structural Adjustment Programme (SAP) in Nigeria, in which privatization was one of its major cornerstone components. It was in this way that public enterprises in Nigeria grew and developed until the present stage when the trend reversed to privatization and commercialization. The enabling legislation- the Privatization and Commercialization Decree was promulgated in 1988, and during the first phase (1988-1993), a total of 73 public enterprises in Nigeria were privatized/commercialized (Ozor,

2004). Since then, a significant number of Nigeria's public enterprises have either been privatized or commercialized.

### **Self-Assessment Exercise 2**

State four (4) major obstacles of public enterprises in Nigeria?



### **2.4 Summary**

In this unit, origin of public enterprises across the world was traced majorly to the need to adequately manage the consequences of World War 1, economic recession of the 1930s, spread of Keynesian interventionist economic model, and political as well as ideological considerations. In Nigeria, origin, growth and development of public enterprises was discussed in four major phases which were characterized by Nigerian government quest to wrestle the economy from domination by foreign entrepreneurs, the need for government to control certain strategic sectors of the economy, provision of utilities and particularly the oil boom of the 1970s which provided enough funds for the expansion of the public enterprise sector. The weakness of the private sector, the lack of infrastructure, the low level of social and human development, and the unfavorable social, economic and financial environment are some of the reasons given to explain the proliferation of public enterprises in all areas of economic and social development. Other reasons include the urge to generate revenue to limit foreign economic domination, and to provide a substitute for private initiative where it was not forthcoming.



### **2.5 References/Further Reading**

- Ekhaton, V.E. (2002). *Rudiments of public administration*. Kaduna: Joyce Graphic Printers and Publishers Co.
- Eneanya, A.N. (2020). *Theory and practice of public administration*. Lagos: University of Lagos Press and Bookshop Ltd.
- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.
- Obikeze, O.S. & Anthony, O.E. (2004). *Public administration in Nigeria: A developmental approach*. Onitsha: Book Point Ltd.
- Usman, S. (1987). The driving force behind privatization. *The Guardian Newspaper*, 2 (3) pg. 26
- World Development Report (1971), *Report of public enterprises*, Oxford University Press, New York.



## **2.6 Possible Answers to Self-Assessment Exercise(s) within the content**

### **Answer to Self-Assessment Exercise 1**

State four (4) main factors responsible for the emergence of public enterprises across the world?

- i. Managing the consequences of the World War
- ii. Spread of Keynesian interventionist model
- iii. The need to fast track development especially in newly independent countries
- iv. The weakness of the private sector,
- v. the lack of infrastructure

### **Answer to Self-Assessment Exercise 2**

State four (4) major obstacles of public enterprises in Nigeria?

- i. Managerial inefficiency
- ii. Excessive government interference and control
- iii. Massive corruption
- iv. Decline in oil revenue

## UNIT 3 NATURE AND SCOPE OF PUBLIC ENTERPRISES

### Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Main Content
  - 3.3.1 Nature of Public Enterprises
  - 3.3.2 Scope of Public Enterprises
- 3.4 Summary
- 3.5 References/Further Reading
- 3.6 Possible Answers to Self-Assessment Exercise(s) within the content



### 3.1 Introduction

In the previous unit, you were taken through the origin of public enterprises which was traced to early twentieth century when government intervened in economic management through departmental organisations through creating of autonomous or semi-autonomous public bodies. This unit however will introduce you to the nature and scope of public enterprises. This is to enable you understand the nature, scope and growth process of public enterprises.



### 3.2 Learning Outcomes

At the end of this unit, you should be able to:

- i. Explain the nature of public enterprises;
- ii. Discuss the scope of public enterprises.



### 3.3 Main Content

#### 3.3.1 Nature of Public Enterprises

When you hear the term nature and scope of public enterprise, what comes to your mind? The nature and scope of public sector flows from the strategies and policies governing economic development and the structure of the economic system of a country. In developing countries, public sector enterprises have been targeted at acceleration of economic development with social justice. In industrialised countries like France, Italy and the UK, it was intended primarily to ensure supply of essential goods and services at reasonable prices and to augment country's competitive capabilities in selected areas. In countries like Nigeria and India, massive investments were made in the public enterprises as an economic strategy adopted for accelerated and equitable economic

development. With every successive National Plan, progressively large investments were made in the public sector. The strategy led to defining and redefining the role of the state in national development.

Economic planning served as a tool for launching relatively massive programmes and projects for economic and social development. These led to large investments by the state in different sectors of the economy – primary, secondary and tertiary. The public sector investments were not limited to enterprises which assumed autonomous forms of organisations – in the manufacturing and service sectors of the economy - but also extended to departmental undertakings such as the railways, financing and other service-providing or promotional organisations. Besides, fairly large investments were channeled into state level undertakings.

A wide spectrum of activities covered by public enterprises include many areas of production and services, as listed below:

#### **A. Manufacturing**

- i. Producing of steel and non-ferrous metals and products;
- ii. Mining and beneficiating coal and a host of other minerals;
- iii. Exploring, extracting and processing crude oil;
- iv. Refining crude oil and marketing petroleum products;
- v. Casting and forging metals;
- vi. Producing and marketing petrochemicals, fertilizers and other chemicals;
- vii. Producing and marketing drugs and pharmaceuticals;
- viii. Manufacturing and marketing heavy machine building plants and equipment;
- ix. Manufacturing and marketing capital goods including heavy electrical equipment;
- x. Manufacturing defence-oriented products;
- xi. Manufacturing transport equipment including ships, passenger cars and aircraft;  
and
- xii. Producing and marketing of consumer goods like textiles, watches.

#### **B. Services**

- i. Developing and operating infrastructure facilities, such as railways, road transport, shipping, ports and telecommunications, airlines;
- ii. Development of small scale industries;
- iii. Providing services like technical consultancy, trading and marketing, contracting and construction;
- iv. Organising social services like development of backward regions, upliftment of backward classes of society and skill upgradation;
- v. Promoting tourism;

- vi. Promoting Research & Development;
- vii. Providing institutional finance for development and exports and commercial banking services; and
- viii. Promotion of life and general insurance

### **Self-Assessment Exercise 1**

State five services provided by public enterprises?

### **3.3.2 The Scope of Public Enterprises**

The scope of public sector gets wider when the state level public sector is included. Besides service and promotional activities, the states widened the area of manufacture and services. Nevertheless there is a qualitative and dimensional difference between the enterprises run by the Central Government and those by the State Governments. While the former were established mainly to achieve industrialisation and economic development of the country as a whole, the latter were smaller in scale and were supplementary in character. These were intended more to utilise natural resource available in the respective states or to develop skills and provide employment. Several of these were established with social orientation; others for political reasons. These may be grouped under the following dispensations:

- i. to maintain control over the natural resources of the state (forests, fisheries);
- ii. to address regional imbalances within the state;
- iii. to promote industrial development of the state;
- iv. to provide certain services not adequately provided by the private sector, or
- v. if provided, at high prices; and
- vi. to satisfy political pressure groups.

The state level enterprises, which have taken corporate form, include a variety of areas:

- i. Manufacturing and industrial development
- ii. Small industries promotion
- iii. Agro industries development
- iv. Forestry and forest development
- v. Fisheries and marine life development
- vi. Mining and mineral development
- vii. Road transport
- viii. Corp support and warehousing Corporation

- ix. Financing and financial services
- x. Housing assistance and financing
- xi. Scheduled castes and tribes development
- xii. Land mortgage banks
- xiii. Electricity Boards – statutory bodies, now in the process of corporatization in many states

### Self-Assessment Exercise 2

State five areas of operations of public enterprises?



### 3.4 Summary

The nature and scope of public sector flows from the strategies and policies governing economic development and the structure of the economic system of a country. In developing countries, public sector enterprises have been targeted at acceleration of economic development with social justice. In industrialised countries like France, Italy and the UK, it was intended primarily to ensure supply of essential goods and services at reasonable prices and to augment country's competitive capabilities in selected areas. While in developing countries like Nigeria and India public enterprises are economic strategy adopted for accelerated and equitable economic development. A wide spectrum of activities covered by public enterprises include many areas of production and services include manufacturing and rendering services.



### 3.5 References/Further Reading

- Ekhator, V.E. (2002). *Rudiments of public administration*. Kaduna: Joyce Graphic Printers and Publishers Co.
- Eneanya, A.N. (2020). *Theory and practice of public administration*. Lagos: University of Lagos Press and Bookshop Ltd.
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- Obikeze, O.S. & Anthony, O.E. (2004). *Public administration in Nigeria: A developmental approach*. Onitsha: Book Point Ltd.
- Usman, S. (1987). The driving force behind privatization. *The Guardian Newspaper*, 2 (3) pg. 26
- World Development Report (1971), *Report of public enterprises*, Oxford University Press, New York.



### **3.6 Possible Answers to Self-Assessment Exercise(s) within the content**

#### **Answer to Self-Assessment Exercise 1**

*State five services provided by public enterprises?*

- i. Developing and operating infrastructure facilities, such as railways, road transport, shipping, ports and telecommunications, airlines;
- ii. Development of small scale industries;
- iii. Providing services like technical consultancy, trading and marketing, contracting and construction;
- iv. Organising social services like development of backward regions, upliftment of backward classes of society and skill upgradation;
- v. Promoting tourism;
- vi. Promoting Research & Development;

#### **Answer to Self-Assessment Exercise 2**

*State five areas of operations of public enterprises?*

- i. Manufacturing and industrial development
- ii. Small industries promotion
- iii. Agro industries development
- iv. Forestry and forest development
- v. Fisheries and marine life development
- vi. Mining and mineral development
- vii. Road transport

## UNIT 4 CHARACTERISTICS, CREATION AND REASONS FOR THE ESTABLISHMENT OF PUBLIC ENTERPRISES

### Unit Structure

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Main Content
  - 4.3.1 Characteristics of Public Enterprises
  - 4.3.2 Creation of Public Enterprises
  - 4.3.3 Reasons for the Establishment of Public Enterprises
- 4.4 Summary
- 4.5 References/Further Reading
- 4.6 Possible Answers to Self-Assessment Exercise(s) within the content



### 4.1 Introduction

Having discussed the origin of public enterprises in the last unit, this unit introduces you to the general characteristics of public enterprises and reasons for their establishment. This is to enable you fully comprehend the concept of public enterprise and the basic philosophy behind the establishment of public enterprises.



### 4.2 Learning Outcomes

At the end of this unit, you should be able to:

- i. State the different characteristics of public enterprises
- ii. Discuss how public enterprises are created
- iii. Give reasons for the establishment of public enterprises.



### 4.3 Main Content

#### 4.3.1 Characteristics of Public Enterprises

What do you understand by characteristics of public enterprise? Public enterprises share certain characteristics in common, they are as follows:

- i. **Creation of an Act of parliament:** a public enterprise comes into existence as a result of an Act passed by the legislature or a decree under military rule. Public enterprise also defines its aims and objectives, powers and duties, immunities, the form of management and relationship with established departments and ministries.
- ii. **A legal person:** it is a legal person, capable of suing and being sued, entering into contracts, acquiring and owing property in its own name and can also dispose of property than ordinary government departments.

- iii. **Government ownership and management:** public enterprises are owned and managed by the central or state government, or by the local authority. The government may either wholly own the public enterprises or the ownership may partly be with the government and partly with the private industrialists and the public. In any case the control, management and ownership remain primarily with the government.
- iv. **Considerable financial freedom:** except for appropriations to produce capital or to cover losses, a public enterprise is usually independently financed. It obtains its funds from the treasury or the public and from revenues derived from the sale of goods and services. It is authorized to use and reuse its revenues.
- v. **Public welfare:** public enterprises are not guided by profit motive. Their major focus is on providing services or commodities at reasonable prices which can be afforded by the generality of the citizenry. Public health and educational institutions in Nigeria provide services at a highly subsidized rate so that it can be afforded by the masses.
- vi. **Public utility services:** Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication, health, etc.
- vii. **Public accountability:** public enterprises are governed by public policies formulated by the government and are accountable to the legislature.
- viii. **Excessive formalities:** the government rules and regulations force the public enterprises to observe excessive formalities in their operations. This makes the task of management very sensitive and cumbersome.
- ix. It is ordinarily not subject to the budget, account and audit laws and procedures applicable to government departments. Their audit is to be done by the Accountant-General of Nigeria or any other person appointed by him. However, both the accounts and audit are commercial in nature.

### **Self-Assessment Exercise 1**

State five (5) major characteristics peculiar to public enterprises in Nigeria?

### **4.3.2 Creation of Public Enterprises**

The creation of a public enterprise raises some important legal issues. Whether a government is setting up a parastatal from scratch or is taking over ventures belonging to private interest, the choice of the legal status of the enterprises depends greatly on the prevailing constitutional and legal provisions on government intervention in business and on private property protection.

#### **i. Creating a Public Enterprise from Scratch**

In a democratic setting, the primary responsibility lies with the legislature. This is to restrict individual rights and public liberties, as it affects free competition and whatever reduces the freedom to embark on an economic activity in a society that recognizes private initiative must be backed by law.

#### **ii. Taking over Private Business**

The process of taking over private enterprises or transferring the ownership of private enterprises to government is called nationalization. An enabling law is needed to affect

such a transfer, which in some cases the enterprise being taken over is specifically mentioned in the law, but in other cases, some general criteria are indicated to delineate the activity or type of entities concerned.

### **iii. Dissolving a Public Enterprise**

Public enterprise can be dissolved by liquidation, a transfer to private ownership (privatization), or a merger with another public enterprise. In the last case, the executive arm of government can handle this, but in other cases, an act of parliament is required (Adamolekun, 2002).

### **Self-Assessment Exercise 2**

State the various ways by which public enterprises can be created?

### **4.3.3 Reasons for the establishment of Public Enterprises**

There are several reasons for the establishment of public enterprises. They are outlined below:

- i. The desire to use the public enterprise as an instrument of effective plan implementation in a context where it appears futile to devise a development plan for the private sector.
- ii. The need to secure economic independence. This is done to stave off domination of the economy by foreign entrepreneurs.
- iii. The urgent desire to assure government control over ‘strategic’ sectors of the economy (e.g. central banking, broadcasting, iron and steel, roads, shipping, etc.).
- iv. The need to separate some activities from the civil service and allow more autonomy in their running.
- v. The perceived need to provide employment for the citizens in context where the private sector offers very limited employment opportunities.
- vi. The need to ensure state control of key profitable enterprises with a view to generating revenues that will add to available national capital for financing development programmes and projects.
- vii. The desire of some socialist-orientated regimes to use state control of key profitable enterprises to pursue the objectives of preventing the concentration of wealth or of the means of production and exchange in the hands of few individuals or of a group (i.e. promoting equitable distribution of wealth). (Obikeze & Anthony, 2004: 253).

### **Self-Assessment Exercise 3**

State five (5) reasons for the establishment of public enterprises?



## **4.4 Summary**

Public enterprises across the globe are easily identifiable by certain characteristics which they share in common and they basically include creation of an Act of Parliament, a legal entity, government ownership and control, public welfare, public accountability, etc. Also, public enterprises are established for certain reasons which include use for effective plan implementation, to secure economic independence, government control over strategic sectors of the economy, employment generation and to promoting equitable distribution of wealth. This gives you further depth on the concept of public enterprise.



#### **4.5 References/Further Reading**

- Adamolekun, L. (2002). *Public administration in Africa: A Nigeria and comparative perspective* (Ed.). London: Longman Publishers
- Adamolekun, L. (2002). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.
- Ekhaton, V.E. (2002), *Rudiments of public administration*. Kaduna: Joyce Graphic Printers and Publishers Co.
- Obikeze, O. S. & Anthony, O. E. (2004), *Public Administration in Nigeria: A developmental approach*. Onitsha: Book Point Ltd.
- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



#### **4.6 Possible Answers to Self-Assessment Exercise(s) within the content**

##### **Answer to SAE 1**

State five (5) major characteristics peculiar to public enterprises in Nigeria?

- i. Creation of an Act of parliament: a public enterprise comes into existence as a result of an Act passed by the legislature or a decree under military rule.
- ii. A legal person: it is a legal person, capable of suing and being sued, entering into contracts, acquiring and owing property in its own name and can also dispose of property than ordinary government departments.
- iii. Government ownership and management: public enterprises are owned and managed by the central or state government, or by the local authority, which the government may either wholly or partly own.
- iv. Considerable financial freedom: except for appropriations to produce capital or to cover losses, a public enterprise is usually independently financed.
- v. Public welfare: public enterprises are not guided by profit motive. Their major focus is on providing services or commodities at reasonable prices which can be afforded by the generality of the citizenry.
- vi. Public utility services: Public sector enterprises concentrate on providing public utility services like transport, electricity, telecommunication, health, etc.

**Answer to SAE 2**

State the various ways by which public enterprises can be created?

**i.** Creating a Public Enterprise from Scratch: here, the legislature passes a bill either submit to it by the executive or prepared by itself making provisions for the establishment of a public enterprise to engage in certain business venture.

**ii.** Taking over Private Business: This is the taking over of private enterprises or transferring the ownership of private enterprises to government.

**Answer to SAE 3**

State five (5) reasons for the establishment of public enterprises?

- i. The desire to use the public enterprise as an instrument of effective plan implementation in a context where it appears futile to devise a development plan for the private sector.
- ii. The need to secure economic independence. This is done to stave off domination of the economy by foreign entrepreneurs.
- iii. The urgent desire to assure government control over 'strategic' sectors of the economy (e.g. central banking, broadcasting, iron and steel, roads, shipping, etc.).
- iv. The need to separate some activities from the civil service and allow more autonomy in their running.
- v. The perceived need to provide employment for the citizens in context where the private sector offers very limited employment opportunities.
- vi. The need to ensure state control of key profitable enterprises with a view to generating revenues that will add to available national capital for financing development programmes and projects.

## UNIT 5 CLASSIFICATIONS OF PUBLIC ENTERPRISES

### Unit Structure

5.1 Introduction

5.2 Learning Outcomes

5.3 Main Content

5.3.1 Classification of Public Enterprises by economic activities

5.3.2 Classification of Public Enterprises by legal consideration

5.3.3 Classification of Public Enterprises by responsibilities or roles

5.4 Summary

5.5 References/Further Reading

5.6 Possible Answers to Self-Assessment Exercise(s) within the content



### 5.1 Introduction

Public enterprises can take many forms, and various modes can as well be used to administer publicly-owned or publicly-controlled organisations. As such, there exist bewildering number and varieties of public enterprises which have made necessary classification in order to structure the discussion of the variety of organizations in the public sector. Having been acquainted with the characteristics of public enterprises as well as reasons behind their establishment in the previous unit, this unit will advance the discussion by getting you familiar with the variety of classifications of public enterprises and basis for the classifications.



### 5.2 Learning Outcomes

At the end of this unit, you should be able to:

- i. State classification of public enterprises by economic activities
- ii. State classification of public enterprises by legal consideration
- iii. State classification of public enterprises by responsibilities



### 5.3 Main Content

There is no single, best way of categorizing public enterprises, and no classification is fully satisfactory in all circumstances. In general, several categories of public enterprises can be identified on the basis of their origins, ownership, activities or domains of intervention, and funding mechanisms. More prominently, public enterprises have been classified on the basis of their economic activities, legal status and responsibilities. The latter would form the basis for our classification in this unit.

### **5.3.1 Classification of Public Enterprises by Economic Activities**

What is classification of public enterprise? According to Burk head (1956) public enterprises might be classified according to the economic activities they conduct.

Accordingly, there are two type of public enterprise.

- i. Enterprises engaging in financial transactions, e.g. Central Bank of Nigeria (CBN), Nigerian Industrial Development Bank (NIDB), National Insurance Corporation of Nigeria (NICON), etc.
- ii. Enterprises engaging in production of good and rendering of services. E.g. Transport, water, electricity, education, health, etc.

As you can see above, this classification of public enterprises is basically centered on the nature or type of economic activities that a public enterprise has been mandated by the law to engage in.

#### **Self-Assessment Exercise 1**

Give two (2) examples for each of public enterprises in Nigeria that fall into the classification above outside the ones given?

### **5.3.2 Classification of Public Enterprises by Legal Consideration**

According to Laleye cited Adamolekun (2005), a public enterprise takes one of three legal forms: a public or statutory corporation, a state-owned company, or a mixed-economy enterprise in which the state is the major shareholder (51 percent or more). Hence public enterprises can be classified as shown below:

#### **i. Public/Statutory Corporation**

These are enterprises, which arise when the government assumes responsibility for the management of an economic or social pursuit through a special entity that has its own legal personality and still keeps some of the special prerogatives or privileges associated with a governmental organisation. The blend of these features is aimed at enabling the organisation to function effectively as an autonomous body while it remains an instrument of government policy. Enterprises that fall under statutory corporations include Central Bank of Nigeria (CBN), Nigerian Television Authority (NTA), and Federal Radio Corporation of Nigeria (FRCN) among others.

#### **ii. State-Owned Companies**

These are companies created by government under the provisions of ordinary company law, though they belong entirely to the government. They are registered in the registry of companies, with the government as the sole proprietor. Government, therefore, appoints the Board of Directors as is customary in private companies. Example of such companies includes New Nigeria Newspaper Ltd, New Nigeria Development Company Ltd., and Odua Investment Company Ltd.

### iii. Mixed-Economy Enterprises

These are enterprises where the government is the majority shareholder (51 percent or more) in a partnership with private entrepreneurs. In such companies, government usually dominates the board since it is the major shareholder. One example of such enterprises is Peugeot Automobile Nigeria Ltd. (PAN), the rebranded Nigeria National Petroleum Company (NNPC) Ltd, Power Holding Company of Nigeria (PHCN) (Adamolekun, 2005).

#### Self-Assessment Exercise 2

Mention any 3 types of public enterprises.

### 5.3.3 Classification of Public Enterprises by Responsibilities or Roles

Oshisami and Dean (1984) categorized public enterprises in to four types based on the roles and responsibilities they are mandated to perform:

- i. Public utilities: such as the Nigerian Railway Corporation (NRC), Nigeria Airways (defunct), Power Holding Company of Nigeria (PHCN), Nigerian Ports Authority (NPA), Water Corporations, Post and Telecommunications Dept. (P&T) defunct, water corporation. Nigeria Television Authority (NTA), Federal Radio Corporation of Nigeria (FRCN), Federal Housing Authority (FHA), etc.
- ii. Financial institution: Central bank of Nigeria, Nigerian industrial development bank, federal mortgage bank of Nigeria, bank of agriculture, bank of industry.
- iii. Commercial and industrial companies: Nigerian steel development authority, NNPC, PPMC, Nigerian national shipping line, Nigerian national supply company.
- iv. Regulatory or service board: Electoral Commission INEC, Public Service Commission, Nigerian Enterprise Promotion Board. Marketing Boards, Advertising Practitioners council of Nigeria.

#### Self-Assessment Exercise 3

Give one (1) example each for the four classification of public enterprises based on responsibilities?



### 5.4 Summary

Public enterprises can take many forms, and various modes can as well be used to administer publicly-owned or publicly-controlled organisations. As such, several classifications exist for differentiating public enterprises. These classifications are based on nature of economic activities, legal considerations and responsibilities bestowed on public enterprises. The most popular classification categorized public enterprises

into three .That is public/statutory corporations, state-owned companies and mixed-economy enterprises.



### 5.5 References/Further Reading

- Adamolekun, L. (2002). *Public administration in Africa: A Nigeria and comparative perspective* (Ed.). London: Longman Publishers
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- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



### 5.6 Possible Answers to Self-Assessment Exercise(s) within the content

#### Answer to SAE 1

Give two (2) examples for each of public enterprises in Nigeria that fall into the classification above outside the ones given?

- i. Public enterprises in Nigeria engaging in financial transactions include Central Bank of Nigeria (CBN), Nigerian Industrial Development Bank (NIDB), Agricultural Development Bank (ADB), and National Insurance Corporation of Nigeria (NICON).
- ii. Public enterprises in Nigeria engaging in production of good and rendering of services include Nigeria Railway Corporation (NRC); various state water boards and corporations across the country e.g. Kaduna State Water Board , Power Holding Company of Nigeria (PHCN), etc.

#### Answer to SAE 2

Mention any 3 types of public enterprises.

**i. Public/Statutory Corporation:** These are enterprises, which arise when the government assumes responsibility for the management of an economic or social pursuit through a special entity that has its own legal personality and still keeps some of the special prerogatives or privileges associated with a governmental organisation. Examples are Central Bank of Nigeria (CBN), Nigerian Television Authority (NTA), and Federal Radio Corporation of Nigeria (FRCN) among others.

**ii. State-Owned Companies:** These are companies created by government under the provisions of ordinary company law, though they belong entirely to the government.

Example of such companies includes New Nigeria Newspaper Ltd, New Nigeria Development Company Ltd., and Odua Investment Company Ltd.

**iii. Mixed-Economy Enterprises:** These are enterprises where the government is the majority shareholder (51 percent or more) in a partnership with private entrepreneurs. Examples are the rebranded Nigeria National Petroleum Company (NNPC) Ltd and Power Holding Company of Nigeria (PHCN).

### **Answer to SAE 3**

Give one (1) example each for the four classification of public enterprises based on responsibilities?

i. Public utilities: Nigerian Railway Corporation (NRC), Power Holding Company of Nigeria (PHCN), Nigerian Ports Authority (NPA), Water Corporations, Nigerian Postal Service (NIPOST), Nigeria Television Authority (NTA), Federal Radio Corporation of Nigeria (FRCN), etc.

ii. Financial institution: Central bank of Nigeria (CBN), Nigerian Industrial Development Bank (NIDB), Federal Mortgage Bank of Nigeria (FBN), Bank of Agriculture (BOA), Bank of Industry (BOI).

iii. Commercial and industrial companies: Nigerian steel development authority, Warri, NNPC, PPMC, Nigerian national shipping line, Nigerian national supply company.

iv. Regulatory or service board: Electoral Commission INEC, Public Service Commission,

Nigerian Enterprise Promotion Board. Marketing Boards, Advertising Practitioners council of Nigeria.

## **MODULE 2: ORGANISATION, MANAGEMENT AND CONTROL OF PUBLIC ENTERPRISES**

Unit 1 The Theory of Principal and Agent

Unit 2 Organisation and Management of Public Enterprises

Unit 3 Control and Accountability in Public Enterprises

Unit 4 Performances, Probes and Commission into Public Enterprises

Unit 5 Factors Affecting Performance of Public Enterprises

### **UNIT 1 THE THEORY OF PRINCIPAL AND AGENT**

#### **Unit Structure**

1.1 Introduction

1.2 Learning Outcomes

1.3 Main Content

1.3.1 Theory of Principal and Agent

1.3.2 Essence of Principal and Agent Theory

1.4 Summary

1.5 References/Further Reading

1.6 Possible Answers to Self-Assessment Exercise(s) within the content



#### **1.1 Introduction**

Once any organization is in government hands, there must be questions about its accountability. In theory, all parts of government are accountable to the political leadership and finally to the people. The question of accountability was once the major concern in public administration studies of public enterprises and statutory authorities. This module is concerned with organisation, management, control and accountability of public enterprises as well as their performances. This unit which will take you through the principal and agent theory is intended to lay a background on the essence of control and accountability in the public sector.



#### **1.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. Explain the principal agent theory
- ii. Explain its essence in the management of public enterprises



## **1.3 Main Content**

### **1.3.1 Theory of Principal and Agent**

Have you heard of the principal agent theory? What do you make of the term “principal agent theory”? The principal agency theory posits that an organisation consists of a nexus of contracts between the owner of economic resources (the principals) and manager (the agents) who are charged with using and controlling those resources (Jensen and Meckling, 1976). The theory posits that agents have more information than principal, and that such information asymmetry adversely affects the principals’ ability to monitor whether or not their interests are being properly served by agents. Furthermore, an assumption of agency theory is that, principal and agents act rationally and use contracting to maximize their own wealth. A consequence of this assumption may be the “moral hazard” problem (Jensen and Meckling, 1976) where to maximize their own wealth; agents may face the dilemma of acting the interests of their principles. Since principals do not have access to all available information at the time a decision is being made by an agent, they are unable to determine whether (called adverse selection) and the moral hazard problem, principle and agents engage in contracting to achieve pareto-optimality, including the establishment of monitoring processes such as internal auditing to ensure control and accountability (Adams, 1994).

#### **Self-Assessment Exercise 1**

What do you understand by principal agent theory?

### **1.3.2 Essence of Principal and Agent Theory**

The theory of principal and agent suggests that accountability problems are inherently worse in the public sector and in public enterprise in particular, hence the essence of the theory as a measure of ensuring control and accountability. This means that poor accountability is a justification for privatization in addition to the economic rationale set out earlier. The problem has been to find a mutually satisfactory accountability system for both government and the enterprise. At present different parts of the accountability system have particular problems. All government operations are under the control of a minister, but the minister has political goals that may not necessarily relate to enterprise performance. And, in a way unlike accountability in a government department, the minister is somehow responsible for commercial performance in the marketplace, as well as political performance. Balancing these two goals is, in practice, very difficult and leads to problems.

Enterprise management is often regarded as risk-averse, desirous of the quiet life, without adequate rewards or sanctions, and not as competent as in the private sector, in part because the ultimate sanctions of dismissal or company failure are muted. With goals and

objectives being vague, it may not be possible to decide just how good public enterprise management actually is. Poor accountability relationships allow the opportunity for evasion of responsibility. Management can blame government directions for any shortcoming; governments can blame management; boards can blame both. Governments have often considered their public enterprises to be beyond control, while at the same time public enterprise managements have been consistently opposed to what they see as unnecessary levels of intrusion into their activities. The questions of privatization and accountability are linked. One of the arguments for privatization is that public ownership means an absence of real accountability. If accountability is poor and improvements not possible, the case for privatization becomes much stronger. The management and control of public corporations are necessary in order to have effective and efficient public enterprises.

### **Self-Assessment Exercise 2**

What is the essence of the principal agent theory to public enterprise management?



#### **1.4 Summary**

The theory of principal and agent suggests that accountability problems are inherently worse in the public sector and in public enterprise in particular, hence the essence of the theory as a measure of ensuring control and accountability. The principal agency theory posits that an organisation consists of a nexus of contracts between the owner of economic resources (the principals) and manager (the agents) who are charged with using and controlling those resources to achieve set goals and objectives that advance interests of the principal. The theory posits that agents have more information than principal, and that such information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents.



#### **1.5 References/Further Reading**

- Adamolekun, L. (2002). *Public administration in Africa: A Nigeria and comparative perspective* (Ed.). London: Longman Publishers
- Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.
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- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



## **1.6 Possible Answers to Self-Assessment Exercise(s) within the content**

### **Answer to SAE 1**

*What do you understand by the principal agent theory?*

The theory of principal and agent seeks to promote control and accountability in the public sector organisations. The principal agency theory posits that an organisation consists of a nexus of contracts between the owner of economic resources (the principals) and manager (the agents) who are charged with using and controlling those resources to achieve set goals and objectives that advance interests of the principal. The theory posits that agents have more information than principal, and that such information asymmetry adversely affects the principals' ability to monitor whether or not their interests are being properly served by agents.

### **Answer to SAE 2**

*What is the essence of the principal agent theory to public enterprise management?*

The theory of principal and agent suggests that accountability problems are inherently worse in the public sector and in public enterprise in particular, hence the essence of the theory as a measure of ensuring control and accountability. The principal agency theory posits that an organisation consists of a nexus of contracts between the owner of economic resources (the principals) and manager (the agents) who are charged with using and controlling those resources to achieve set goals and objectives that advance interests of the principal.

## **UNIT 2 ORGANISATION AND MANAGEMENT OF PUBLIC ENTERPRISES**

### **Unit Structure**

2.1 Introduction

2.2 Learning Outcomes

2.3 Main Content

2.3.1 Organisation of Public Enterprises

2.3.2 Management of Public Enterprises

2.4 Summary

2.5 References/Further Reading

2.6 Possible Answers to Self-Assessment Exercise(s) within the content



### **2.1 Introduction**

In the previous unit, you were acquainted with the principal agent theory as a basis for the management of public enterprises to bring about control and accountability. Organisational structure illustrate the span of control of each managerial position and most important of all, it enables the ultimate principles of organisation to be observed. Thus, organisational structure of any undertaking has great relevance to its efficiency because it deals with essential elements in organisation. This unit basically acquaints you with organisational structure, management and control measures of public enterprises.



### **2.2 Learning Outcomes**

At the end if this unit, you should be able to:

- i. Describe the organisational structure of public enterprises
- ii. Describe the management of public enterprises



### **2.3 Main Content**

#### **Organisational Structure of Public Enterprises**

What readily comes to your mind by the term “organisational structure of public enterprise”? Organisational structure basically illustrates the various division of tasks into positions of responsibility in the organisation which is most often determined by specialization and competencies. Job positions and responsibilities in public enterprises are structured into Board of Directors, General Manager, Secretary to the Board and various Heads of Departments and Units.

### **i. The Board of Directors**

At the apex of the organisational structure of public enterprises is the board of directors. The powers and duties of the directors are usually stated in the document incorporating the enterprise known as the Article of Incorporation. However, on the whole, the board of directors is usually the policy-making body, not an executive one.

The board of a public enterprise plays a key role in its management. Government from within and outside the government circles appoints the board of directors of a public enterprise. Its primary responsibilities include:

- a.** Formulation of policies and priorities within the framework of broad government policies and priorities (Adamolekun, 2004);
- b.** Approval of public enterprises budget, monitoring of its performance and protection of its management from encroachments of sectional interests (Adamolekun, 2004). The performance of a public enterprise is, therefore, largely, dependent on the quality of its board.

Adamolekun (2004), identified two types of boards of public enterprises: the policy board and the executive board. The policy board is composed mostly of persons from outside the organization with the chief executive as the only internal board member. The policy board is more widespread than the executive board. Most public enterprises in Nigeria have policy boards. The executive board is composed mostly of persons who are heads of major units of the organisation, with the chief executive as the chairman. There are normally few outside members appointed to represent outside interests in the board. The Nigerian Railway Corporation is an example of a public enterprise that has an executive board. The main advantage of the executive board is that the body responsible for policy is not separated from management. Again, the appointment of a few outsiders to the board, apart from ensuring that perspectives from outside the enterprise are considered, also constitutes a form of control.

It is important to state that the size and composition of the boards vary from one country to another as well as from one public enterprise to another. The size usually ranges from a minimum of five to a maximum of about twenty-five members. In general, the size of an enterprise's board depends on its scope and strategic importance within the economy. Worthy of note is lack of consensus on who should be appointed into the board. The tenure of the board membership varies from one country to another, ranging from two to six years, and could be renewed (Adamolekun, 2004).

### **ii. The General Manager/Managing Director/Director General or equivalent**

The General Manager is the chief executive of public enterprises and therefore saddled with the responsibility of overseeing operations of the enterprises. He supervises the actual operational functions of the public enterprises. He usually possesses professional knowledge of one or more areas of the corporation's operations. The General Manager plays a vital role in the success or failure of the public enterprises. As Olisa et. al. (1990) state, "he is the person who comes into direct contact with all the corporation's staff, and he can take a wide range of decisions on his own initiative, in order to ensure that the corporation is functioning smoothly and effectively". Several Heads of Departments who are in charge of various departments, divisions and sections of the public enterprises usually assist the General Manager.

### **iii. The Secretary of the Board**

The Secretary of the board records the board's transactions and decisions. In many public enterprises, the Secretary is a lawyer, who gives legal advice to the organisation whenever necessary. The Secretary, therefore, helps "to clear any doubts or misinterpretations about the boundaries of authority, and function between all categories of officials of the corporation" (Olisa, et. al. (1990:86). In the University, the Registrar serves as the Secretary to the Governing Council, Senate, Congregation, Convocation and other statutory Committees.

**iv.** Below the General Manager in terms of hierarchy are Managers or Heads of departments, sections and units. The managers and heads are representatives of the chief executive (General Manager) in their various official capacities in the organisation and therefore directly report him. They take directives from the General Manager and execute them judiciously in their various departments, sections and units.

**Figure 1: Organogram of a Typical Public Enterprise in Nigeria**



**Source:** Ozor, 2004

### Self-Assessment Exercise 1

State two (2) major responsibilities of the Board of Directors and the Secretary to the Board?

### 2.3.2 Management of Public Enterprises

The management of public corporations are done through the management boards and the policy board. Each of them are briefly explained below:

#### a) The Executive Board

In the Executive Board, majority of members of the board are staff of the same organisation. They are usually the heads of the various departments of the organisation. However, a few outside representatives are brought in to represent some outside interest. The executive board is basically saddled with the implementation of policies and day-to-day operations of the organisation. For example, the Nigerian Railway Authority is an example of Public Utility that has an Executive Board.

## **b) The Policy Board**

Majority of the members of the Policy Board are from outside the organisation with few members from within the organisation. The Policy Board is responsible for managing all the Policy decisions of the organisation, but the implementation of Policies and the day-to-day operation of the organisation are carried out by the managing Director. This method is applied to most Public corporations in Nigeria. (Ujo: 1994: 82).

**Note:** for efficient management and effective administration, the enterprises are divided into major departments with the General Manager as the Chief Executive. The departments in most of them are as follows: Administration, Accounts, Personnel, production, and Commercial Departments, among others. The heads of these various departments are known as managers. For instance, the head of the Production department is known as the Production Manager.

### **Self-Assessment Exercise 2**

Identify the two management methods of Public Corporations?



## **2.4 Summary**

Organisation of public enterprises has to do with the structural designs and division of labour and positions of responsibilities in the organisation while management involves the appropriate coordination in the execution of these tasks and responsibilities to achieve set goals. Thus, organisational structure of any undertaking has great relevance to its efficiency because it deals with essential elements in organisation. Management hierarchy in public enterprises starts with the Board of Directors at the top, the General Manager, Managers and Heads of Departments, Sections and Units with each of them assigned certain responsibilities and tasks.



## **2.5 References/Further Reading**

- Adamolekun, L. (2002). *Public administration in Africa: A Nigeria and comparative perspective* (Ed.). London: Longman Publishers
- Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.
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## 2.6 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE 1

*State two (2) major responsibilities of the Board of Directors and the Secretary to the Board?*

Board of Direction

Two main functions of the Board of Director include:

- a. Formulation of policies and priorities within the framework of broad government policies and priorities.
- b. Approval of public enterprises budget, monitoring of its performance and protection of its management from encroachments of sectional interests.

Secretary to the Board

- i. The Secretary of the board records the board's transactions and decisions.
- ii. The Secretary is a lawyer, who gives legal advice to the organisation whenever necessary.
- iii. The Secretary prepares documents and receives correspondents on the boards' behalf.

### Answer to SAE 2

*Identify the two management methods of Public Corporations?*

The management of public corporations are done through the executive board and the policy board.

- a) **The Executive Board:** majority of members of the board are staff of the same organisation. They are usually the heads of the various departments of the organisation. The executive board is basically saddled with the implementation of policies and day-to-day operations of the organisation.
- b) **The Policy Board:** Majority of the members of the Policy Board are from outside the organisation with few members from within the organisation. The Policy Board is

responsible for managing all the Policy decisions of the organisation, but the implementation of Policies and the day-to-day operation of the organisation are carried out by the managing Director.

## UNIT 3 CONTROL AND ACCOUNTABILITY IN PUBLIC ENTERPRISES

### Unit Structure

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Main Content
  - 3.3.1 Definition of Control
  - 3.3.2 Definition of Accountability
  - 3.3.3 Control of Public Enterprises
  - 3.3.4 Objectives of Control of Public Enterprises
  - 3.3.5 Agencies of Control of Public Enterprises
- 3.4 Summary
- 3.5 References/Further Reading
- 3.6 Possible Answers to Self-Assessment Exercise(s)



### 3.1 Introduction

In the previous unit, you learnt about the organisational structure and management of public enterprises. This unit will expose you to the various control measures put in place to ensure that the various persons occupying positions of responsibilities in public enterprises do not engage in acts inimical to the success of the organisation. The controls ensure that activities of the enterprises are well coordinated and persons carrying out these activities do them in utmost interest of the organisation.



### 3.2 Learning Outcomes

At the end of this unit, you should be able to:

- i. Define the concept of control
- ii. Define the concept of accountability
- iii. State the various control measures available to public enterprises
- iv. State objectives for the control of public enterprises



### 3.3 Main Content

#### 3.3.1 Definition of Control

What is control? Control is the function which a manager performs that enables corrective action to be taken. Controls are signals, standards and landmarks or progress points which management watches to ensure that desired objectives will be achieved. In

the case of public enterprises, control is the measurement and correction of activities of public enterprises to ensure the accomplishments of short and long-range plans. Examples of controls are: budget, return on investment, profitability, absenteeism, and efficiency.

### **3.3.2 Definition of Accountability**

What do you understand by the term ‘accountability’? Accountability is being answerable for the performance of given responsibilities and according to set standards or objectives. It answers the question “how well”. In the case of public enterprises, it means reporting and explaining on how the resources of the organization were used to achieve predetermined goals/objectives. Implicit in accountability is reward. Recognition and reward should be given for good performance while inadequate performance should be sanctioned. Public enterprises are accountable to their supervising authorities/the government and the public. Examples of accountability methods are quality of product and over service rendered, annual reports, external audit, judicial inquiries, press conference, physical inspection, scrutiny by other agencies.

### **3.3.3 Control of Public Enterprises**

Public enterprises being owned by government, either wholly or partially, are subject to some control. The two main forms of control are ministerial control and parliamentary control (Ezeani, 2006).

#### **i. Ministerial Control**

Ministerial control of public enterprises takes various forms: firstly, a public enterprise must inform its supervising ministry, and obtain its permission before it makes any major changes, and embarks on any new important lines of operation, especially, where such major changes affect the public interest. For example, a public corporation, such as the Power Holding Company of Nigeria (PHCN), must obtain clearance from its controlling ministry before it takes any major decision on almost all the major areas of its operation. Examples are personnel issues, increases in electricity bills, introduction of new products into the markets, construction or purchase of important technical installation, etc. (Olisa et. al., 1990).

The second form of ministerial control is in the appointment of board members. The President is politically responsible for the appointment of the board and can dissolve it if he is not satisfied with their performance. Usually, the controlling ministry has a representative in the board whose role is to explain government position on important issues, and ensures that the corporation’s affairs are managed along public service rules and other conditions of service of the public enterprise. Each ministry, at the end of the year, prepares an annual report which it submits to the government through its supervising ministry. The ministry after studying the reports asks questions where necessary, before submitting the report to the government with its own comments. The

minister also appoints auditors to audit the account of public enterprises and intervenes whenever there is a crisis, like employees of a public enterprises embarking on riots or strikes or destruction of public property.

## **ii. Parliamentary Control/National Assembly**

Apart from ministerial control, public enterprises are ultimately accountable to the National Assembly through their ministers who are the political heads of the specific government ministries and oversee public enterprises. Parliamentary committees maintain oversight functions over public enterprises (Adamolekun, 2004). Parliamentary control takes the following forms (Ujo, 2001:83):

- a. Control through annual report- A public enterprise usually submits a comprehensive annual report of its activities to the parliament through the Minister.
- b. Control through annual account- A public enterprise usually submits its annual account for a given financial year to the parliament. Such annual account and report are subject to scrutiny and debate in the Parliament, and
- c. The Financial Committee of the House may summon the Minister whose ministry supervises a particular public enterprise to explain or discuss issues concerning his/her corporation.

## **iii. Judicial Control**

Many public enterprises in Nigeria, have at one time or the other been subjected to judicial control by the government. From time to time, a government sets up a commission of inquiry into the affairs of one or other of its public corporation (Olisa, et. al., 1990). This action is prompted by public or employee outcry about corruption, mismanagement or incompetence in the company/organisation.

### **Self-Assessment Exercise 1**

Mention three (3) ways by which public enterprises are controlled?

### **3.3.4 The Objectives of Control in Public Enterprises**

The objectives for control of public enterprises are as follows:

1. The major purpose of control is to ensure that the objectives of the public enterprise are achieved.
2. The effectiveness of public enterprises control is to ensure that the resources of the organisation are adequately used such that outputs are greater than inputs.
3. To ensure the implementation of government policies and targets.
4. To ensure financial responsibility. It facilitates accountability of management to higher authority and watches for misuse of fund.

5. To ensure the achievement of social objectives of the government and achievement of non-commercial objectives.
6. To curb the undue use of power of management.
7. To minimize centralization/concentration of power by supervising ministry or board.
8. To provide timely, accurate and sufficient information to appropriate authorities and the public for the appraisal of the effectiveness of public enterprises.

### **3.3.5 Agencies of Control of Public Enterprises**

The agencies of control of public enterprises are:

1. National Assembly/Parliament
2. Minister/ Supervising Ministry
3. Board
4. Accountant General/Auditor General
5. Public Accounts Committee
6. Special Agencies of Control for example, Consumer Associations, Economic and Financial Crimes Commission, and Independent Corrupt Practices and Miscellaneous Offences Commission.

#### **1. National Assembly/Parliament as a Control Organ**

In any democratic setting, parliament is assigned the function of control and account of public enterprises.

The Need for Parliamentary Control are:

- i. To fulfill constitutional responsibilities;
- ii. To protect capital invested in the public enterprises;
- iii. To safeguard public interest;
- iv. To ensure uniformity in policies of government;
- v. To monitor the implementation of policies;
- vi. To control the civil servants in the supervising ministries and public servants in the public enterprises.

#### **2. Methods of Control by Parliament**

- a. Parliamentary questions;
- b. Discussions;
- c. Debates on outstanding issues; and
- d. Parliamentary Committees on public enterprises for in depth analysis of issues.

#### **3. Minister as a Control Organ**

A Minister exercises control through one or the other, or combination of the following methods (Prakash et. al., 1997):

(i) ***Formal Ministerial Control***

(a) Administrative Devices

Issue of general policy directions; Issue of specific directions;

Approval or veto of specified categories of actions and policies;

Participation in management as chairman, member of the board, etc; Appointment of government board and top officials of the enterprises; Power to call for reports, returns, etc. and Power of suppression

(b) Financial Devices

Approval of issue of additional capital; Approval of capital expenditure beyond specified limit; Appointment of financial adviser; and prior approval of operating budget

(ii) ***Informal Ministerial Control***

Under such control method, the Minister concerned is able to wield more effective control over SOEs informally. Such informal control is exercised through consultation and discussion between the Minister and the Board behind closed doors or pressures, wire pulling or other informal contacts.

**4. Accountant General/Auditor General**

In many countries, audit control is vested in an auditor general. The power of auditor general varies from country to country depending on the legal frameworks. Basically, the audit control by Auditor-General covers the following:

(i) Provision of funds

(ii) Regularity

(iii) Sanctions to expenditure

(iv) Propriety

(v) Efficiency audit.

**5. Public Accounts Committee**

This is a committee of the Senate consisting of not more than 40 members, who are saddled with the responsibility of examining the accounts of government organizations showing the appropriation of the sums granted by the House to meet Public Expenditure, together with the auditor's reports thereon. The Committee shall for the purpose of discharging that duty, have power to summon persons, subpoena papers and records, and report its findings and recommendations to the House from time to time. The Auditor General shall bring to the attention of the committee any prepayment audit queries raised by the Internal Auditors of a Ministry, Department or Agency but overruled by the Chief Executive

**6. Special Agencies of Control-** Examples are: Consumer Associations, Economic and Financial Crimes Commission, and Independent Corrupt Practices and Miscellaneous Offences Commission.

## Self-Assessment Exercise 2

State four (4) objectives for the control of public enterprises and mention three (3) agencies engaged in the control of public enterprises?



### 3.4 Summary

The essence of control in public enterprises as well as in any organisation is very vital as it ensures that organisations' operations are in tandem with laid down rules and regulations. Control of public enterprises are basically in three forms which are Ministerial, Parliamentary and Judicial. Public enterprises are controlled to ensure that the objectives for establishing them are achieved; that the resources are properly used; promote financial responsibility; facilitates accountability; curb the undue use of power of management; etc.



### 3.5 References/Further Reading

- Adamolekun, L. (2002). *Public administration in Africa: A Nigeria and comparative perspective* (Ed.). London: Longman Publishers
- Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.
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- Obikeze, O. S. & Anthony, O. E. (2004), *Public Administration in Nigeria: A developmental approach*. Onitsha: Book Point Ltd.
- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



### 3.6 Possible Answers to Self-Assessment Exercise(s) within the content

#### Answer to SAE 1

Mention three (3) ways by which public enterprises are controlled?

Three (3) ways by which public enterprises are controlled are:

- i. Ministerial control
- ii. Parliamentary control
- iii. Judicial control

#### Answer to SAE 2

State four (4) objectives for the control of public enterprises and mention three (3) agencies engaged in the control of public enterprises?

The objectives for control of public enterprises are as follows:

1. The major purpose of control is to ensure that the objectives of the public enterprise are achieved.
2. The effectiveness of public enterprises control is to ensure that the resources of the organisation are adequately used such that outputs are greater than inputs.
3. To ensure the implementation of government policies and targets.
4. To ensure financial responsibility. It facilitates accountability of management to higher authority and watches for misuse of fund.
5. To ensure the achievement of social objectives of the government and achievement of non-commercial objectives.
6. To curb the undue use of power of management.
7. To minimize centralization/concentration of power by supervising ministry or board.

## **UNIT 4 PERFORMANCE, PROBES OF PUBLIC COMMISSIONS OF INQUIRY INTO PUBLIC ENTERPRISES**

### **Unit Structure**

4.1 Introduction

4.2 Learning Outcomes

4.3 Main Content

4.3.1 Performance of Public Enterprises

4.3.2 Probes of Public Commissions of Inquiry into Public Enterprises

4.4 Summary

4.5 References/Further Reading

4.6 Possible Answers to Self-Assessment Exercise(s) within the content



### **4.1 Introduction**

In the last unit, you were introduced to the management practices and control mechanisms of public enterprises. This unit will acquaint you with an overview of the general performance of public enterprises in Nigeria, after which probes of public commissions of inquiry into public enterprises will be discussed. It is a fact that most public enterprises in Nigeria have performed far below expectations. They have become inefficient as epitomized by the epileptic services they render to the public. The poor performance led to some probes and commissions of inquiry into the services of affected public enterprises in Nigeria. These aspects are discussed in this unit.



### **4.2 Learning Outcomes**

At the end of this unit, you should be able to:

- (i) Assess the performance of public enterprises in Nigeria
- (ii) Discuss probes and commissions of inquiry into public enterprises
- (iii) Discuss government's efforts towards repositioning public enterprises.



### **4.3 Main Content**

### **4.3.1 The Performance of Public Enterprises in Nigeria**

What does performance of an organisation mean? Over the years, successive governments have pumped in a lot of money into public enterprises in Nigeria. However, instead of improving their services, most of them seemed to be retrogressing and became drain pipes on the economy, making very minimal contribution to the nation's economy growth and development through service delivery (Obikeze & Obi, 2003). Virtually all public enterprises in Nigeria render epileptic and unsatisfactory service to the people. Commenting on the issue of inefficiency of public enterprises on Nigeria, the Director-General Bureau of Public Enterprises, Alhaji Ahmed el-Rufai stated that "One needs to review the level of coverage and inefficiency of our utilities measured against what they draw, directly or indirectly from the federal treasury for this point to be irrevocably settled." (Obikeze & Obi, 2003:42). In a similar vein, Otiji (1997) submitted that the image of public enterprises in Nigeria is so bad that it has come to symbolize inefficiency, red-tapism, lack of initiative, and corruption.

Fubara (1983) said the performance of public enterprises in Nigeria was low because: "In most government owned companies, government determined the financial pricing and distribution policies. And various competing extraneous authorities like the head of government, the chairman of the ruling party, the ministry of finance and the controlling ministry all influence decision of the board, and therefore, keep the chief executive on his toes trying to manipulate their influence for his convenience. In effect because the chief executive has too many bosses whom he must please, he has little time to plan for the success of his company. Here lies the problem of government companies and their inability to perform efficiently."

It is in view of the above reasons that returns on investments of public enterprises has been very poor. In 2002, El-Rufai said that: "These public enterprises consumed over one-third of all the money we made from the sale of oil since 1973. Estimates of the Vision 2010 committee indicate that federal government investments on public enterprises stood at over US\$100 billion in 1996. The return on these investment averaged less than 0.5 percent per annum (Obikeze and Anthony, 2004:255)."

#### **Self-Assessment Exercise 1**

Give an assessment of the general performance of some of the public enterprises in Nigeria?

### **4.3.2 Probes and Commissions of Inquiry into Public Enterprises in Nigeria**

Due to problems faced by public enterprises in Nigeria in the recent past, which included corruption, inefficiency and poor management, the Nigerian government attempted to

solve these problems by taking certain steps. A commission was set up under Michael Ani to look into the problems of public corporations and make appropriate recommendations. The Ani Commission had recommended that the responsibility for personnel matters be removed from the boards and entrusted to an independent body to be called the Statutory Corporation Service Commission (SCSC). The recommendation was implemented at both the federal and state levels. However, after its review in the early 1970s, the Udoji Commission recommended that it should be abolished. The government accepted the recommendation and SCSC was eventually abolished.

The second option to solve the problem of public corporations in the Nigeria by the government was to invite foreign management consultants to manage some of them. In 1979, the federal government brought into the country some experts to manage public corporations. A two-year management services agreement was signed between the federal government and Rail India Technical and Economic Services Corporation (RITES) for the management of Nigerian Railways Corporation. Another agreement was signed with the Metallurgical Engineering Consultants of India (MECON) to manage the Nigerian Steel Authority. The government later terminated these agreements and reverted to the previous methods of management (Ujo: 1994: 84).

### **Self-Assessment Exercise 2**

Mention one solution adopted by the Nigerian government to solve the problem of public enterprises in Nigeria.



#### **4.4 Summary**

In this unit, we had discussed the performance of public enterprises in Nigeria and realized that it is low. In view of this fact, government signed few agreements and commission of inquiry to probe their activities which later came up with some recommendations and were accepted by government but eventually dropped because of lack of positive effect.



#### **4.5 References/Further Reading**

Fubara, B.A. (1983), *Government in business management in Nigeria*. Lagos: Spectrum.  
Obikeze, S. A. and Obi, E.A. (2003), *Government and power of Nigeria: The struggle for power in an African stage*. Onitsha Book Point Ltd.

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Ujo, A.A. (1994), *Understanding public administration*. Kaduna: SOLMARA Ventures Ltd



#### **4.6 Possible Answers to Self-Assessment Exercise(s) within the content**

##### **Answer to SAE 1**

Give an assessment of the general performance of some of the public enterprises in Nigeria?

Generally, the performance of public enterprises in Nigeria have been below standard. Quite a number of the PEs have failed to achieve the objectives for which they were established. A good example of this is Nigeria Railway Corporation (NRC). Rail services across the country is epileptic as it is only available in negligible parts of country. Same can also be said of the defunct National Electricity Power Authority (NEPA) now Power Holding Company of Nigeria (PHCN). Several other public enterprises such as the various water boards and corporations have not been living up to their responsibility.

##### **Answer to SAE 2**

Mention one solution adopted by the Nigerian government to solve the problem of public enterprises in Nigeria.

One solution adopted by the Nigerian government to solve the problem of public enterprises in Nigeria is the engagement of foreign management consultants to management public enterprises.

## **UNIT 5: PROBLEMS OF PUBLIC ENTERPRISES IN NIGERIA**

### **Unit Structure**

- 5.1 Introduction
- 5.2 Learning Outcomes
- 5.3 Main Content
  - 5.3.1 General Problems of Public Enterprises
  - 5.3.2 Incompetent Management
  - 5.3.3 Government Interference
  - 5.3.4 Monopoly
  - 5.3.5 Conflict of Objectives
- 5.4 Summary
- 5.5 References/Further Reading
- 5.6 Possible Answers to Self-Assessment Exercise(s) within the content



### **5.1 Introduction**

In the previous unit, you were acquainted performance of public enterprise and probe commissions set up to address challenges associated with poor performance of public enterprises. The problems of public enterprises in Nigeria are many and also varied. They include lack of proper objectives, uncoordinated development programmes, bad leadership, government interference, monopoly, inadequate infrastructure, conflict of objectives, among others. This unit will acquaint you with some of these problems that have bedeviled public enterprises in Nigeria.



### **5.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. State the problems of public enterprises in Nigeria
- ii. Explain how these problems have affected the performance of public enterprises



### **5.3 Main Content**

#### **5.3.1 General Problems of Public Enterprises**

What do you think are problems of public enterprises? The fundamental problems of Public Enterprises are the defective capital structures, excessive bureaucratic control or

intervention, inappropriate technology, gross incompetence, mismanagement, corruption and crippling complacency which monopoly engenders. Public Enterprises equally served as platforms for patronage and promotion of political objectives and therefore even when their managements have the will and the capability to work honestly they will still suffer from operational interference by political appointees. Furthermore, most of the leadership of public enterprises in Nigeria are corrupt and they feel only accountable to the political office holders who got them their jobs instead of serving public interest. (Ejiofor: 1984:18)

### **Incompetent Management**

It is mandatory for the management of every organisation to carry out its organizational objectives effectively. Hence it is expected that the management would have the technical or managerial competence to do their duties. But in most Nigeria's Public Enterprises, the management teams are not appointed on merit basis, rather appointments are considered on political connections or primordial reasons. Consequently, the appointees lack skills, expertise or experience, and the management may end up mismanaging the enterprises. Similarly, Board members of public enterprises may not possess any requisite skills to perform their functions because they are politicians who are usually compensated for their political patronage or contribution. The Max Weber's assertion that candidates for position in organizations must be selected on the basis of technical qualifications is not adhered to in appointing both management and board members. This also results in recruitment and selection being based on emotive, primordial and purely sentimental reasons. The effect of incompetent staff is gross inefficiency in their operations. Moreover, political instability and lack of continuity of developmental programmes affect public enterprises in Nigeria.

### **Self-Assessment Exercise**

Mention one of the fundamental problems of public enterprises in Nigeria?
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### **Government Interference**

With the limited autonomy granted public enterprises, they are expected to be free from the day to day bureaucratic bottle-neck of the mainstream civil service and government. In reality, however, political office holders regard public enterprises as their "property" and frequently interfere in their affairs. Ministers and/or commissioners who are managers of ministries of public enterprises interfere in issues normally within the jurisdiction of the board or management of political or personal reasons. Consequently, their interference could lead to distortion of policies, corruption and overstaff of public enterprises which often accounts for their inefficiency.

### **Monopoly**

Most public enterprises operate as monopolies and therefore are faced with the same problems which afflict monopolies. Since monopolies do not have competitors, they don't take the challenges to either innovate or offer better services seriously because

they know that their customers have no alternative Competitive market promotes efficiency since there are always options to choose from.

### **Conflict of Objectives**

While Public Enterprises are established to provide essential services as a public utility, they are also expected to make some profit as a business outfit. These twin objective are contradictory and have been the main reason for non-performance of Public Enterprises. For example, despite political interference from government at the expense of economic rationality, Public Enterprises are still expected to make profits. Economic and political rationalities are hardly compatible. (Obikeze & Anthony, 2004)



### **5.4 Summary**

The problem of hindering the performance of Public Enterprises varies from one place to another. The basic ones however are the political office holders' interference (government interference), incompetent management, corruption, inefficiency, bad leadership, monopoly and conflict of objectives among others. Public Enterprises are also expected to make profit but government interference does not allow operating efficiently. Most demands of government officials from Public Enterprises management contradict their set up objectives but since they are government organizations, they have no option than to obey, though at public expenses.



### **5.5 Reference/Further Reading**

- Ejiofor, P.N.O. (1984). *'Making our organizations perform: Anambra state public service lecture*. Enugu: Government Printer.
- Obikeze, S.O. and Obi, E. A. (2004). *Public administration in Nigeria: A development approach*. Onitsha: BookPoint Ltd.
- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



### **5.6 Possible Answers to Self-Assessment Exercise(s) within the content**

Mention one of the fundamental problems of public enterprises in Nigeria?

#### **Answer to SAE**

The major problems hindering the performance of Public Enterprises include political office holders' interference (government interference), incompetent management, corruption, inefficiency, bad leadership, monopoly and conflict of objectives among others.

## **MODULE 3: CAPITAL STRUCTURE AND FUNDING OF PUBLIC ENTERPRISES**

Unit 1 Capital Structure of Public Enterprises

Unit 2 Government Appropriations as a Source of Funding

Unit 3 Private Investments as a Source of Funding

Unit 4 Self Financing as a Source of Funding

Unit 5 Budgeting Process of Public Enterprises

### **UNIT 1 CAPITAL STRUCTURE OF PUBLIC ENTERPRISES**

#### **Unit Structure**

1.1 Introduction

1.2 Learning Outcomes

1.3 Main Content

1.3.1 Capital Structure of Public Enterprises

1.3.2 External Source of Funding

1.3.3 Internal Source of Funding

1.4 Summary

1.5 References/Further Reading

1.6 Possible Answers to Self-Assessment Exercise(s) within the content



#### **1.1 Introduction**

Units in the previous module was dedicated to acquainting you with the organisational structure, management and control of public enterprises. Public enterprises require good financial base to thrive and expand and be able to achieve its objectives. This unit will acquaint you with the capital structure of public enterprises as well as the various sources of funding available to them.



#### **1.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. Discuss the capital structure of public enterprises in Nigeria
- ii. State the various sources of funding available to public enterprises

### **1.3 Main Content**

#### **1.3.1 Capital Structure of Public Enterprises**

What constitute capital structure of public enterprises? As it is always said, finance is the live wire of every organisation and public enterprises are not left out. Finances are required to run virtually all operations of public enterprises. Finance is needed to acquire buildings and other fixed assets. Finance is also needed in form current assets and circulating capital for day to day running of the enterprise. The capital structure and source of funding for public enterprises have been classified into two major forms. They are external and internal sources of funding.



#### **1.3.2 External Source of Funding**

What is external source? External source of funds basically entails funds emanating from outside public corporations or enterprises. External sources of funds to public enterprises comprise government appropriations, loans from national financial institutions, local private entrepreneurs (equity subscriptions), and international sources. We shall discuss in detail each of these sources of funding in the subsequent units.

#### **1.3.3 Internal Source of Funding**

This is revenue generated internally by public enterprises from trading surpluses, taxes and dividends and earnings from sales of goods and services after payment of employed capital. The amount of revenue derived internally by public enterprises is usually small due to the fact that they are not primarily established to make profit. Furthermore, government's control over public enterprises tariffs and prices constrains their capacity to make profit (Adamolekun, 2005).

#### **Self-Assessment Exercise 1**

State the two major sources by which public enterprises get their funding?



### **1.4 Summary**

The capital structure and sources of funding for public enterprises in Nigeria and beyond are categorized into external and internal sources. External sources come from outside the

organisation and they include government appropriations, private investments (i.e. investments by local entrepreneurs through equity subscription), loans from financial institutions and international source. On the other hand, internal sources comprise revenue generated by public enterprises as a result of trading surpluses, taxes, dividends and earnings.



### 1.5 Reference/Further Reading

- Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.
- Ejiofor, P.N.O. (1984). *Making our organizations perform: Anambra state public service lecture*. Enugu: Government Printer.
- Obikeze, S.O. and Obi, E. A. (2004). *Public administration in Nigeria: A development approach*. Onitsha: BookPoint Ltd.
- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



### 1.6 Possible Answers to Self-Assessment Exercise(s) within the content

#### Answer to SAE

State the two major sources by which public enterprises get their funding?

Two major sources of funding to public enterprises are external and internal sources.

**External Source of Funding:** External source of funds basically entails funds emanating from outside public corporations or enterprises. External sources of funds to public enterprises comprise government appropriations, loans from national financial institutions, local private entrepreneurs (equity subscriptions), and international sources.

**Internal Source of Funding:** This refers to revenue generated internally by public enterprises from trading surpluses, taxes and dividends and earnings from sales of goods and services after payment of employed capital.

## **UNIT 2 GOVERNMENT APPROPRIATIONS AS A SOURCE OF FUNDING FOR PUBLIC ENTERPRISES**

### **Unit Structure**

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Main Content
  - 2.3.1 Government Appropriations
- 2.4 Summary
- 2.5 References/Further Reading
- 2.6 Possible Answers to Self-Assessment Exercise(s)



### **2.1 Introduction**

In the previous unit, you were introduced to the capital structure and sources of funds available to public enterprises. This unit will in detail government appropriations as an external source of fund for public enterprises.



### **2.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. Explain government appropriation as a source of funding for public enterprises
- ii. Explain the relevance of government appropriation to the capital structure of public enterprises



### **2.3 Main Content**

#### **2.3.1 Government Appropriations**

What is government appropriation? Government appropriations can take the form of either outright grants from the government (central, state or from both) or direct share capital subscription by the government. Buttressing this, Ozor (2004) submitted that government funds could be made available to public enterprises in various ways which could be outright grants or a share capital giving government the right to receive the

undistributed profits of the enterprise; as an interest-bearing and repayable loan, and as a non-interest bearing but repayable loan. However, it is important to note that this mode of funding public enterprises has the implication of making them very imprudent in managing resources since they know that government must eventually come to their aid in case of sustained losses.

According to Adamolekun (2004), government sources include:

- (a) Capitalization funds: These are funds provided by the government in order to meet the needs of public enterprises, in terms of equipment, plant, and running capital.
- (b) Grants: Public enterprises receive various grants from the government. Grants can be statutory or special. Special grants are given for specific projects or activities, whereas statutory grants also referred to as subventions, are regular and mandatory.
- (c) Subsidies: These are funds given to public enterprises to assist them offset the losses they incurred due to the following reasons: operation of uneconomic routes; government control of tariffs and prices, etc.
- (d) Loans given to them by the government to ease their financial management problems or to assist them in specific projects or interventions that is of special interest to governments (Adamolekun, 2004). The main disadvantage of loans is that they are not a reliable source of revenue.
- (e) Equity: This is a situation whereby “Government in its capacity as a shareholder in a joint venture, contribute to increase the capital of the enterprise or to increase its share” (Adamolekun, 2004).

### **Self-Assessment Exercise 1**

State two major ways by which government fund public enterprises?



### **2.4 Summary**

Public enterprises as public organisations derive their major source of funding from government appropriations. Government appropriations can take the form of either outright grants from the government (central, state or from both) or direct share capital subscription by the government. It could also be in form of capitalization funds, grants, subsidies, loans and equity subscription.



### **2.5 Reference/Further Reading**

Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.

- Ejiofor, P.N.O. (1984). *'Making our organizations perform: Anambra state public service lecture*. Enugu: Government Printer.
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## **2.6 Possible Answers to Self-Assessment Exercise(s) within the content**

### **Answer to SAE**

State two major ways by which government fund public enterprises?

Government funds public enterprises through:

- (a) Capitalization funds: These are funds provided by the government in order to meet the needs of public enterprises, in terms of equipment, plant, and running capital.
- (b) Grants: Public enterprises receive various grants from the government. Grants can be statutory or special. Special grants are given for specific projects or activities, whereas statutory grants also referred to as subventions, are regular and mandatory.
- (c) Subsidies: These are funds given to public enterprises to assist them offset the losses they incurred due to the following reasons: operation of uneconomic routes; government control of tariffs and prices, etc.
- (d) Loans given to them by the government to ease their financial management problems or to assist them in specific projects or interventions that is of special interest to governments

## **UNIT 3 PRIVATE INVESTMENTS AS A SOURCE OF FUNDING**

### **Unit Structure**

3.1 Introduction

3.2 Learning Outcomes

3.3 Main Content

3.3.1 Private Investments

3.4 Summary

3.5 References/Further Reading

3.6 Possible Answers to Self-Assessment Exercise(s) within the content



### **3.1 Introduction**

Public enterprises require good financial base to thrive and expand and be able to achieve its objectives. In the previous unit, we discussed government appropriation as a source of funding for public enterprises. This unit will take you through private investments as another source of funding for public enterprises.



### **3.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. Explain private investments as a source of funding for public enterprises
- ii. State the various forms of private investments available to public enterprises



### **3.3 Main Content**

#### **3.3.1 Private Investments**

What do you understand by private investments as a source? Another source of financing public enterprises is through private investments. This is done by private individuals buying shares in public enterprises when such is available (i.e. equity holding). Government can purposely do this. In well organised and profitable public enterprises,

the private sector can also invest by buying the share capital of the enterprises which offer their shares to the public. This is how some enterprises in such developing countries like India obtained their capitalization. However, this source of financing is rare in Nigeria.

Another way of private financing of public enterprises is through borrowing or obtaining loan from finance houses. In other words, public enterprises can raise funds by borrowing from financial institutions i.e. commercial banks, development banks and industrial development banks. Such loans are often guaranteed by the government which established these enterprises.

It is worthy of note that private investments in Nigeria as in other parts of the world constitutes a negligible proportion of public enterprises' finance. This is due to a number of reasons. Firstly, private investors are not too keen to invest most of the time in public enterprises because government interventions to a large extent make it difficult for them to break-even and therefore unable to make profit, not to talk of paying dividends to their shareholders. Secondly, the capacity of public enterprises to borrow is limited by government and most of the time, they are not allowed to borrow money from financial houses. Thirdly, lack of sufficient local entrepreneurship with adequate capital to embark upon such capital intensive enterprises which made the government to go into public enterprises in the first place.

### **Self-Assessment Exercise 1**

Explain private investments as a source of financing to public enterprises?



### **3.4 Summary**

Private investments constitute a source of financing for public enterprises which is majorly done through equity subscription; that is the buying of shares when they are offered for sale. Private investments are external sources of funding for public enterprises. It is done through equity (shareholding) or contractor finance. Contractor financing is a situation whereby a private entrepreneur funds a particular project for a public enterprise (e.g. a building) and is refunded later along with agreed interest.



### **3.5 Reference/Further Reading**

Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.

- Ejiofor, P.N.O. (1984). *'Making our organizations perform: Anambra state public service lecture*. Enugu: Government Printer.
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### **3.6 Possible Answers to Self-Assessment Exercise(s) within the content**

#### **Answer to SAE**

Explain private investments as a source of financing to public enterprises?

Private investment as source of funding for PEs is done by private individuals buying shares in public enterprises when such is available (i.e. equity holding). Another way of private financing of public enterprises is through borrowing or obtaining loan from finance houses.

## **UNIT 4 SELF FINANCING AS A SOURCE OF FUNDING**

### **Unit Structure**

4.1 Introduction

4.2 Learning Outcomes

4.3 Main Content

4.3.1 Self-Financing as a source of funding for Public Enterprises

4.4 Summary

4.5 References/Further Reading

4.6 Possible Answers to Self-Assessment Exercise(s) within the content



### **4.1 Introduction**

Private investments as a source of financing public enterprises which basically entails equity subscription by private entrepreneurs was focused on in the previous unit. As another source of financing for public enterprises, this unit will be concerned with inward-looking measures adopted by public enterprises to finance its operations. The term self-financing represents this. The unit will take you through the various measures by which public enterprises can raise capital inwardly to expand and growth its operations.



### **4.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. Define self-financing as a source of fund for public enterprises
- ii. Explain the concept of plough-back earnings for public enterprises
- iii. State the various self-financing options available to public enterprises



### **4.3 Main Content**

### 4.3.1 Self-Financing

What comes to your mind when you hear self-financing? Self-financing is a process whereby a public enterprise can plough back its profits for the purpose of expansion. In other words, this could be a source of funds, however, only on the proviso that profits are made. Apart from self-financing from profits, public enterprises can have other sources for self-financing their expansion. For instance, where a public enterprise has strategic reserve of development funds, or when it obtains funds from previous investment elsewhere or when it disposes off some of its assets through sales, etc. it can use the extra capital thus acquired to finance its further expansion.

Other forms of self-financing for public enterprises, though limited commercialized public enterprises include plough-back profit, loans and individual capitalization.

**i. Plough-back earnings:** it simply entails ploughing back past earnings for the purpose of expanding the enterprise in order to make more earnings. In this case, part or all earnings are kept in the corporation to be used to expand the business and not shared out as dividends to shareholders.

**ii. Loans:** commercialized enterprises like private organisations can get loans from financial houses if they so wish or where the need arises without checks, in so far as they can meet the demands or requirements of the financial houses. Thus, privatized and commercialized enterprises have been able to raise funds through loans from financial houses or debentures, unlike pure public enterprises. This, however does not constitute a significant aspect of financing for public enterprises in Nigeria

**iii. International sources:** public enterprises also derive external funding from international sources, such as foreign private sector (financial institutions, as well as entrepreneurs), international development agencies, and in some cases, foreign government (Adamolekun, 2004).

### Self-Assessment Exercise 1

Define the term 'self-financing' as a source of funds for public enterprises?



### 4.4 Summary

Summarily, public enterprises rely mainly on external sources of funds than on internal sources. Also in virtually every sub Saharan African country, public enterprises rely mostly on government funding. Furthermore, they must get government approval before they borrow from both the domestic and the international capital market. The implication of heavy dependency on government for funding is limited autonomy for the public enterprises. Self-financing constitute internal sources of funding for public enterprises. It

is done through the ploughing back of earnings realized in the course of sales of goods and services produced by the enterprises. These enterprises keep and reinvest for the expansion of their operations.



#### **4.5 Reference/Further Reading**

- Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.
- Ejiofor, P.N.O. (1984). *'Making our organizations perform: Anambra state public service lecture*. Enugu: Government Printer.
- Obikeze, S.O. and Obi, E. A. (2004). *Public administration in Nigeria: A development approach*. Onitsha: BookPoint Ltd.
- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



#### **4.6 Possible Answers to Self-Assessment Exercise(s) within the content**

*Define the term 'self-financing' as a source of funds for public enterprises?*

Meaning of Self-financing: Self-financing is a process whereby a public enterprise can plough back its profits for the purpose of expansion. Other forms of self-financing for public enterprises, though limited for commercialized public enterprises include plough-back profit, loans and individual capitalization.

## **UNIT 5 BUDGETARY CONTROL IN PUBLIC ENTERPRISES**

### **Unit Structure**

- 5.1 Introduction
- 5.2 Learning Outcomes
- 5.3 Main Content
  - 5.3.1 Meaning of Control
  - 5.3.2 Budgetary Control Methods
- 5.4 Summary
- 5.5 References/Further Reading
- 5.6 Possible Answers to Self-Assessment Exercise(s)



### **5.1 Introduction**

In the previous units, you were introduced to the capital structure and funding of public enterprises as well as various sources of funds available to public enterprises. This unit will acquaint you with budgetary control in organizations with specific reference to public enterprises. We shall examine budget and budgetary control in an organization. Here, we will be looking at the meaning of control and budgetary control method.



### **5.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. Define control and state its various types
- ii. Explain budgetary control methods



### **5.3 Main Content**

#### **5.3.1 The Meaning of Control**

What comes to your mind when you hear the word ‘Control’? Control is a process of comparing performance with standard set and measuring deviation thereby enhancing

future standard setting. It is a process of obtaining feedback from organization activities. Every organization must set objective to be achieved and within a specific period of time. To this objective, resources of the organization are normally committed. Feedback from the system is always obtained by comparing actual performances with standard set deviation are measured. Reasons for this deviation are sorted and corrected so that future performance could be better than the previous years, significance of deviation is measured and controlled is made and controlled to ensure that performance conforms to plans.

### **Process of Control**

There are several process involved in control these include:

1. Objective setting
2. Establishing standards
3. Monitoring the performance
1. Measuring performances against standards
2. Obtaining feedback
3. Evaluating performances
4. Taking corrective action.

### **Types of Control**

Ousage (1999), states that control could be classified according to level of authority in an organization. His classifications of the types of control are as follows:

- (1) Control to standardize performance
- (2) Control to conserve assets or as set control
- (3) Control to standardize quality and quality control
- (4) Control to limit authority without top management's approval
- (5) Control to measure performances.

Control could also be classified according to level of management authorities and position in the organization. In this regard control would be classified as:

1. Strategic control or top management control.
2. Management control or middle management control.
3. Operations control or day-to-day control of performance by staff.
3. Profitability control.

### **Method of Control**

There are several forms of activities in the organization to each of these activities techniques of control can be adopted. These include:

- (I) Budgetary control method.
- (2) Audit control method.
- (3) Network analysis method

(4) The Grant chart method.

### **Self-Assessment Exercise (SAE)**

Explain the meaning of control and its various types?

### **5.3.2 Budgetary Control Method**

Budgetary control entails the process of using budgeting as a means of control of financial activities in an organization. The organization transmutes the plan into a financial or quantitative form that covers a period time normally a financial year. The budget is the standard of performance expected during the year, the actual performance at the end of the year could now be compared to standard set, and deviation could be monitored and corrected in future budget.

**Audit Control:** This entails the usage of internal control system of the organization to ensure control of activities, the safety physical of assets, cash, and other assets include what Audit control is aimed at: **Network Analysis:** The network analysis is the process of ensuring that the job or events are completed within a reasonable time and at the least cost. Thus Network analysis ensures cost and time control of an event or job to be done.

### **Budgeting and Budgetary Control**

The process of ensuring success in an organization entails evolving the goals of the organization from the organization vision. The goals and objectives of the organization state where the organization is going and what it aims at, achieving goals are normally long term and broad in nature while the objective are short term and concise in nature. Budgets are set to achieve the various objectives of the firm; sales budget is set to achieve the market (or sale) objective. Cash budget is set to achieve the level of liquidity required by the organization. Various other expenses budget is set to ensure that the targeted profit objective is attained etc.

### **Self-Assessment Exercise (SAE) 2**

Briefly explain the budgetary control methods in Nigeria?



### **Summary**

Every organization must set objective to be achieved and within a specific period of time. Control is a process of comparing performance with standard set and measuring deviation thereby enhancing future standard setting. It is a process of obtaining feedback from organization activities.



## 5.6 References/Further Reading

- Kehinde, J. S. (2012), PSM 852 - *Financial Management in Government*. Lagos: NOUN Press
- Akinsulire, O. (2005). *Financial Management*, 3<sup>rd</sup> edition. Lagos: Ceemol Nigeria Ltd
- Brigham, C. and Houston, D. (1999). *Fundamentals of Financial*. Florida: The Dryden Press
- Lucey, T. (2002). *Costing*. London: Thomson Learning
- Pandy, M. (2004). *Financial Management*. New Delhi: Vikas Publishing House



## 5.7 Possible Answers to Self-Assessment Exercise(S) within the Content

### Answer to SAE 1

*Explain the meaning of control and its various types?*

Control is a process of comparing performance with standard set and measuring deviation thereby enhancing future standard setting. It is a process of obtaining feedback from organization activities. Every organization must set objective to be achieved and within a specific period of time.

Types of Control

Ousage (1999), states that control could be classified according to level of authority as follows:

- (1) Control to standardize performance
- (2) Control to conserve assets or as set control
- (3) Control to standardize quality and quality control
- (4) Control to limit authority without top management's approval
- (5) Control to measure performances.

Control could also be classified according to level of management authorities and position in the organization. In this regard control would be classified as:

1. Strategic control or top management control.
2. Management control or middle management control.
3. Operations control or day-to-day control of performance by staff.
3. Profitability control.

### Answer to SAE 2

*Briefly explain the budgetary control methods in Nigeria?*

Budgetary control entails the process of using budgeting as a means of control of financial activities in an organization. The organization transmutes the plan into a financial or quantitative form that covers a period time normally a financial year. The budget is the standard of performance expected during the year, the actual performance at the end of the year could now be compared to standard set, and deviation could be monitored and corrected in future budget.

**Audit Control:** This entails the usage of internal control system of the organization to ensure control of activities, the safety physical of assets, cash, and other assets include what Audit control is aimed at: **Network Analysis:** The network analysis is the process of ensuring that the job or events are completed within a reasonable time and at the least cost. Thus Network analysis ensures cost and time control of an event or job to be done.

## **MODULE 4: PUBLIC ENTERPRISES REFORMS**

Unit 1 Meaning of Reform and Public Sector Reforms

Unit 2 Public Enterprise Reforms: Privatization

Unit 3 Public Enterprise Reforms: Commercialization

Unit 4 Privatization and Commercialization in Nigeria

Unit 5 Challenges of Privatization and Commercialization in Nigeria

## **UNIT 13 MEANING OF REFORM AND PUBLIC SECTOR REFORMS**

### **Unit Structure**

1.1 Introduction

1.2 Learning Outcomes

1.3 Main Content

1.3.1 Concept of Reform

1.3.2 Public Sector Reforms

1.4 Summary

1.5 References/Further Reading

1.6 Possible Answers to Self-Assessment Exercise(s)



### **1.1 Introduction**

In the previous modules and units, you have been taken through the fundamentals of public enterprises with particular reference to their origin, reasons for creation, classifications, organisation and management, sources of funding and challenges militating against their optimal performance. This module will be concern with strategies, otherwise popularly known as reforms that have been adopted to make public enterprises more productive and successful in their various endeavours. In this unit, you will be told what reforms means and the various forms of public sector reform.



### **1.2 Learning Outcomes**

At the end if this unit, you should be able to:

- i. Define the concept of reforms
- ii. State the various forms of public sector reform



## **1.3 Main Content**

### **1.3.1 Concept of Reform**

What does the term ‘reform’ means? The concept of reform defies clear-cut definition. Reform involves activities seeking to improve the public administration of the State, its roles and functions as well as the effectiveness and efficiency of its core public service institutions in a systemic and sustainable manner (Caiden 1978; 1980). The emphasis on systemic and sustainable is to underline that the desired reforms bring about enduring changes in the behaviour of public sector actors in the interests of better outcomes for citizens. When planned changes do not institutionalize new or modified behaviours and practices that lead to these better outcomes for citizens, the reforms do not qualify as systemic and sustainable (Sida, Irish Aid and UK Aid, 2013).

According to Caiden and Sundaram (2004), reform may be viewed as a series of three things: (i) a deliberate plan to change public bureaucracies; (ii) synonymous with innovation, which is the injection of new ideas and new people in a new combination of tasks and relationships into the policy and administrative process; and (iii) coping with the uncertainties and rapid changes taking place in the organizational environment.

In short, we may define reform as systematic changes in the administrative system, which are designed to lead to more efficient, effective and responsive administration. It has to do with the repositioning or re-profiling of an organization for effectiveness and efficiency (Caiden 1991a&b; 1999). Some of its core elements include changes to public bureaucracies; innovation; systemic and wide-ranging changes, and urgent coping with changes occurring in the administrative environment.

#### **Self-Assessment Exercise 1**

Define the term ‘Reform’?
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### **1.3.2 Public Sector Reform**

Public sector reform consists of deliberate changes to the structures and processes of public sector organizations with the objective of getting them to run better. Structural change may include merging or splitting public sector organizations while process change may include redesigning systems, setting quality standards, and focusing on capacity-building. Public sector reform (PSR) refers to strengthening the management of the public sector. In particular, it involves an effort to fix the problems of the public

sector, such as: over-extension –attempting to do too much with too few resources; poor organisation; irrational decision-making processes; mismanagement of staff; weak accountability; poorly designed public programs; and poorly delivered public services

Reforms in public sector organisations basically emphasized a reduced role of the state, effectiveness of public sector institutions in providing value for money services and adoption of market-oriented organizational mechanisms such as decentralization, privatization, commercialization, contracting out, deregulation, performance management, downsizing and pay reform to ensure and improve effective and efficient public service delivery (Achegbulu & Nelson, 2020).

### **Principles of Public Sector Reforms**

The Commonwealth Working Group on Public Administration (CWGPA) in 2014 cited in Abolo (2019), endorsed the following key guiding principles for reforms in the public sector:

- i. A new pragmatic and results-oriented framework
- ii. Clarification of objectives and administrative structures
- iii. Intelligent political strategies and engagement
- iv. Goal-oriented competencies and skills development
- v. Experimentation and innovation
- vi. Professionalisation and improved morale
- vii. A code of conduct for public sector ethics
- viii. Effective and pragmatic anti-corruption strategies
- ix. Effective public financial management

**A new pragmatic and results-oriented framework:** As a result of continuous rise in pressure on public resources, increased demand for better, high-quality and more responsive public services has prompted most governments to embrace results-oriented frameworks for programme planning and delivery. The aim is to facilitate better service delivery and ‘value for money’. The focus on results helps determine national strategic priorities and objectives (outcomes/results) and translation of these into outputs. It also ensures a linkage between costs and outputs and outcomes, and measures how efficiently and effectively these outputs and outcomes are being achieved.

**Clarification of objectives and administrative structures:** Capacity development remains a key priority in many countries, but this needs to be linked to a careful analysis of politically feasible development priorities and needs. Administrative capabilities for service delivery; regulation of local and foreign businesses; and implementation of policies to develop the capabilities of domestic enterprises or regulate particular sectors of the economy.

**Intelligent political strategies and engagement:** Linkages between politics (formal and informal political arrangements and power structures), policies (objectives and goals) and administrative capabilities (the public bureaucracy) should be the basis for a pragmatic incremental approach to public service reform. Reform should thus seek to craft strategic engagements between the political and administrative leaderships so as to forge mechanisms that enhance performance and public service delivery.

**Goal-oriented competencies and skills development:** Capacity-building must be conducted around specific needs, and training must be tailored to address this need and ensure the skills being built directly address the goals to be achieved. Capacity-building must not only focus on the ‘hard issues’, such as administrative, legal and constitutional matters; also, public service officials must be equipped with ‘soft skills’, such as in negotiation, diplomacy, leadership, public speaking and communication. This will complement their technical knowledge and enhance their performance and productivity.

**Experimentation and innovation:** The development of capabilities and the evolution of effective problem-solving approaches requires bureaucracy capacity to carry out experimentation and learning within carefully defined limits. The experience of successful countries shows that bureaucracies are most effective when they experiment with new and innovative ways of problem-solving.

**Professionalization and improved morale:** Higher levels of remuneration and better social recognition of the work of public servants are important but insufficient on their own to boost morale. Non-financial incentives, competitive remuneration and a citizen-based approach to service delivery are some of the ways of both improving perceptions of service delivery and incentivizing public servants. On professionalization, emphasis must be placed on qualifications and competency as against favouritism, ethnicity and politicization.

**A code of conduct for public sector ethics:** The development of open and enforceable public service standards and ethics is critical to improving both the perception and the professionalism of the public service. The enforcement of such professional codes should go beyond legal enforcement to include non-judicial channels such as internal or external peer reviews and self-regulation.

**Effective and pragmatic anti-corruption strategies:** to tackle corruption which has happens one of the monster bedeviling the public sector, concrete and effective measures must be put in place. Active and strong public institutions must be set up and leveraging on technological improvements to policy implementation.

**Effective public financial management:** Sound PFM is an essential part of the development process. PFM supports aggregate control, prioritization, accountability and efficiency in the management of public resources and service delivery, which are critical

to the achievement of national policy objectives and goals. The management and operation of public finances is therefore at the heart of administrative and reform challenges in the public service. The introduction of reforms such as Financial Management Information Systems (FMIS), procurement and asset/wealth declaration laws has helped minimize loopholes for corrupt practices and misuse of public financial resources. Nonetheless, corruption requires more proactive attention to regulatory mechanisms, such as making oversight institutions such as the supreme audit and the internal audit and public procurement more effective and making the decision-making process more transparent. In addition, enforcement of rules and reporting mechanisms is imperative.

### **Features/Elements of Public Sector Reforms**

PSRs have focused on the following five features or elements. They are:

- i. the redefinition of the role of the state, which includes the principle of subsidiarity;
- ii. efficiency measures such as improved financial and human resources systems to enhance public management performance;
- iii. financial management that includes budget reforms, the introduction of the medium and expenditure framework (MTEF) and tax administration such as the creation of semi-autonomous revenue agencies;
- iv. improved service delivery through surveys of service delivery, quality charters and programme evaluation;
- v. enforcing accountability through internal and external control mechanisms such as internal audits, code of ethics, developing capacity of supreme audit agencies and improving the independence of the judiciary, legislative and civil society organizations

A new element has been introduced which some scholars have referred to as **the “new public service, serving rather than steering”**

### **Self-Assessment Exercise 2**

Mention three (3) principles of public sector reform?



#### **1.4 Summary**

Reform involves activities which seek to improve the public administration of the State, its roles and functions as well as the effectiveness and efficiency of its core public service institutions in a systemic and sustainable manner. The basic rationale behind reform is to reduced participation of the state in the economy by shifting responsibilities to the private

sector. This is done to enhance delivery of quality and affordable services to the populace.

Public sector reform consists of deliberate changes to the structures and processes of public sector organizations with the objective of getting them to run better. Structural change may include merging or splitting public sector organizations while process change may include redesigning systems, setting quality standards, and focusing on capacity-building. Reforms in public sector organisations basically emphasized a reduced role of the state, effectiveness of public sector institutions in delivery of services and adoption of market-oriented organizational mechanisms such as decentralization, privatization, commercialization, contracting out, deregulation, performance management, downsizing, etc.



### **1.5 Reference/Further Reading**

- Abolo, E.M. (2019). Public service reforms; objectives; principles; outcomes and role of international organisations. Retrieved from <https://www.researchgate.net/publication/338166057> on July, 2022
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- Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



### **1.6 Possible Answers to Self-Assessment Exercise(s) within the content**

#### **Answer to SAE 1**

What is Reform?

Meaning of Reform: Reform involves activities seeking to improve the public administration of the State, its roles and functions as well as the effectiveness and efficiency of its core public service institutions. According to Caiden and Sundaram (2004), reform may be viewed as a series of three things: (i) a deliberate plan to change public bureaucracies; (ii) synonymous with innovation, which is the injection of new

ideas and new people in a new combination of tasks and relationships into the policy and administrative process; and (iii) coping with the uncertainties and rapid changes taking place in the organizational environment. In short, we may define reform as systematic changes in the administrative system, which are designed to lead to more efficient, effective and responsive administration.

**Answer to SAE 2**

Mention three (3) principles of public sector reform?

Principles for reforms in the public sector include:

- i. A new pragmatic and results-oriented framework
- ii. Clarification of objectives and administrative structures
- iii. Intelligent political strategies and engagement
- iv. Goal-oriented competencies and skills development

## **UNIT 2 PUBLIC ENTERPRISE REFORMS: PRIVATIZATION**

### **CONTENTS**

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Main Content
  - 2.3.1 Meaning of Privatization
  - 2.3.2 Goals of Privatization
  - 2.3.3 Arguments for Privatization
  - 2.3.4 Arguments against Privatization
- 2.4 Summary
- 2.5 References/Further Reading
- 2.6 Possible Answers to Self-Assessment Exercise(s)



### **2.1 Introduction**

Beginning in the 1980s some developed countries, led by Britain and New Zealand, embarked on a major overhauling of PE sectors. In Britain, the reform was pushed through a comprehensive privatization program, and New Zealand combined privatization with commercialization. PE reform efforts that were subsequently launched worldwide in both developed and developing countries combine aspects of the British and the New Zealand approaches. In the different countries, PE reformers seek to achieve a combination of the following objectives:

- i. To ensure profitability by avoiding trading losses
- ii. To avoid liquidity crises and rising debts
- iii. To restructure and rationalize the public sector in order to remove the dominance of unproductive investments
- iv. To prevent PEs from being an ever-increasing burden on the government budget and to facilitate their access to capital markets
- v. To ensure positive returns on investments in restructured enterprises and improve the managerial and operational performance of those enterprises that will remain in the public sector

- vi. To initiate the process of the gradual cession to private sector of PEs that, by the nature of their operations and other socio-economic factors, are best performed by the private sector
  - vii. To create a favorable investment climate for both local and foreign investors
  - viii. To provide institutional arrangements and operational guidelines that would ensure that the gains of the reform program are sustained in the future
  - ix. To encourage wider share ownership, especially among the lower income groups.
- This unit acquaints you with the reforms that have been witnessed by public enterprises with particular focus on privatization.



## **1.2 Learning Outcomes**

At the end of this unit, you should be able to:

- (i) Define privatization
- (ii) State the goals of privatization
- (iii) State arguments for and against privatization.



## **2.3 Main Content**

### **2.3.1 Meaning of Privatization**

What comes to your mind when the word ‘privatization’ is mentioned? Narrowly defined, privatization implies permanent transfer of control, as consequences of transfer of ownership right, from the public to the private sector. This definition is perhaps the most common usage of the term. A broader definition entails any measure that results in a temporary transfer to the private sector of activities exercised hitherto by a public agency. This may be of available productive resources, restructuring of the existing institutional setting in which production of her forms of corporate governance devoid of political interference is intended (Shirley, 1999; Jerome, 1996).

Privatization can also entail a transfer of the provision of a goods or services from the public to the private sector with the government retaining the ultimate responsibility for providing the service. The prime examples of this type of privatization are: subcontracting management contracts, leases and concessions, as well as build, operate and transfer schemes. It is even possible to envisage privatization taking place without a transfer of ownership of assets. For example, liberalization or deregulation is regarded as the abolition of restriction on entry, prices, output, market, profits, etc.

According to Adamolekun (2005), privatization involves the partial or total transfer of ownership of a public enterprise to the private sector. Fully privatized public enterprises are those in which the government surrenders its ownership entirely. The partially

privatized public enterprises are those that the government considers strategic and wants to keep under its supervision through minority shareholding. There are at least five forms of privatization:

**Public offer of shares:** the state-owned shares in the enterprise are offered to the public at large (i.e., replacing government ownership by public ownership)

**Private placement of shares:** the state-owned shares in the enterprise are transferred to private individuals

**Debt equity swap:** the ownership of a public enterprise is transferred to the private sector in settlement of its debts

**Liquidation:** the breakup and/or sale of the public enterprises' assets

**Deferred public offers:** for example, the shares of the public enterprise are offered to its employees, etc.

When the transfer of ownership is not involved, the management of some public enterprises can be handed over to private sector entrepreneurs either through management contracts or lease arrangements. Varying combinations of these reform measures are currently (1998) being implemented in most Sub-Saharan African countries. Only a few countries have moved vigorously with privatization (e.g. Ghana, Uganda, and Zambia), and the majority have made modest to limited progress (Benin, Côte d'Ivoire, Cameroon, Guinea, Kenya, and Togo). In South Africa, Tanzania, and Zimbabwe, the political leadership teams remain strongly wedded to public ownership and are taking only small steps toward privatization. In Kenya and Nigeria privatization is characterized by periodic policy reversals.

Given the strong evidence of the overall positive results from privatization in industrialized countries (notably Britain) and in many developing countries in Asia and Latin America as well as in the transition economies of Eastern Europe and the former Soviet Union, privatization is without question a major route to PE reform that SSA countries should pursue in the short to medium term.

### **Self-Assessment Exercise 1**

Define privatization and state three types or forms of privatization?
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### **2.3.2 Goals of Privatization**

According to Kupolokun (2004), the goals of privatization and liberalization are to:

- i. Dismantle the natural monopoly of the state-owned Enterprise by privatizing and deregulating price control:
- ii. Creation of competition in the downstream sector by encouraging more companies to get involved and eventually supplying the market at competitive pricing levels.
- iii. Reduce the cost government spends on subsidies;

- iv. Boost in Foreign Direct Investment to the Nigerian economy;
- v. Reduction in transportation costs of productions and personnel.

### **Self-Assessment Exercise 2**

In your own understanding, what are the goals of privatization?
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#### **2.3.3 Arguments for Privatization**

1. Public enterprises in Nigeria have been characterised by inefficiency, low productivity and unprofitability for a variety of reasons. The only way to make them achieve "better" results is to privatize them.
2. Because public enterprises have come to constitute a drain on the scarce resources of the state, the trend is to privatize these enterprises.
3. Another argument is that since public enterprises have failed to achieve the objectives for which they were established, the only way to correct the situation is by privatizing them.
4. Another argument is that since public enterprises have failed to achieve the objectives for which they were established, the only way to correct the situation is by privatizing them.
5. It is argued that if public enterprises are privatized, they will generate greater wealth and provide more employment because their efficiency and productivity levels will be raised.
6. Above all, the history of public enterprises in Nigeria is littered with unacceptable levels and cases of corruption and nepotism which can only be corrected through privatization.
7. Privatization is a necessary means of removing political interference and administrative red tape from public enterprises.
8. It is also believed that privatization will yield enormous amounts of money for the government through taxes on their profits. This should go a long way in helping to solve the fiscal crisis of the state.

#### **2.3.4 Arguments against Privatization**

Privatization is not a panacea for managing the mismanaged public sector enterprises. The following arguments are offered against privatization (Sharma *et al.* 2011):

1. Relationship between ownership and performance: privatization presupposes a positive relationship between ownership and performance. Increased competition between state-owned enterprises and private sector can produce results better than those produced by privatization. Marketisation of public enterprises is better than privatization of these enterprises

2. Disparities of income: concentration of power in few hands will increase the gap between the "haves" and the "have nots". The very purpose for which these enterprises were initially set up would be defeated.
3. Unbalanced regional development: industries requiring huge investment but yielding low returns will not be taken over by the private sector else, the objective of balanced regional development will be defeated.
4. Monopolistic Practices: complete privatization will result in monopolistic practices at the cost of social goals. Anti-social activities like black marketing, hoarding, Speculation, etc., are the likely outcomes of businesses run by private entrepreneurs in the absence of government regulation and control. It is therefore, necessary that privatization is allowed under legislative protection.
5. No guarantee of success: privatization only expects better management and efficiency of inefficient units. It does not guarantee the solution to operational efficiency of public sector unit.

### Self-Assessment Exercise 3

Mention three (3) arguments each for and against privatization?



#### 2.4 Summary

Privatization has to do with the partial or total transfer of ownership of public enterprises to the private sector which can be either full or partial. Essence of the transfer of ownership is to promote efficiency and effectiveness of publicly-owned companies. Fully privatized public enterprises are those in which the government surrenders its ownership entirely. The partially privatized public enterprises are those that the government considers strategic and wants to keep under its supervision through minority shareholding. There are at least five forms of privatization: public offer of shares, private placement of shares, debt equity swap, liquidation and deferred public offers.

The goals of privatization include dismantling monopoly of the state-owned enterprises, reducing cost government spends on subsidies; boosting Foreign Direct Investment (FDI), etc.



#### 2.5 Reference/Further Reading

Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.

Eneanya, A.N. (2020). *Theory and practice of public administration*. Lagos: University of Lagos Press and Bookshop Ltd.

Obikeze, S.O. and Obi, E. A. (2004). *Public administration in Nigeria: A development approach*. Onitsha: BookPoint Ltd.

Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



## **2.6 Possible Answers to Self-Assessment Exercise(s) within the content**

### **Answer to SAE 1**

Define privatization and state three types or forms of privatization?

Meaning and types of privatization: privatization involves the partial or total transfer of ownership of a public enterprise to the private sector. Fully privatized public enterprises are those in which the government surrenders its ownership entirely. The partially privatized public enterprises are those that the government considers strategic and wants to keep under its supervision through minority shareholding. There are at least five forms of privatization:

Public offer of shares: the state-owned shares in the enterprise are offered to the public at large (i.e., replacing government ownership by public ownership)

Private placement of shares: the state-owned shares in the enterprise are transferred to private individuals

Debt equity swap: the ownership of a public enterprise is transferred to the private sector in settlement of its debts

Liquidation: the breakup and/or sale of the public enterprises' assets

Deferred public offers: for example, the shares of the public enterprise are offered to its employees, etc.

### **Answer to SAE 2**

Mention three (3) arguments each for and against privatization?

The goals of privatization are to:

- i. Dismantle the natural monopoly of the state-owned Enterprise by privatizing and deregulating price control:

- ii. Creation of competition in the downstream sector by encouraging more companies to get involved and eventually supplying the market at competitive pricing levels.
- iii. Reduce the cost government spends on subsidies;
- iv. Boost in Foreign Direct Investment to the Nigerian economy;
- v. Reduction in transportation costs of productions and personnel.

### **Answer to SAE 3**

Mention three (3) arguments each for and against privatization?

Arguments for Privatization are:

- i. Because public enterprises have come to constitute a drain on the scarce resources of the state, the trend is to privatize these enterprises.
- ii. Another argument is that since public enterprises have failed to achieve the objectives for which they were established, the only way to correct the situation is by privatizing them.
- iii. Another argument is that since public enterprises have failed to achieve the objectives for which they were established, the only way to correct the situation is by privatizing them.
- iv. Privatization is a necessary means of removing political interference and administrative red tape from public enterprises.

Arguments against Privatization include;

- i. Disparities of income, that is concentration of power in few hands will increase the gap between the "haves" and the "have nots";
- ii. Unbalanced regional development: industries requiring huge investment but yielding low returns will not be taken over by the private sector else, the objective of balanced regional development will be defeated.
- iii. Monopolistic practices: complete privatization will result in monopolistic practices at the cost of social goals. n is allowed under legislative protection

## **UNIT 3 PUBLIC ENTERPRISE REFORMS: COMMERCIALIZATION**

### **Unit Structure**

3.1 Introduction

3.2 Learning Outcomes

3.3 Main Content

3.3.1 Meaning of Commercialization

3.3.2 Goals of Commercialization

3.4 Summary

3.5 References/Further Reading

3.6 Possible Answers to Self-Assessment Exercise(s) within the content



### **3.1 Introduction**

In the previous unit, you were introduced to privatization as a reform strategy of public enterprises as well as the various arguments for and against privatization, this unit will therefore acquaint you with the second major reform of public enterprises known as commercialization.



### **3.2 Learning Outcomes**

At the end of this unit, you should be able to:

- (i) Define commercialization
- (ii) State the objectives of commercialization



### **3.3 Main Content**

#### **3.3.1 Meaning of Commercialization**

In your understanding, what do you think commercialization means? Commercialization is the re-organisation of enterprises wholly or partly owned by the government in which such commercialized enterprises shall operate as a profit-making commercial venture and without subvention from the government. Commercialization involves reforms that aim at making public enterprises more efficient.

There is partial commercialization and full commercialization. Public enterprises that are fully commercialized become entirely self-sufficient, with the capacity to make contributions to the treasury. They are supposed to raise their capital and operating expenses from the capital markets. Partly commercialized public enterprises are expected at least to cover their operating costs. The operations of some of them might require a high level of capital investment, for which the government has to intervene.

In some cases commercialization could involve the change of the relationship between the management of the public enterprises and the government through performance contracts or management contracts. Performance contracts are used to define new relationships between public enterprises managers and the government with a view to making the achievement of desired results possible. In management contracts, a private enterprise takes up the management of a public enterprise in exchange for a fee payable by the government.

### **Self-Assessment Exercise 1**

What do you understand by the reform ‘commercialization’?
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### **3.3.2 Objectives of Commercialization**

Having been acquainted with meaning of commercialization, who do you think commercialization seek to achieve? The objectives of commercialization programme are as follows:

- i. To restructure and rationalize public enterprises to ensure an effective, cost conscious, and goal oriented management and staff whose future is linked with the fortunes of the organisation they operate.
- ii. To undertake a comprehensive review of the accounting and management information system of the parastatals with a view to installing and maintaining modern and effective accounting systems which will produce promptly the necessary data for monitoring their financial and operational performance.
- iii. To re-orient the enterprises for commercialization towards a new horizon of performance improvement, viability and overall efficiency: through the enforcement of strict commercial principles and practices.
- iv. To check the present absolute dependence on the treasury for funding the otherwise commercially viable parastatals through a more realistic capital structure which will enable them approach the capital market to fund their operations without government guarantees.

- v. To develop the capital market.
- vi. To restructure the capital of affected enterprises in order to facilitate good management and access to capital market.

### Self-Assessment Exercise 2

Discuss the objectives of commercialization’?



### 3.4 Summary

Commercialization means a policy of government that allows its public enterprises operate, if not on a purely commercial, i.e. profit making basis, but to at least be in a position of meeting its running costs. Commercialization is the re-organisation of enterprises wholly or partly owned by the government in which such commercialized enterprises shall operate as a profit-making commercial venture and without subvention from the government. Commercialization involves reforms that aim at making public enterprises more efficient. There is partial commercialization and full commercialization. The objectives of commercialization include restructuring and rationalizing public enterprises to ensure an effective, cost conscious, and goal oriented; installing and maintaining modern and effective accounting systems; enforcement of strict commercial principles and practices; developing the capital market; and restructuring the capital of affected enterprises in order to facilitate good management and access to capital market. In view of arguments submitted above, commercialization can be considered as a right recourse to addressing challenges bedeviling public enterprises as they have constitute a huge drain pipe to the government.



### 3.5 Reference/Further Reading

- Adamolekun, L. (2005). *Public administration in Africa: Main issues and selected country studies* (Ed.). Ibadan: Spectrum Books Limited.
- Eneanya, A.N. (2020). *Theory and practice of public administration*. Lagos: University of Lagos Press and Bookshop Ltd.
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Ozor, E. (2004). *Public enterprises in Nigeria; A study in public policy-making in a changing political economy*. Ibadan: University Press Plc.



### **3.6 Possible Answers to Self-Assessment Exercise(s) within the content**

#### **Answer to SAE 1**

What do you understand by the reform ‘commercialization’?

Meaning of commercialization: Commercialization is the re-organisation of enterprises wholly or partly owned by the government in which such commercialized enterprises shall operate as a profit-making commercial venture and without subvention from the government. Commercialization involves reforms that aim at making public enterprises more efficient. There is partial commercialization and full commercialization. Full commercialized involves public enterprises becoming entirely self-sufficient, with the capacity to make contributions to the treasury while partial commercialization has to do with public enterprises being expected at least to cover their operating costs.

#### **Answer to SAE 2**

Discuss the objectives of commercialization’?

The objectives of commercialization programme are:

- i. To restructure and rationalize public enterprises to ensure an effective, cost conscious, and goal oriented management and staff.
- ii. Undertaking a comprehensive review of the accounting and management information system of the parastatals with a view to installing and maintaining modern and effective accounting systems.
- iii. To check the present absolute dependence on the treasury for funding.
- iv. To develop the capital market.
- v. To restructure the capital of affected enterprises in order to facilitate good management and access to capital market.

## **UNIT 4: PRIVATIZATION AND COMMERCIALIZATION IN NIGERIA**

### **Unit Structure**

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Main Content
  - 4.3.1 Privatization in Nigeria
  - 4.3.2 Commercialization in Nigeria
- 4.4 Summary
- 4.5 References/Further Reading
- 4.6 Possible Answers to Self-Assessment Exercise(s)



### **4.1 Introduction**

In the previous units, you have been taken through the fundamentals of privatization and commercialization of public enterprises, their objectives and goals as well as arguments for and against. This unit will focus on privatization and commercialization within the Nigerian context.



### **4.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. Discuss the practice of privatization within the Nigerian context
- ii. Discuss the practice of commercialization within the Nigerian context



### **4.3 Main Content**

#### **4.3.1 Privatization of Public Enterprises in Nigeria**

What does the term ‘privatization’ connote? Within the Nigerian context, privatization involves the disposal of all part of shares held by the government directly or through any of its agencies in the concern under consideration to carry on business. In other words, privatization involves the sale of government shareholder in any enterprises to non-governmental entities (institutions or individuals).

Nigerian economy is mono-cultural – being dependent on petroleum for over 90% of its earning from the rest of the world. It is like putting one’s eggs in one basket. Thus, the so-called structural adjustment programme of government aims at correcting this defect in the commercialization of some of our Public Enterprises, had been put in place with the hope that they would bring about desired structural changes.

In July 1988, the federal Military Government promulgated Decree No.25, privatization and commercialization Decree which gave a legal backing to the execution of the privatization and commercialization programme in Nigeria. The objectives of the programme are:

- i. To re-orientate the enterprises for privatization and commercialization towards a new horizon of performance improvement, viability and overall efficiency.
- ii. To develop the capital market
- iii. To restructure the capital of affected enterprises in order to facilitate good management and access to capital market.
- iv. To restructure and rationalized the public sector in order to lessen the dominance of unproductive investments in that sector.
- v. To ensure positive returns on public sector investments in commercialize enterprises.
- vi. To check the present absolute dependence on the treasury for the funding by otherwise commercially oriented parastatals, and encourage their approach to the capital market.
- vii. To initiate the process of gradual cession to the private sector of such Public Enterprises which, by their nature and type of operations, are best performed by the capital market.
- viii. To promote wide share ownership. The Decree provides for the establishment of the technical Committee on Privatization and Commercialization (TCPC) which is vested with the responsibility of implementing the programme.

Details of the duties of the committee are spelt out in sections 54 (1) and (2) of Decree 25 of July 1988

#### **4.3.2 Commercialization of Public Enterprises in Nigeria**

Commercialization in Nigeria began in 1990 in the following areas.

- (a) Use of financial resources
- (b) Profitability
- (c) Development of its functional strengths and elimination of its weakness
- (d) Product/service range
- (e) Human resources and organisation

Some of the perceived problems of commercialization include:

- (i) Policy environment (not being conducive)
- (ii) Special privileges to some groups (negating the objectives of the programmes)
- (iii) Capital markets (not being able to cope) social costs (labour unions objecting)
- (iv) Inadequacy of preparation (TCPC coping)
- (v) Administrative capacity (training may help)
- (vi) Transparency of the process (enlightenment campaign)
- (vii) Other forms of privatization (e.g. contract)
- (viii) Measures for improving those that remain (important, may be neglected)
- (ix) Investment of proceeds.

For the commercialization programme in particular, success requires that more attention be paid to the issues of the rate of return, profit, the role of boards of debtors and management capacity (Sexty, 1985:60).

#### **4.3.3 Implementation Scheme: Privatization and Commercialization Strategies**

Implementation of the privatization and commercialization of public enterprises involved series of operations mapped out by the then Federal Military Government. They include:

1. The promulgation of Decree No. 25 of 1988 which gave legal status to the policy
2. Inauguration of the Technical Committee on Privatization and Commercialization (TCPC) which was charged with the sole responsibility of ensuring that the public enterprises slated for either privatization or commercialization were privatized or commercialized accordingly. Functions of the committee include advising on the capital restructuring needs of enterprises to be either privatized or commercialized; carry out all activities required for the successful public issuing of shares of the enterprises, appointing issuing houses, stockbrokers, solicitors, accountants, etc.; negotiating for a price for each issue; oversee actual sale of shares of the enterprises; make proposals on the sale of government shares in such designated enterprises; etc.

In the performance of the above functions and responsibilities assigned to it, depending on the degree of privatization or commercialization to which an enterprise fell, the following modalities were followed:

- i. **Outright sale:** this was adopted when the enterprises involved were slated for full privatization. What the committee did in this situation was to do a detailed assessment of the enterprises and therefore, determine its or their net worth. The price for the enterprises would be made public and sold to persons who meet the financial demands of the committee
- ii. **Selling of shares to the public:** the TCPC would go into negotiations with the financial houses for the determination and issuing of shares for the public to buy. This is done also in full commercialization and partial privatization so as to ensure that as many people as possible may have shares in the enterprises to ensure even distribution.

Thus, two major ways were used for the privatization exercise- outright sale and selling of shares after all the requirements of the financial houses had been met.

With a view to consolidating and stabilizing the gains made during the first phase of the privatization and commercialization exercise, the Federal Government established the Bureau of Public Enterprises under Decree 78 of 1993 and set up a management board consisting of 11 members under a part-time chairman. The functions of the Bureau as set out in the Decree can be summarized under three major categories, viz:-

- i. Supervising and overseeing the success of further privatization of the public enterprises listed in the decree;
- ii. Ensuring the management, in accordance with sound commercial principles and prudent financial practices of the public enterprises remaining after privatization; and
- iii. Liaising with the Federal Government through the presidency on the proper disposal by public issue of shares under generally acceptable prices; and the incorporation of privatized enterprises as limited liability companies.

These strategies entail:

1. Full Privatization: Divestment by the Federal government of all its ordinary shareholding in the designated enterprise;
2. Partial Privatization: Divestment by the Federal government of part of ordinary shareholding in the designated enterprise;
3. Full Commercialization: Means that the enterprise so designated will be expected to operate profitably on a commercial basis and be able to raise funds from the capital market without government guarantee. Such enterprises are expected to use private sector procedures in the running of their businesses.

In both full and partial commercialization, no divestment of the federal government's share-holding will be involved and subject to the general regulatory powers of the federal government, the enterprise shall:

- (i) Fix rates, prices and charges for goods produced and services rendered;
- (ii) Capitalize assets; and
- (iii) Sue and be sued in their corporate names.

The primary goal of the privatization and commercialization is to make the public sector the programme leading engine of growth of the Nigerian economy. The government intends to use the privatization programme to re-integrate Nigeria back into the global economy, as a platform to attract foreign direct investment in an open, fair and transparent manner

**1. Full Privatization:** Among the 72 parastatals slated for privatization are: Federal Airport Authority of Nigeria; Nigeria Airways Ltd (Aviation), Nigerian Hotels Ltd and Festac 77 Hotels Ltd (Commerce and Tourism), Nigerian Telecommunication Ltd, Nigerian Mobile Telecommunication Ltd), NICON Insurance Ltd, Afribank Nigeria Ltd, FSB International Bank PLC, Assurance Bank Ltd (Finance), Daily Times of Nigeria PLC. New Nigerian Newspaper Ltd, Federal Radio Corporation of Nigeria (Information and Culture); National Fertilizer Company of Nigeria. Ashaka Cement PLC, Benue Cement PLC (Industries); Port Harcourt Refinery and Petrochemical Ltd (Petroleum resources); Steel Rolling Mill, Oshogbo, Jos and Katsina; Ajaokuta Steel Company Ltd. National Electric Power Authority (Power and Steel); Nigerian Mining Corporation. Nigerian Coal Corporation (Solid Minerals); NigerDock: NAHCO, (Transport); Save Sugar Company; Royal Swaziland Sugar (African Investments), and so on.

**2. Full Commercialization:** Seventeen (17) Parastatals were scheduled for commercialization. Among them are: National parks Board; Ayip Eku Oil Palm Co. Ltd (Agriculture); Nigerian Postal Service (Communication); Tafawa Balewa Square investments Ltd (Defence); Nigeria Social Insurance Trust Fund (Employment, Labour and Productivity); Nigerian Bank for Commerce and Industry (Finance); News Agency of Nigeria; Nigerian Television Authority (Information and Culture); Nigerian National Petroleum Corporation (Petroleum Resources); Nigerian Ports Authority; Nigerian Railway Corporation (Transport); River Basin and Rural Development Authority (Water Resources). Federal Mortgage Bank; Federal Housing Authority (Works & Housing).

**3. Partial Commercialization:** Public enterprises scheduled for partial commercialization are: Nigerian Railway Corporation; Nigerian Airport Authority; National Electric Power Authority; Nigerian Security Printing and Minting Company Limited; All the River Basins Development Authorities; National Provident Fund; Ajaokuta Steel Company Limited; Delta Steel Company Limited, Nigerian Machine Tool

Limited; Federal Housing Authority: Kainji Lake National Park; Federal Radio Corporation; Nigerian Television Authority and News Agency of Nigeria.

### **Self-Assessment Exercise**

State the two forms by which public enterprises in Nigeria were privatized?
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#### **4.3.4 Appraisal of Privatized Public Enterprises between 1999 And 2011**

The complete list of public enterprises sold between 1999 and 2011, those who bought them and their current operational status are as follows:

##### **Automobile Sector**

To date, 122 public enterprises have been sold. Before privatisation, 53 of them were performing while 69 were not. In the automobile sector, of all the six companies sold, only National Trucks Manufacturers Limited, Kano has become a success story. All the others like Leyland Nigeria Limited; Volkswagen Nigeria Limited: Steyr Nigeria Limited: ANAMMCO, Enugu and Peugeot Automobile Nigeria Limited are failures. While Volkswagen was shut down as a result of dispute among shareholders and technical partners. Peugeot faces problems of low patronage and high debt profile (Eneanya, 2020).

##### **Cement Sector**

In the cement sector, all the six companies sold are performing. They are: Benue Cement Company Limited sold to Dangote Industries Limited; Cement Company of Northern Nigeria to Seancem of Norway; West African Portland Cement Company and Ashaka Cement Company sold to Blue Circle Industries Limited; Onigolo Cement, Benin Republic to Dangote Group and Calabar Cement Company Limited to Flour Mills & Holcim of Spain (Eneanya, 2020).

##### **Steel and Aluminum Sector**

In the steel and aluminum sector, there were also six sales and only one. Katsina Steel Rolling Mills bought by Dana Holdings, is performing today. The five not performing are: Delta Steel sold to Global Infrastructure Limited; Aluminium Smelting Company of Nigeria (ALSCON) to Rural Aluminium of Russia; Osogbo Steel Rolling Mills Limited to Kura Holdings Limited; Jos Steel Rolling Mills to Zuma Steel West Africa Limited and Electric Metre Company of Nigeria (EMCON) to Dantata Investments Limited (Eneanya, 2020).

##### **Oil and Gas Sector**

In the oil and gas sector, six enterprises have also been sold and they are all performing. They are: LPG Calabar Depot sold to Sahara Energy Limited, Unipetrol (now OANDO) to Ocean & Oil Nigeria Limited; African Petroleum (AP) to Sadiqu Petroleum Limited; National Oil & Nigeria Limited; African Petroleum (AP) to Sadiq Petroleum Limited;

National Oil & Chemical Marketing Company PLC (Now Con Oil) to Conpetrol Nigeria Limited; West African Refinery Company Limited Sierra Leone to Majestic Oil Services Limited and Elene Petrochemicals Company Limited bought by Indorama Group of India (Eneanya, 2020).

### **Hotel and Tourism Sector**

In the hotel and tourism sector, there are nine companies of which seven are doing well while question marks remain on the operations of Capital Hotels PLC (now Abuja Sheraton) to Hans Gremlin Limited and Central Hotel, Kano to Broadfields and NAL Assets Management. The seven performing sales are: FESTAC 77 Hotel to UAC Properties Limited, Nigeria Hotels Limited (Now Southern Sun Hotel, Ikoyi) to Beta Consortium; Abuja International Hotels (Le Meridien), now NICON Luxury Hotel to Hotels Acquisition Limited; Nigeria Hotels Limited (Caterers Court, Ikoyi, Lagos) to Reliance Estate; Nigeria Hotels Limited (Houses 8 and 9 Lease Rd, Ikoyi) to CHYZOB Enterprises; Nigeria Hotels Limited (Audit Section, Ikoyi, Lagos) to Dangote Group and NICON Hilton Hotel (now Transcorp) to Captial Leisure and Hospitality Limited (Eneanya, 2020).

### **Banking and Insurance Sub-Sector**

In the banking and insurance sub-sector, seven companies have been sold, three of which are doing well with International Merchant Bank liquidated while the jury is still out on Afribank. NICON Insurance PLC and Nigeria Reinsurance have issues of 'mass staff exodus arising from poor conditions of service and pension matters'. The three performing sales are: FSB International Bank PLC as well as Assurance Bank PLC and NAL Merchant Bank PLC (now Sterling Bank PLC) (Eneanya, 2020).

### **Sugar Sub-Sector**

In the sugar sub-sector, all the companies sold have not been doing well. They are: Savannah Sugar sold to Dangote Group; Nigeria Sugar Company, Bacita to Josephdam & Sons; Lafiagi Sugar to BUA Group, and Sunti Sugar to Dewo Integrated Farms Limited (Eneanya, 2020).

### **Solid Minerals and Mining Sector**

In the solid minerals and mining sector, there were and 14 concessions. Even outright sales of these 21 companies, only seven are doing well today. They are: Suleja Quarry, EPL 17222, 17224, 17227 (Gold, Bukuyum LG) Zamfara; Kuru Quarry; ASEPL 202 AND 203 (Lead Zinc. Barytes, Copper, salt), Ogoja. The Ogboyega I and 2 (Steel and aluminum) concessioner to Western Metal Products; Nigerian Feldspar/Quartz; EPL 13212 (Talc, Gold, Cassiterite), Atakumosa, Oyo state: Igun District (ML 20501) to Living Spring Minerals Promotion: Gold magami, Shiroro Lg Niger 301 and 302 also to Western Metal Products are currently not operational. Meanwhile, EPL 140 (God Waya,

Yauri, Kebbi); NTAMP 1, Guum, Jos; NTAMP 2 Rafin Jaki Bauchi, and NTAMP 3, Banki, Kaduna, all sold to Equator Mines Limited are not performing (Eneanya, 2020).

### **Paper and Packaging Sub-Sector**

In the paper and packaging subsector, there were two sales, two guided liquidations, and two concessions. Of the six, only one, Jebba paper mill, is doing well. Neither the Central Packaging Limited nor the Daily Times sold to Millennium Automation Limited and Folio Communications respectively is performing. The Nigeria Newsprint Manufacturing Company, Oku Iboku with Negris Holdings, Tafawa Balewa Square concessioned to BHS International and Lagos International Trade Fair concessioned to AULIC Nigeria Limited are also not doing well. On seaports and terminals, there were two sales and 24 concessions. Whereas the NPA Quarters in Lagos sold to Labana Global Ventures Limited is doing well, the National Clearing and Forwarding Agency to Jorotom International Agency (Nigeria) Limited is not (Eneanya, 2020).

### **Ports and Terminals**

Of the 24 concessioned ports and terminals, 18 are doing well while six are not. The performing ones are: Apapa Terminal and Lilypond Inland Container Terminal to AP Moller Finance SA; Apapa Terminals A and B to Flour Mills of Nigeria PLC; Apapa Terminals C and D to ENL Consortium Limited, and Apapa Terminal E to Dangote Industries Limited. There are also Tin Can Terminal B to Tin Can Island Container Terminal Limited; Tin Can Island Terminal C to Sifax Nigeria Limited; Tin Can Island (Roro Terminal) to Comet Shipping Agency Nigeria Limited; Onne FLT and FOT A; Calabar New Terminal A as well as Warri New Terminal all to Intels Nigeria Limited; Warri Canal Berth Terminal to Julius Berger PLC; Calabar Old Terminal to Addax Logistics Limited and Calabar New Terminal B to Ecomarine Consortium Services. The Six not doing well are: Port Harcourt Terminal A concessioned to Ports and Terminal Operators Limited; Port Harcourt Terminal B to BUA International Limited; Tin Island Port A to Joseph Dam & Sons Limited; Warri Old Terminal A to Intels Nigeria Limited; Warri Old Terminal B to Associated Marine Services and Koko Port to Gulftainer Bel Consortium (Eneanya, 2020).

### **Agricultural Sector**

There were five agric. companies four of which are doing well while Ayip Eku Oil Palm sold to Wing Song M-House Industries Palm Investment Limited is not. The Federal Superphosphate Fertiliser Company, Kaduna sold to Hekio Consortium; the Ore-Irele Oil Palm Limited to CPL Agric Limited; Ihechiowa Oil Palm Limited to Omen International Limited and NAFCON to O'Secul Nigeria Limited are doing well (Eneanya, 2020).

### **Aviation Sector**

In the aviation sector, both SAHCOL bought by Skyway Aviation Handling Company and NAHCO sold through public offer are doing well (Eneanya, 2020).

### **Block-Making Sector**

Six block-making companies were also sold with three doing well. They are Ikorodu Bricks to Continental Bricks Project Supplies Limited; Ibadan to Real Stones Nigeria Limited; Kaduna Bricks to Rahman Brothers Limited. The poor ones are: Enugu Bricks sold to Siljay Concepts Limited; Kano Bricks to Associated Partners Nigeria Limited and Izom Bricks to Continental Project Supplies Limited (Eneanya, 2020).

### **Energy Sector**

The Energy Companies sold were 12 in number with Nigerdock Nigeria Limited sold to Global Energy Limited and Nigeria Machine Tools to Bronwen Nigeria Limited which were not doing well. Performing ones are: Baker Nigeria Limited, Lot I sold to Bayer Hughes Nigeria Limited; Baroids Drilling Chemical Products Nigeria Limited to Sapid Agencies Limited; Baroids Nigeria Limited, Lot I to Halliburton Operations Nigeria Limited; Dowell Schlumberger Lot I to Bussdor and Company Limited; Dowell Schlumberger Lot I to Bussdor and Company Limited; M-1 Nigeria Limited, Lot I to AP Olfiled Services Limited; Schlumberger Testing & Production Services Limited to Amazon Energy/Sigmat Consortium; Sodeo Forex Nigeria Limited sold to Rosehill Group Limited; Solhs Shall Nigeria Limited I sold to Lohan Consultants; Stallion House, V/I, Lagos, (Eneanya, 2020)



## **4.4 Summary**

Privatization means government selling part or whole shares owned by it in a Public Enterprises to individuals or institutions. Commercialization, on the other hand, refocuses a Public Enterprises for profit making. In Nigeria, a significant numbers of public companies have been sold between 1999 and 2007 by BPE. The questions that bothers observers are: What has the federal government done with the proceeds of privatization? From the scorecard of the privatization exercise, has it succeeded or failed? The answer to these two questions is still open to debate among Nigerians. The truth is that privatization has not achieved its objectives.



## **4.5 References/Further Reading**

Anyanwu, J.C. (1993). *Monetary economics: Theory policy and institutions*. Onitsha: Flybird Publishers Ltd.

- Eneanya, A.N. (2020). *Theory and practice of public administration*. Lagos: University of Lagos Press and Bookshop Ltd.
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- Sexty, R.W. (1985). "Currency issues in public enterprises; commercialization and privatization". *Public Sector*, vol. 8, No4.



#### **4.6 Possible Answers to Self-Assessment Exercise(s) within the content**

##### **Answer to SAE**

The two major by which public enterprises in Nigeria were privatized are:

**Outright sale:** this was adopted when the enterprises involved were slated for full privatization. What the committee did in this situation was to do a detailed assessment of the enterprises and therefore, determine its or their net worth. The price for the enterprises would be made public and sold to persons who meet the financial demands of the committee

**Selling of shares to the public:** the TCPC would go into negotiations with the financial houses for the determination and issuing of shares for the public to buy. This is done also in full commercialization and partial privatization so as to ensure that as many people as possible may have shares in the enterprises to ensure even distribution.

## **UNIT 5: CHALLENGES OF PRIVATIZATION AND COMMERCIALIZATION IN NIGERIA**

### **Unit Structure**

5.1 Introduction

5.2 Learning Outcomes

5.3 Main Content

5.3.1 Challenges of Privatization and Commercialization in Nigeria

5.3.2 Suggestions to Challenges of Privatization and Commercialization in Nigeria

5.4 Summary

5.5 References/Further Reading

5.6 Possible Answers to Self-Assessment Exercise(s)



### **5.1 Introduction**

In the previous units, you have been taken through the fundamentals of privatization and commercialization of public enterprises, their objectives and goals as well as arguments for and against. Focus was also made on privatization and commercialization within the Nigerian context. This unit seeks to acquaint with you challenges associated with privatization and commercialization of public enterprises with specific reference to Nigeria.



## **5.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i. State challenges associated with privatization and commercialization of public enterprises in Nigeria
- ii. Give possible suggestions on addressing challenges associated with privatization and commercialization of public enterprises in Nigeria



## **5.3 Main Content**

### **5.3.1 Challenges of Privatization and Commercialization of Public Enterprises in Nigeria**

The idea of privatization and commercialization 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 deliverer. 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 seems to be some hindrances to grapple with in actualizing the dreams of public enterprises reform.

According to Obadan (2000) and Sanusi (2001) the relative success in the public enterprises reform has some crucial problems which are economic, political and ideological. These problems are sums 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 neo-liberal schools of thought. Privatization was seen by some as a carry-over of the structural adjustment program and also seen as 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 pervaded the world economy order then. The socialist ideologue also sees public enterprises reform as a path towards consolidating capitalism.
2. Uncooperative Attitude of some government officials (Enterprises managers and staff): Some officials were recalcitrant over the policy of privatization and commercialisation 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 these privatized PEs are against the reform as it would undermine their position.

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. Geo-political and income-group spread: The enabling decree laid emphasize on equity in the spread of shareholding. But contrarily there were marked imbalances in equity shareholders distribution among income groups and the different segments of the society. Some income-groups or geo-political 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. Government must have the capacity not only to make initial diagnoses and assessments to decide on policy implementation and also to administer the states 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 did not have enough funds to process their application forms, contrary to the expectations of government. Perceiving problem of financial limitations, government directed all licensed commercial banks to extend to all interested persons. In spite of this directive, banking system did not respond favourably 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 programme.
8. Institutional Investors versus Small Individual Investors: On many occasions there were reports of over-subscription in the shares for 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 (Obadan & Ayodele, 1998).

### **Self-Assessment Test 1**

Mention four challenges associated with privatization and commercialization in Nigeria?

### **5.3.2 Suggestions to Challenges of Privatization and Commercialization in Nigeria**

For Nigeria to record success in the privatization of public enterprises and for the programme to be free from the above mentioned challenges, the following policy options are therefore recommended:

- (a) There should be political will on the part of government with strong commitment and determination, making sure that adequate and effective mechanism is put in place so that transparency and accountability are entrenched in the exercise. Due process must be well observed when implementing the programme.
- (b) Since privatization is meant to attract foreign investments to expand local markets, there is the need for political and economic stability for privatization exercise to attract foreign investors. Thus, a conducive environment should be provided as an assurance for security of investment and smooth operation so as to enhance and promote profits.
- (c) There is a definite need to build capacity among all privatization staff, stakeholders and consultants. This will involve regular training seminars, cross border training exercises etc. Special funds should be budgeted or be allotted to capacity building among privatization staff and consultants. In-house or external courses can also be organized with financial experts such as Euro money.
- (d) To solve the labour problems, government and BPE need to design and implement the conceived Social Safety Net Scheme effectively. This will even be a positive signal to the workers of the other companies already slated for privatization and thereby reducing their opposition to the programme.
- (e) Bureau of Public Enterprises (BPE) and National Council on Privatization (NCP) should put in place a strong mechanism to make sure that asset of public enterprises slated for privatization are not undervalued. This should be done by contracting the job to three or more reputable property value firms appointing bill proper record of value of assets of all enterprises slated for privatization. This must be time to time made known to the public.

### **Self-Assessment Test 2**

Recommend four ways through which challenges associated with privatization and commercialization in Nigeria can be addressed?



### **5.4 Summary**

Privatization means government selling part or whole shares owned by it in a Public Enterprises to individuals or institutions. Commercialization, on the other hand, refocuses a Public Enterprises for profit making. The idea of privatization and commercialization is that the state should ensure the supply of services where necessary in a way that they will

be affordable to the masses. However, this has not been the case as privatization and commercialization have been marred with challenges such as socio-political and ideological, uncooperative attitude of some government officials, weak market alternatives, low government capacity, the problem of inaccessibility to credit, etc.



### **5.5 References/Further Reading**

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- Eneanya, A.N. (2020). *Theory and practice of public administration*. Lagos: University of Lagos Press and Bookshop Ltd.
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- Sexty, R.W. (1985). "Currency issues in public enterprises; commercialization and privatization". *Public Sector*, vol. 8, No4.



### **5.6 Possible Answers to Self-Assessment Exercise(s) within the content**

#### **Answer to SAE 1**

*Mention four challenges associated with privatization and commercialization in Nigeria?*

- i. Socio-political and ideological barrier
- ii. Uncooperative attitude of some government officials
- iii. Weak market alternatives,
- iv. Low government capacity,
- v. The problem of inaccessibility to credit,

#### **Answer to SAE 2**

*Recommend four ways through which challenges associated with privatization and commercialization in Nigeria can be addressed?*

- i. There should be political will on the part of government with strong commitment and determination, making sure that adequate and effective mechanism is put in place so that transparency and accountability are entrenched in the exercise.
- ii. A conducive environment should be provided as an assurance for security of investment and smooth operation so as to enhance and promote profits.
- iii. Building capacity among all privatization staff, stakeholders and consultants. This will involve regular training seminars, cross border training exercises etc.

- iv. Government and BPE need to design and implement the conceived Social Safety Net Scheme effectively in order to solve the labour problems.
- v. Bureau of Public Enterprises (BPE) and National Council on Privatization (NCP) should put in place a strong mechanism to make sure that asset of public enterprises slated for privatization are not undervalued. This should be done by contracting the job to three or more reputable property value firms appointing bill proper record of value of assets of all enterprises slated for privatization. This must be time to time made known to the public.

## **MODULE 5: CONTEXT OF CIVIL SERVICE IN PUBLIC ENTERPRISES**

Unit 1 Definition and Principles of Civil Service

Unit 2 Features and Functions of Civil Service

Unit 3 Evolution and Structure of Nigerian Civil Service

Unit 4 Appointment in the Nigerian Civil Service

Unit 5 Reforms in the Nigerian Civil Service

### **UNIT 1 DEFINITION AND PRINCIPLES OF CIVIL SERVICES**

#### **Unit Structure**

1.1 Introduction

1.2 Learning Outcomes

1.3 Main Content

1.3.1 Definition and Meaning of Civil Service

1.3.2 Principles of Civil Service

1.4 Summary

1.5 References/Further Reading

1.6 Possible Answers to Self-Assessment Exercise(s)



#### **1.1 Introduction**

In the last section you have an idea about what budgetary control in organization is all about? In this unit, you will take a step further into the definition and principles of civil

services. The focus here will be on the civil service. The civil service is the umbrella organisation in which the executive arm of government utilises to implement the rules and regulations as made by the legislatures.



## **1.2 Learning Outcomes**

At the end of this unit, you should be able to:

- i) Define and state what a civil service is
- ii) Discuss the salient principles guiding the civil service especially in Nigeria.



## **1.3 Main Content**

### **1.3.1 Definition of Civil Service**

What readily comes to your mind when you hear the term ‘civil service’? The civil service is a term used to cover the public servants who are direct employees of the federal and state governments, other than the police, the armed forces personnel, judicial personnel and the teachers. Its usage excludes also employees of statutory corporations and boards (Nwosu, 1977). According to Adebayo (1986), the civil service comprises all servants of the state, other than those holding political appointments, who are employed in a civil capacity and whose remuneration is paid out of money voted by the legislature. Adamolekun (1983), sees the civil service as "the body of permanent officials appointed to assist the political executive in formulating and implementing governmental policies." He also sees the second usage of the term as referring to "the ministries and departments within which specific aspects of government are carried out". Though people often see the civil service and the public service as the same thing, they are technically, not the same. Public service as a term is broader in scope than civil service. Hence, it includes not only those who work in the regular government ministries and departments but also statutory corporations, boards and the armed forces. Hence, Adamolekun (1983) defines it as the totality of services that are organised under government authority. It can therefore be said that civil service is narrower in scope and excludes some government employees who are public servants (Obikeze and Anthony, 2004).

### **1.3.2 Meaning of Civil Service**

The civil service is the administrative structure employed in civil capacity to fulfill government policies and programmes. This can be viewed in terms of structures i.e. ministries, departments, etc. or the human occupants of public offices i.e. permanent secretaries, ministers, and higher administrative staff. The Nigerian Interpretation Act of

1964 does not expressly define the term civil service. However, Section 2 of the Pensions Act of 1951 defines the "civil service, as the service in a civil capacity under the government of the federation or in a college, university or a pensionable employment under local authority." The civil service is distinguishable from the military service and police service in that while the latter two are principally concerned with the safeguard of the country from external and internal dangers, the former is concerned with purely civil and non-technical affairs of the state. Members of the civil service are employed in a civil capacity as distinguished from military, judicial or police capacity. Military officers, judicial officers, police officers and many other technical officers like doctors, engineers, and draughtsmen are, strictly speaking, not civil servants.

Civil servants are mainly of two categories: lower clerical staff and higher administrative staff. The higher administrative staff are directly responsible to the political heads of departments. The lower clerical staff help the administrative staff and work under its direct supervision and control. The state reaches the citizens through the civil servants who are well trained, skilled and permanent body of professional class of officials, and who have taken government service as a career (Ekhaton, 2003: 254).

### **1.3.3 The Principles of the Civil Service**

The civil service is guided by the following principles:

#### **(a) Anonymity**

The principle of anonymity states that civil servants should be seen and not by principle be heard. Though they advise political office holders on issues relating to government they neither take the blame nor the glory of such policies. They are not expected to be seen defending such policies. That job is better left for political office holders and not the career officers. Civil servants as far as possible, are anonymous, and should not be seen as craving for publicity.

#### **(b) Neutrality**

The civil servant must be politically neutral. His job is to serve the government of the day with full dedication irrespective of what he feels about that particular government. He ought not to allow personal prejudices to colour his dedication to his duty. He is not expected to be a card carrying member of a political party or get involved in partisan politics though he is expected to vote at election times. The essence of making the civil servant politically neutral is hinged on the fact that since he does not leave with a change in government, he is not expected to have a strong attachment to any particular government so as to enable him give his best to make government policies succeed irrespective of his personal feelings towards such policies or government.

#### **(c) Impartiality**

Civil servants are paid from tax payers' money which does not belong to anybody or group in particular. They are therefore, expected to discharge their duties without fear or favour. Since the constitution emphasises the equality of all citizens, they are supposed to be treated equally by the civil servants. In rendering service to the public, the civil servant is expected to treat everybody with a high degree of impartiality. Favouritism is against the principle of the civil service and should not be encouraged in any guise whatsoever.

(d) **Permanence** The civil service is often defined as a permanent body of officials that carry out government decisions: It is permanent and its life is not tied to the life of any particular government. Governments come and go but the service remains, or to use the Nigerian jargon, *soldier go, soldier come but barrack remain*. The civil service in this regard, is the barrack that remains (Obikeze and Anthony: 2004).

### Self-Assessment Exercise 1

State the principles of civil service mentioned in this unit?



#### 1.4 Summary

Civil service basically refers to the body of permanent officials appointed to assist the political executive in formulating and implementing governmental policies. It also refers to the ministries and departments within which specific aspects of government are carried out. Civil servants are mainly of two categories: lower clerical staff and higher administrative staff. The higher administrative staff are directly responsible to the political heads of departments while the lower clerical staff help the administrative staff. The civil service is guided by the principles of anonymity, permanence, neutrality and impartiality.



#### 1.5 References/Further Reading

- Ademolekun, L. (1983), *Public Administration: A Nigerian and comparative perspective*. London: Longman
- Adebayo, A. (1986), *Principle and practice of public administration in Nigeria*. Ibadan: Spectrum Books Ltd.
- Nwosu, H. N. (1977), *Political authority and the Nigerian civil service*. Enugu: Fourth Dimension Publishers.
- Obikeze, S.O. & Obi, E. A. (2004), *Public administration in Nigeria: A development approach*. Onitsha Book Point Ltd.



## **1.6 Possible Answers to Self-Assessment Exercise(s) within the content**

### **Answer to SAE**

Principles of civil service are:

- i. Anonymity
- ii. Neutrality
- iii. Impartiality
- iv. Permanence

## **UNIT 2: FEATURES AND FUNCTIONS OF CIVIL SERVICE**

### **Unit Structure**

- 2.1 Introduction
- 2.2 Learning Outcomes
- 2.3 Main Content
  - 2.3.1 Features of Civil Service
  - 2.3.2 Functions of Civil Service
- 2.4 Summary
- 2.5 References/Further Reading
- 2.6 Possible Answers to Self-Assessment Exercise(s)



### **2.1 Introduction**

In the last unit, you were acquainted with the meaning of civil service as well as its principles. This unit will take you a step further into the concept of civil service. We shall be examining the features and functions of the civil service. The civil service has features and functions. Both of them are discussed in this unit for your understanding.



## 2.2 Learning Outcomes

At the end of this unit, you should be able to:

- i) List the features of civil service
- ii) Identify the functions of civil service.



## 2.3 Main Content

### 2.3.1 The Features of Civil Service

The administrative institutions in Nigeria are a legacy of the British model. Since Nigeria inherited virtually all administrative institutions from Britain, her erstwhile colonial rulers, the Nigerian public service is based on the West Minister model. The main characteristics of the Nigerian public service include the following:

#### **a. Professionalism**

The most significant feature of civil service is that it is a professional class of officials who are trained and skilled. Like other professional groups of people engaged in different profession, the profession of civil servants is to run the administration. It does not mean that civil service is a single profession like shoe-making or brick laying, rather, it is a sum total of multi-profession ranging from mail delivering to administering a local government area council, all engaged in a single aim, i.e. the execution of public policy.

#### **b. Hierarchy**

Hierarchy is the second fundamental characteristic found in civil service. By hierarchy we mean the separation between superior and subordinate offices; i.e. each lower office is under the control and supervision of a higher one. Then, there exist fixed salaries which are paid in accordance with the nature of the job and responsibility as well as the social status. In addition, there are chances of promotion and career advancement based on seniority and merit. Moreover, there is a right of appeal and statements of grievances from the lower to the higher authority.

#### **c. Legal basis**

The civil service system is always provided with a legal, basis. This may, to a large extent, be customary and uncoded or it may be in the form of ministerial regulations as in the United Kingdom, or it may be set forth in considerable detail in, a written constitution for the political jurisdiction. Generally, it possesses a statutory base either in an elaborate civil service code or in a collection of civil service laws.

#### **d. Personnel agency**

In some countries there is a provision for a central personnel agency or agencies that are in charge of maintaining the civil system. To this end, usually the British model is

adopted by a large number of countries, where the responsibility of selection of civil servants is given to the civil service commission. In Nigeria, the Federal Civil Service Commission and state's civil service commission are made responsible for recruitment of federal and state civil servants.

**e. Security of tenure or permanence**

This means that changes in government do not bring about changes in public servants. Governments come and go but public servants remain as long as they perform their work properly. The public service is a career to which the public servants can devote their time and energy until they attain retirement age. It is only in very serious cases of misbehavior that they can be dismissed or retired.

**f. Political neutrality**

This means that public servants should not be member of any political party. They should not take part in partisan or party politics. They cannot contest election or comment publicly on political matters. If they wish to do so, they have to resign their appointment.

**g. Impartiality**

The public servants are expected to apply the laws of the land without any fear or favour to any person or group of persons in the society. Thus, the public servants should serve all members of the public to the very best of their ability. They should act with maximum fairness towards all members of the society. There should be no discrimination of any kind.

**h. Anonymity**

This means that they must work without any aim of making fame or name. They should remain anonymous, whatever blames or praise for any act of omission or commission will directly go to the minister who is the political head of the department.

**i. Meritocracy**

Another significant characteristic feature of the public service is that both recruitment from within and recruitment from without are based on merit. To be recruited into the service one has to satisfy certain given standards such as educational qualifications, good performance in the qualifying examination and interviews. Above all, promotion within the system is based on seniority, efficiency and experience.

**j. Established procedures of work**

In a developed civil service system, well established procedure are planted for the conduct of common personnel transactions such as recruitment, training, promotion, demotion, dismissal, performance evaluation, compensation, etc. These standardised methods provide objectivity in the choice of entrants to the civil service and also help in offering equal treatment to everybody already in service (Ekhatior, 2003: 255-256).

### Self-Assessment Exercise 1

How many features of civil service are mentioned in this unit? List any five.
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#### 2.3.2 Functions of Civil Service

The functions of the civil service may be discussed under the following main heads. These are as follows:

**(a) Advice:** The primary function of the civil service is to advise the political executive. Ministers depend on the advice of their higher administrative staff who are the reservoir of information and wisdom regarding the subject matters which they administer. Even to formulate his own programme, the political executive relies on the civil service officials while administering many problems which arise - which are usually solved by the civil service before reporting to the political head, if at all, for approval or mere information.

**(b) Programme planning:** Broadly speaking, planning is the duty of the political chief executive. Planning and periodic adjustments of the revenue structure is a responsibility of the minister for finance; agricultural prices and water policy - functions of the ministers for Agriculture and Water Resources; petroleum policy, a function of the minister for petroleum, etc. But there is a field where the civil servants also perform the function of planning, and this is the field of delegated legislation. The legislature makes laws in broad outlines for execution and implementation of which certain basic rules and regulations are required. The civil servants who execute those laws determine the specific steps to take in order to bring to fruition a policy or a law already agreed upon. To the extent that the policy decision is ambiguous or vague, programme planning may actually affect policy though in principle. Its purpose is merely to effect policy. Programme planning involves a careful analysis of the job to be done. It is a deep perception of the whole operation. The success of any new policy will depend ultimately upon good programme planning. Good performance planners develop by experience. They learn the art by daily practice and not by reading from books.

**(c) Policy formulation:** The civil servants advise their political head, the minister, on a wide range of policy matters. Thus, the civil servants play crucial roles in policy formulation.

**(d) Drafting bills:** Top civil servants aid their political boss to draft bills or to prepare legislative proposals. This is a usual practice in a parliamentary democracy.

**(e) Policy implementation:** Once a minister has decided on what to do, it is the responsibility of the civil servants to carry out such decisions.

**(f) Budget preparation:** The civil servants prepare the annual financial statements of their respective ministries. This annual financial statement which is technically called the

yearly budget comprises income and expenditure of government. The various financial statements from the various ministries are integrated into one document known as the budget.

**(g) Law making:** Besides bill drafting, the civil servants now make minor laws known as delegated legislation.

**(h) Negotiation with outside groups:** Civil servants discuss, bargain or negotiate with interest groups, other governments and international organisations on behalf of their own government.

**(i) Quasi - judicial function:** In recent times, civil servants protect civil liberties by institutional administrative inquiries into alleged wrong doings of public officers and where such allegations are proved right, they recommend disciplinary actions to be taken against the affected officers.

**(j) Production** Another important function of the civil service is production. Goods produced may be tangible goods like kilograms of rice and kilometers of concrete roads, and less tangible services such as cases of legal disputes decided or school children educated. Every official involved in administration needs work standard to enable him to determine whether his organisation is reasonably living up to mark, whether his subordinate staff are competent and whether there is a rise or fall in the level of efficiency and output.

**(k) Organisation and methods:** The primary purpose of which a civil service is set up is to effect improvement of working methods so as to remove waste and loss of efforts and secure complete utilisation of available resources. This function is performed with the aid of units specialized in what has come to be known as organisation and methods of work often called O and M (Ekhtor, 2003: 257- 2458).

## Self-Assessment Exercise 2

Discuss any five (5) functions of the civil service?



### 2.4 Summary

The civil service represents the visible aspect of government as it is saddled with the sole responsibilities of executing government policies, programs and plans. As a recap, the civil performs functions such as offering advice to political heads, planning programs, preparing budgets, partaking in policy formulation, drafting bills, etc. the salient features of the civil service include permanence, neutrality, impartiality, anonymity, professionalism, etc.. The evolution of civil service shall be discussed next.



## 2.5 References/Further Reading

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## 2.6 Possible Answers to Self-Assessment Exercise(s) within the content

### Answer to SAE 1

Principles of civil service are:

- i. Anonymity
- ii. Neutrality
- iii. Impartiality
- iv. Permanence
- v. Meritocracy
- vi. Legal basis

### Answer to SAE 2

The functions of the civil service are as follows:

- i. Advice:** The primary function of the civil service is to advise the political executive. Ministers depend on the advice of their higher administrative staff who are the reservoir of information and wisdom regarding the subject matters which they administer.
- ii. Programme planning:** the civil service do this by assisting the political chief executive.
- iii. Policy formulation:** The civil servants advise their political head, the minister, on a wide range of policy matters. Thus, the civil servants play crucial roles in policy formulation.
- iv. Drafting bills:** Top civil servants aid their political boss to draft bills or to prepare legislative proposals. This is a usual practice in a parliamentary democracy.
- v. Policy implementation:** Once a minister has decided on what to do, it is the responsibility of the civil servants to carry out such decisions.

**vi. Budget preparation:** The civil servants prepare the annual financial statements of their respective ministries. This annual financial statement which is technically called the yearly budget comprises income and expenditure of government. The various financial statements from the various ministries are integrated into one document known as the budget.

## **UNIT 3: EVOLUTION AND STRUCTURE OF THE CIVIL SERVICE IN NIGERIA**

### **Unit Structure**

- 3.1 Introduction
- 3.2 Learning Outcomes
- 3.3 Main Content
  - 3.3.1 The Evolution of Civil Service in Nigeria
  - 3.3.2 The Structure of Nigerian Civil Service
- 3.4 Summary
- 3.5 References/Further Reading
- 3.6 Possible Answers to Self-Assessment Exercise(s)



### **3.1 Introduction**

In the last unit, you were introduced to the features and functions of the civil service. This unit will take you a step further into the evolution and structure of the civil service in

Nigeria. The focus here is on the evolution of civil service in Nigeria. Nigeria was colonized by Britain and the civil service in Nigeria was modeled after that of Britain. The evolution of the civil service in Nigeria started from colonial period and has undergone many processes. You are being treated to these process to enable you know how the civil service had evolved over the years.



### **3.2 Learning Outcomes**

At the end of this unit, you should be able to:

- (i) Discuss the evolution of Nigerian civil service
- (ii) Analyse the structure of the Nigerian civil service.



### **3.3 Main Content**

#### **3.3.1 The Evolution of Nigerian Civil Service**

In tracing the emergence and growth of the civil service in Nigeria, Nwosu (1977), started from 1900 when Britain formally established her authority in most of the areas that have now become Nigeria. The British divided the country into three protectorates for administrative purposes. They were the Colony of Lagos, the Protectorates of Northern and Southern Nigeria. Later in 1906 the Lagos Colony was merged with the Southern Protectorate and renamed the Colony and Protectorate of Southern Nigeria. In 1914 the two protectorates were amalgamated, and subsequently became known as the Colony and Protectorate of Nigeria. In order to be able to administer the territory, Britain imposed a unified alien civil service on Nigeria without giving much thought to its impact on the Nigerian traditional communities with their conflicting values, interests, norms and authority structure (Kingsley, 1963). It must be pointed out that despite the amalgamation and its attendant unification of the civil services of the north and south, the two areas still developed, at their own pace.

The major function of the civil service was mainly the maintenance of law and order and raising enough revenue to sustain the colonial authorities. According to Okoli (2002), the service was geared towards the negative policy of preventing trouble in the areas under its administration. Economic and social development was never a major objective of the administration. Nwosu (1977) outlined the structure of the colonial service thus; At the head of the public service was the Governor-General, who was accountable to the colonial secretary in London. The colonial secretary was himself accountable to the British cabinet and the parliament. The Governor-General delegated his authority to the Chief Secretary, who was the effective head of the service. The chief secretary

coordinated the entire service which was divided into two major parts - the departmental and the political administration. The departmental administration covered the technical and professional functions of the colonial regime. Such as education, health, agriculture, treasury, forestry, public works and audit. Assisting the Chief Secretary were the various departmental heads. In the absence of elected representatives of the people, they not only advised the Governor, but initiated policies, participated in legislation, and supervised the execution of enacted bills and approved policies. While the heads of technical departments operated from the central secretariat in Lagos, their subordinates were in charge of field offices.

Considering the 'authoritarian' nature of colonial regimes and given the limited scope of colonial policies, the technical and professional heads of departments carried their duties without deference to any organised clientele or public; the constraints and contingencies that stemmed from the wider environments were tackled by the field administrators. The field officers referred to above were the Lieutenant Governor, the Residents, and the District Officers. These officers who were the pillars of colonial administration were fully responsible for the maintenance of law and order and the mobilisation of resources, which in any case were the main goals of colonialism.

In explaining the importance of these officials in colonial administration, Kingsley (1963), stated that: The president and the governor, each in his geopolitical area, were concerned and more often than not, in more remote areas, a strong administrative officer was the government in the real sense of it. These field officers it must be pointed out did not rule the people. Indirectly, instead they ruled them through their own people. Indirect rule in the north was fairly easy since the emirs were already fully in- charge before the advent of colonialism. They had almost unquestionable powers and also had a system of taxation. In the west where the Obas were fully in charge, (though with some measure of checks and balances) the indirect rule system was also successful. The east provided a different scenario all together. With the exception of few areas, where established traditional authorities were already in existence, the diffused authority system which was described as segmentary or fragmented (Ubikeze & Obi 2003), made it difficult for the indirect rule system to be introduced. However, this did not deter the colonial officials from building a structure on which their administration rested. They created the 'Warrant Chief's and made them to perform the roles that their counterparts in other parts of the country had been performing. It undoubtedly encountered many problems.

The fusion of western administration with the traditional African, System, produced a new structure which Nwosu (1977), says corresponded with Fred Rigg's description of the pattern of role differentiation in a traditional society. Riggs (1963) said that: "We find, then, in the transitional society a dualistic situation. Formally superimposed

institutions patterned after, western models coexist with earlier indigenous institutions of a traditional type in a complex pattern which was heterogeneous over lapping. The new patterns thrive best at the centre in the higher levels of society; the alder patterns persist most vigorously at the periphery, in the rural hinterlands and the lower levels of society, but the mixture is everywhere present and produces new forms characteristics of neither the western nor the traditional institutional systems.”

At this early period, Nigerians were restricted to the lower echelons of the civil service. Though the south and the north were amalgamated in 1914, both regions still had their separate civil services. In fact Odumosu (1963), states that departments like education, policy and prisons in the north were separated in policy and control from their southern counterparts. The Richard's Constitution of 1946 marked a watershed in the political and administrative history of Nigeria. The constitution provided for a House of Assembly for each of the regions plus a House of Chiefs for the northern region: It equally provided a legislative council at the centre with an African unofficial majority. The councils were to advise the Regional Governors on any matter referred to them. The Governors were however not bound to accept their advice. According to Arthur Richards the objective of the 1946 Constitution was to Create a political system which is in itself present advance and contains living possibility of further orderly advance - a system within which the diverse elements may progress at varying speeds amicably and smoothly towards a more closely integrated economic, social and political unity without sacrificing the principles and ideals inherent in their divergent ways of life (Obikeze & Obi, 2004: 142-145).

### **Self-Assessment Exercise 1**

Give a brief narration of the evolution of civil service in Nigeria?
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### **3.3.2 The Structure of the Nigerian Civil Service**

Prior to the Udoji Commission Report of (1974), the Nigerian civil servants were divided into two separate groups - the administrative group and the professional group. Both groups were hierarchically organised. While the administrative group was made up of the administrative class, the executive class the clerical class and the manipulative class, the professional group consisted of the professional class, the technical class, the auxiliary class and the minor technical class. Each of the classes within the two groups operated so rigidly that it was very difficult for a civil servant to move from a lower to a higher class. This implied that a civil servant once recruited remained in the same class or grade throughout his service career.

However, in 1974, based on the recommendations of the Udoji Commission on the re-organisation of the civil service, the Federal Government of Nigeria abolished the former four classes and replaced them with a unified grading system in which all the jobs or positions in the service were graded from levels 01-17, grade level 01 being the lowest while grade level 17 represents the highest position in the civil service. With this development, an employee can now join the service at level 01 and climbs upwards to his ability before retirement. In spite of this significant change, five main classes of civil servants still exist today in Nigeria, though not officially: These include the administrative class, the professional class, the executive class, the clerical class, and the manipulative class.

Let us briefly explain each of these classes:

(a) **The administrative class:** This is the most prestigious and remunerative class in the civil service. Civil servants in this class are very close to the political head, i.e., the ministers/commissioners. Their main function is to advise the political head on policy matters. To be recruited into this class, the applicant must possess at least a second class honours degree from a recognised university and must in addition pass the interview conducted by the civil service commission.

(b) **The professional class:** This class consists of specialists like doctors, lawyers, engineers, surveyors, architects, etc., who are charged with the responsibility of advising the government on technical matters. These experts help the government in construction of roads, houses, run hospitals, engage in agriculture, etc.

(c) **The executive class:** The executive class consists of such positions as the executive officer, higher executive officer and senior executive officer. Civil servants in this class are involved in general administration and are charged with the actual implementation of government policies and programmes. The executive class used to be recruited from among people with good Higher School Certificates or General Certificate of Education, Advanced Level or a Diploma in Public Administration. These days, however, it has become the preserve of the people with less than a second class lower degree as well as that of Higher National Diploma Holders in the relevant fields.

(d) **Clerical class:** This class is made of a large number of subordinate staff who performs supportive functions to the government.

(e) **The manipulative class:** This class is made up of all the skilled and semi-skilled workers who abound in the various ministries and departments. These include the drivers, cleaners, guards, postmen, gardeners, etc. who represent the manual labour forces of the government (Ekhatior, 2003:259-261).

## Self-Assessment Exercise 2

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List any 5 main classes of civil servants?



### 3.4 Summary

In this unit, we discussed the evolutionary and structural processes of the civil service in Nigeria. Main features and events were highlighted and discussed. The evolution of civil service in Nigeria started in 1900 when Britain formally colonised Nigeria. Since then, many reforms have changed the features of the civil service in Nigeria. You are treated to these changes in the civil service to enable you know its evolutionary process.



### 3.5 References/Further Reading

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- Ferrel, H. "Civil Service." In: David L. Skills (Ed.) (1968), *International Encyclopedia of the Social Sciences*. Vol. 2. New York: McWilliams.
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- Nwosu, H.N. (1977), *Political authority and the Nigerian civil service*. Enugu: Fourth Dimension Publishers.
- Obikeze, S.O. & Obi, E.A. (2004), *Public administration in Nigeria: A developmental approach*. Onitsha: Book Point Ltd.
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### 3.6 Possible Answers to Self-Assessment Exercise(s) within the content

#### Answer to SAE

Five main classes of civil servants exist today in Nigeria, they are the administrative class, the professional class, the executive class, the clerical class, and the manipulative class.

## **UNIT 4: APPOINTMENT TO THE PUBLIC SERVICE**

### **Unit Structure**

- 4.1 Introduction
- 4.2 Learning Outcomes
- 4.3 Main Content
  - 4.3.1 Authorities for Appointment
  - 4.3.2 Recruitment
  - 4.3.3 Rules for Appointment on Probation and Contract
  - 4.3.4 Transfers and Secondments
  - 4.3.5 Acting Appointment
- 4.4 Summary
- 4.5 References and Further Reading
- 4.6 Possible Answers to Self-Assessment Exercise(s)



### **4.1 Introduction**

In the last section you have an idea about what the evolution and structure of the civil service in Nigeria is all about. This unit will take you a step further into the appointment

to the public service in Nigeria. The focus here is on the appointment to the public service in Nigeria. A major function of the personnel division is to ensure that an organization is staffed with highly qualified and experienced staff. Appointment of employees to the Public Service has certain guidelines that must be adhered to. Any person that is not duly employed can be weeded out at any time the error is discovered. Apart from newly employed staff, rules are also available for probation period, for officers, Conditions for transfers and secondments and acting appointment are also spelt out in this unit. This unit cannot reproduce all the public service rules but concentrates on those rules that are common to public service organizations in Nigeria



## **4.2 Learning Outcomes**

After studying this unit, you should be able to:

- (a) List the authorities responsible for appointment in the Public Service
- (b) Enumerate the rules for appointments on probation and contract
- (c) Differentiate between transfer and secondment
- (d) Explain the rules guiding acting appointment



## **4.3 Main Content**

### **4.3.1 Authorities for Appointment**

Appointments to public offices in the Federal Civil Service are made on the authority of the Federal Civil Service Commission. These appointments are made either:

- (a) By letter written under the direction of the Federal Civil Service Commission; or
  - (b) By formal agreement between the officer and the Federal Government or its appointed agents. Subject to Rules 020205, 020206 and 020207- Permanent Secretaries/Heads of Extra-Ministerial Offices have power of appointment which has been delegated to them.
- (i) The Federal Civil Service Commission shall make appointments to posts graded GL.12 -17. Such appointment shall be made as the need arises into the available vacancies after advertisement. Officers intending to transfer their services shall take part in the annual Public Service Examinations for posts GL 07-10.
  - (ii) Subject to modalities to be prescribed by the Federal Civil Service Examinations from time to time, each Ministry/Extra-Ministerial Office shall select from the pool of successful candidates at the Civil Service Examination prescribed in Rule 020102.
  - (iii) There shall be an annual competitive Civil Service Entry Examination for posts graded GL. 07-10 for new entrants and serving Officer wishing to transfer from other schedule services. This examination shall be conducted by the Federal Civil Service

Commission in conjunction with the Office of the Head of Civil Service of the Federation, Administrative Staff College of Nigeria and the Public Service Institute of Nigeria.

(iv) To qualify for this examination, candidates must possess an Honours Degree or Higher National Diploma not below upper credit in relevant disciplines as provided for in the Schemes of Service. Final selection shall be made by the line Ministries/Extra-Ministries Offices in line with their requirements.

(a) Each Ministries/Extra-Ministries Office shall appoint Junior Staff on GL. 06 and below. This shall be handled by the Junior Staff Committee of each Ministry/Office, with a representative of the Federal civil Service Commission and the Head of the Civil Service of the Federation at any meeting of the Committee, subject to the approval of the Permanent Secretary/Head of Extra-Ministerial Office.

(b) Appointment in the Federal Ministries/Extra-Ministerial Offices in the State shall be from the residents of that state who possesses the qualifications prescribes in the approved Scheme of Service.

(c) Each Ministries/Extra-Ministries Office shall work out the actual establishment or requirements for each State Office. The Junior Staff Committee (Local) shall conduct the interview to appoint the officers subject to approval of the Permanent Secretary/Head of Extra-Ministerial offices.

(d) Promotions to all posts in the Federal Public Service other than those of Permanent Secretaries are vested in the Federal Civil Service Commission, which, has however, authorized Permanent Secretaries/Head of Extra- Ministerial Offices to promote eligible candidates to posts in respect of which the powers of appointment have been delegated.

(e) Seniority in any department shall be determined by the entry date/the assumption of duty certified by an authorized officer as reflected in the appropriate register.

(f) Date of birth recorded on appointment by an officer shall not be changed throughout the career of the officer. Any contravention shall be regarded as an act of serious misconduct.

#### **4.3.2 Recruitment**

020201 - "Recruitment" means the filling of vacancies by the appointment of persons not already in the Public Service of the Federal Republic of Nigeria. It, however, excludes the transfer of officers from other Public Service in the Federal Public Service.

020202 - Direct appointment to the Federal Public Service may be in any of the following categories:

(a) As trainees or pupils;

(b) On probation in a pensionable post;

(c) On non-pensionable contract to a non-pensionable post, or against a pensionable post for a specified period; and

(d) On temporary basis other than (c)

(e) When posts prove difficult to fill, they shall normally be advertised.

**020204** - Except where the Federal Civil Service Commissions decides otherwise, all first appointments to the pensionable establishment in posts other than trainee post (see Rule 020203) will be on probation. An officer confirmed in a lower pensionable office will not however be regarded as on probation in a higher post to which he/she is promoted nor will an officer seconded or transferred as confirmed officer from pensionable service elsewhere.

**020205** - To be eligible for appointment into the Federal Public Service, every applicant must:

(a) Not be less than 18 years and not more than 50 years of ages;

(b) Posses such minimum qualification as may be specified from time to time including computer literacy;

(c) Be certified by an authorized Health Care Provider as medically fit for Government Service;

(d) Possess a testimonial of good conduct from last employer or if not previously employed, form the last school or college attended;

(e) Possess requisite qualifications as provided for in the Scheme of Service; and

(f) No officer shall be appointed into the Federal Public Service without authorization for appointment from the Office of the Head of the Civil Service of the Federal and Supervisory Boards in the case of Parastatals.

**020206** - No candidates shall be appointed to any post in the Federal Public Service without the prior specific approval of the Federal Civil Service Commission if:

(i) The candidates has been convicted of a criminal offence; or

(ii) He/she has previously been employed in Government Service and been dismissed or called upon to resign or retire there from. Such approval must always be obtained irrespective of any delegation of the Commission's power.

**020209** - It is the duty of every Permanent Secretary/Head of Extra Ministerial Office to ensure that all officers/staff in his Ministry/Extra - Ministerial Office sign an Oath of Secrecy Form I and that the Oath so signed is carefully preserved.

**020210** - No Public Officer shall become a member of any Secret Society. Any Public Officer who is a member of such Society shall renounce his membership forthwith by making a Statutory Declaration to that effect, or resign his appointment, or retire from the service.

**020211** - Contravention of Rule 020210 shall be regarded as an act of serious misconduct and shall attract appropriate disciplinary action which may include dismissal from service.

### **Self-Assessment Exercise 1**

- i. List the Authorities for appointment in the Federal Public Service.
- ii. Which organ is responsible for the promotion to all posts in the Federal Public Service except those of Permanent Secretaries?
- iii. What is the current rule about date of birth?

### **4.3.3 Rules for Appointment on Probation and Contract**

**020301** - Officers on probation will be required to serve for two years before being confirmed in the service. This period may however be reduced to not less than six months by deduction of any previous period of Public Service rendered satisfactorily in posts of cognate status involving similar duties. The period of probation shall not exceed two years unless an extension may result in the increment penalty referred to in Rule 040206, if the Commission so decides.

**0202303** - To be eligible for confirmation in the Permanent Establishment, an officer appointed on probation is required to pass the prescribed examination, if any, during his probationary period and to complete his probationary period to the satisfaction of the authority empowered to appoint him. At the end of the period of probation the officer will, unless his probationary appointment is terminated or extended, be confirmed in his appointment.

#### **4.3.3.1 Rules for Appointment on Contract**

**020401** - A contract appointment is a temporary appointment (which does not provide for the payment of a pension) to a post of the level to which appointment is made by the Federal Civil Service Commission for a specific period as opposed to appointment on pensionable terms and temporary employment. The contract appointment must be recorded in a formal document of agreement.

**020402** - (a) The Conditions of Service of a Contract Officer are those provided for his/her contract and the privileges, emoluments or allowances described in these Rules do not apply to him/her unless they are specifically so stated in the contract itself. Any question of the interpretation of a contract affecting his/her Conditions of Service should be referred to the Office of the Head of the Civil Service of the Federal.

(b) (i) Contract appointments may be offered to expatriates only when suitable Nigerians are not available. Nigerians may be appointed on contract terms if:

(a) They are pensioners;

- (b) They are 50 years of age or over at the time they are being appointed;
- (c) They specifically request to be employed on contract terms and it is
- (d) The candidate possesses specialized and competencies or skills and provided such posts are duly advertised in at least three national newspapers.
- (ii) For non-Nigerians, the provisions of the Public Service Rules regarding appointments shall apply in all cases, except for those persons married to Nigerians.
- (iii) Spouses married to Nigerians should remain on contract until granted Nigerian citizenship before being considered for appointment

#### **4.3.4 Transfer and Secondments**

**020501 -Transfer** is the permanent release of an officer from one scheduled service to another or from one class to another within the same service.

**Secondment** means the temporary release of an officer to the service of another Government, approved body or any recognised International Organisation or body for a specified period.

**020502 - Inter-Service Transfer/Secondment:** The following procedures shall apply in processing Inter-Service Transfer and Secondment:

- (i) Applications for Transfer/Secondment to posts graded GL 06 and below shall be determined by the Ministry/Extra-Ministerial Office of the applicant's choice.
- (ii) That applicant for Transfer/Secondment to posts graded GL 07 - 10 in any Ministry/Extra-Ministerial Office shall be determined by the Federal civil Service Commission. Since GL 07 - 10 is an entry point, Officers seeking transfer from scheduled establishments are required to sit for the Annual Competitive Civil Service Entry Examination.
- (iii) Confidential reports covering the last three years (or whole service if less than three years) of the officer's service shall be furnished.
- (iv) Secondment of an officer to the service of another Government, or Approved Body or recognised International Organisation at his own request shall be for a maximum period of two years in the first instance after which the officer must apply for extension, seek for transfer or return to his former post. All extensions must be approved by the appropriate Committees and the Federal civil Service commission.

The total period of such secondment must not exceed four (4) years.

**020503 - (a) Senior Posts** - Transfers from one senior post to another or from one class to another within the Federal Public Service require the prior approval of the Federal Civil Service Commission. An officer must have served for a minimum period of 6 months in his original Department before seeking transfer to another Department. An application for such transfer must be submitted to the Permanent Secretary/Head of

Extra-Ministerial Office of the applicant and must state the applications reasons for desiring a transfer and his qualifications for the work to be undertaken. Such applications should be forwarded to the Federal Civil Service Commission by the Permanent Secretary/Head of Extra-Ministerial Office together with a statement as to:

(i) How the applicant has performed his/her duties;  
(ii) Whether the applicant is considered to be well qualified for the post desired; and (iii) Recommendations as to the grant or refusal of the application.

(b) **Junior Posts** - Transfers from one junior post to another within the Federal Public Service or from one Department to another may be arranged, with the consent of the officers being considered for transfer, at the mutual discretion of their Permanent Secretaries/Head of Extra- Ministerial Offices.

#### **4.3.5 Acting Appointment**

When it is necessary that a particular duty post (of status not lower than Senior Clerical officer) should continue to be filled at a time when no officer of corresponding substantive rank is available for posting thereto, some other officers may, with the approval of the Federal civil Service Commission; be formally appointed, by notice in the gazette, to act in the duty post and assume either fully or in part, the duties and responsibilities thereof. The mere fact that the substantive holder of a duty post will be absent therefore for a short period (e.g. on casual leave or on sick leave) does not in itself justify an acting appointment; there may however be circumstances, (such as compliance with statutory provisions) which necessitate the making of an acting appointment for a relatively brief period. The decision whether an acting appointment is necessary or desirable in any particular case will rest with the Federal Civil Service Commission.

Acting Appointments are not intended as a means of testing the suitability of officers for promotion; they will normally be made only in order to fill posts that are temporarily vacant and their duration should limited accordingly.

Recommendations for Acting Appointments must be forwarded to the Federal Civil Service Commission on general form 66 and must include thereon a certificate to the effect that the Acting Officer will assume the full duties and responsibilities of the post in question. Approved acting appointment will be gazetted by the Federal civil Service Commission but it will on no account be back dated to a period in excess of six months of the date of receipt of the recommendation by the commission.



#### **4.4 Summary**

This unit explains Public Service rules on authorities for appointment, recruitment, probation, contract, transfers, secondments and acting appointments. The Federal Civil

Service is responsible for appointments. This power of the Federal Civil Service is often delegated to Permanent Secretaries and Heads of Extra-Ministerial Officers. The term recruitment in the Nigerian Public Service means filling of vacancies by the appointment of persons not already in the Public Service. A Public Servant must be conversant with the rules guiding his/her employment in the Public Sector Organisation he/she works in. Such knowledge enables the officer to know what to expect and how to conduct him/her appropriately. Apart from personal advantage, a Public Officer should be able to explain Public Services Rules guiding, appointments, transfers and secondments to all who desire such information. A person is on probation until his/her appointment is confirmed. Public servants can be transferred or seconded to another organisation, public or private employee on a lower scale can act in a higher capacity.



#### **4.5 References/ Further Readings**

- Federal Republic of Nigeria (2009), *Public service rules*. Abuja: Office of the Head of Civil Service of the Federation.
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#### **4.6 Possible Answers to Self-Assessment Exercise(s) within the content**

- i. List the Authorities for appointment in the Federal Public Service.
- ii. Which organ is responsible for the promotion to all posts in the Federal Public Service except those of Permanent Secretaries?
- iii. What is the current rule about date of birth?

#### **Answer to SAE 1**

Appointments to public offices in the Federal Civil Service are made on the authority of the Federal Civil Service Commission. These appointments are made either:

- (a) By letter written under the direction of the Federal Civil Service Commission; or
- (b) By formal agreement between the officer and the Federal Government or its appointed agents. Subject to Rules 020205, 020206 and 020207- Permanent

Secretaries/Heads of Extra-Ministerial Offices have power of appointment which has been delegated to them.

(i) The Federal Civil Service Commission shall make appointments to posts graded GL.12 -17.

(ii) Each Ministries/Extra-Ministries Office shall appoint Junior Staff on GL. 06 and below. This shall be handled by the Junior Staff Committee of each Ministry/Office, with a representative of the Federal civil Service Commission and the Head of the Civil Service of the Federation at any meeting of the Committee, subject to the approval of the Permanent Secretary/Head of Extra-Ministerial Office.

## **UNIT 5: REFORMS IN THE CIVIL SERVICE**

### **Unit Structure**

5.1 Introduction

5.2 Learning Outcomes

5.3 Main Content

5.3.1 The Udoji Commission

5.3.2 The 1988 Civil Service Reforms

5.3.3 The 1994 Review Panel on Civil Service Reforms (Ayida Panel)

5.4 Summary

5.5 References and Further Reading

5.6 Possible Answers to Self-Assessment Exercise(s)



### **5.1 Introduction**

In the last section you were introduced to the appointment practices in the public service in Nigeria. This unit will take you into prominent reforms in the civil service. The unit will focus on the Udoji commission of 1972, the 1988 civil service reforms and the 1994

review panel popularly known as Ayida panel. Major submissions of other panels will as well be discussed.



## **5.2 Learning Outcomes**

At the end of this study, you should be able to:

- i. State major submissions of the Udoji Commission
- ii. Give major submissions of the 1988 Civil Service Reforms
- iii. Give major submissions of the Ayida panel



## **5.3 Main Content**

### **5.3.1 The Udoji Commission of 1972**

The Udoji Commission was set up in September 1972 to carry out comprehensive review of the nation's public service. The commission was mandated:-

- (i) To examine the organization and structure of the public service.
- (ii) To investigate and evaluate their methods of recruitment, conditions of service and staff development programmes;
- (iii) To examine existing pension and superannuation schemes in the public and private sector;
- (iv) To make recommendations that would facilitate inter-sectoral mobility, without detriment to the retention of efficient and qualified personnel in the public services; and
- (v) To undertake regarding of all posts in the public services and establish appropriate salary scales.

The commission submitted its report on 25th September 1974, exactly two years after it was established. True to its terms of reference, the commission reviewed every aspect of the country's public service including: Recruitment, Career and staff development, superannuation, and salary grading. Every sector of the public services, the Public Enterprises, the teaching service, and the various Local Government Administrations. The report was released in December 1974, with the Government white Paper on it (entitled Government views on the Report of the public service review Commission).

A summary of the Commission report is as follows:

- i. That the concept of result – oriented management be adopted
- ii. That a unified structure be introduced
- iii. That Administration be transformed into 'management'
- iv. That pay be dependent upon job content and performance

- v. That promotion be based on merit and not seniority
- vi. That public sector compensation be related to private sector compensation
- vii. That financial management be strengthened and modernized
- viii. That personnel management practice be modernized. (Obikeze & Obi; 2004:153)

In a nutshell, the Udoji Commission in its pursuit of a development oriented public service recommended the adoption of modern management techniques like the Planning, Programming, Budgeting Systems (PPBS), Management by Objectives (MBO) and project management in the Nigerian Civil Service. It equally advised that the dual hierarchies in ministers be abolished, while training should be intensified in order to make workers suitable to handle senior management positions. It reviewed and simplified the wage scales in the public service and reduced it from over a hundred to just seventeen.

By way of innovations, the Udoji Commission introduced a number of key features in the Civil Service, notably the opening of the post of Chief Executive of the Ministry referred to as permanent secretary, to both administrative and professional/specialist staff; the harmonization and unification of job grading and salary system throughout the service; the introduction of a new code of conduct for all public officers.

### **Self-Assessment Exercise 1**

How did the Udoji Commission contribute to the development-oriented programmes in the public service?

### **5.3.2 The 1988 Civil Service Reforms**

The Federal Military Government in 1984 set up a panel to study the structure, staffing and operations of the Federal Civil Service and make appropriate recommendations which will enhance efficiency, effectiveness and productivity in the service. As at the time the reforms were introduced in 1988, the Civil Service was already in a terrible state characterized by over-centralization; incessant conflicts between the cadres; little emphasis on results and concrete performance; excessive focus on compliance with regulations, forms and procedures; dangerously low staff morale and productivity; inappropriate staff deployment practices which often ignored the profession or specialization of staff, thereby putting square pegs in round holes in critical areas; and increasingly patent inability to cope effectively with the challenges of modern, complex and development hungry society.

The reforms sought to;

- i. Considerably enhance the degree of professionalism in the civil service;

- ii. Align the service with the form and spirit of presidentialism;
- iii. Ensure that its management and control systems are such as would no longer separate responsibility from authority at the top of the civil service hierarchy;
- iv. Install accountability (not only for money, but also for performance) as the unmistakably hallmark of the civil service systems;
- v. Ensure that the systems significantly enhance the degree of efficiency, effectiveness, promptness and speed of civil service operations
- vi. Introduce considerable delegation of functions and power not only at the top but further down the line in the service;
- vii. Install appropriate checks and balances to prevent misuse or abuse of authority, but without jeopardizing the efficiency, speed and effectiveness of the service;
- viii. Minimize, if not eliminate, areas of conflict, particularly at the top of the civil service;
- ix. Significantly insulate the civil service from partisan politics, but at the same time, erect a smooth and efficient bridge between the civil service and the political/ruling class.

In order to achieve the above aims the, reforms emphasized four main elements. There were;

- i. enhanced professionalization of the civil service;
- ii. rationalization of authority and responsibility at the top level of a ministry by making the minister instead of the permanent secretary as hitherto the Chief Executive and Accounting officer of his ministry; and re-designating the permanent secretary as Director-General who will now serve as the minister's deputy
- iii. Installation of a strong scheme of checks and balances to prevent misuse or abuse of power especially on the part of the minister
- iv. enhancement and strengthening of the economic and financial management apparatus of the presidency by placing the Central Bank of Nigeria and the planning and budget office directly under the president.

The plank on which the entire reform rested was on the professionalization of the civil service, for the Dotun Philips report recommended an enhanced professionalization of the civil service through the following measures:

- i. The staff structure has been changed, so that there now existed in the civil service three basic staff categories, namely; Assistant, Officer and Director, (each at different grades); the Assistant is a sub-professional, the officer is a full professional, and the Director is a full professional with general management responsibilities;

- ii. Staff nomenclatures have been changed to reflect areas of specialization, profession or basic function;
- iii. The horizontal and vertical structures of the ministry have been changed to reflect processional and specialized operational areas;
- iv. The central pooling and central deployment of staff have been discontinued;
- v. Each staff is now to spend his entire career in his ministry or extra, ministerial department;
- vi. Much greater emphasis is now to be placed on staff training, which is now to be obligatory and systematically periodic for every staff in the civil service;
- vii. Performance evaluation schemes at institutional and individual levels are being revamped to reflect overriding emphasis on concrete performance and accord less weighty than hitherto to politics, seniority and subjective factors
- viii. Much greater decentralization is being introduced in personnel, finance and operational matters (Philips 1988) (Obikez and Obi 2004: 155-157)

The reform package despite its lofty look failed almost completely in achieving its aims because of deep-rooted corruption in the civil service, politicization of the appointment of Director-Generals, faulty assumptions arising from lack of appropriate managerial and professional skills, absence of organizational machineries needed for social change, lack of appropriate management techniques, antiquated personnel and financial management strategies and techniques, poor wages and inadequate incentives, inefficiency, ineffectiveness and low productivity.

### **Self-Assessment Exercise 2**

List four (4) major submissions of the 1988 civil service reforms?

### **5.3.3 The 1994 Review Panel on Civil Service Reforms (Ayida Panel)**

The 1994 Review Panel on civil service reform which was referred to as the Ayida Panel, named after its chairman. Alison Ayida, actually submitted its report in June 1995. It was later in 1997 that the government began to gradually implement its recommendations. According to Otoha (2002) the two key features of the 1988 reforms which the Panel reaffirmed were the personnel management board in each ministry and the devolution of authority to incur expenditure to certain categories of senior management staff specifically to the level of assistant director and above. The Panel also made a case for upward review of pay and other incentives for civil servants.

The Panel also addressed the issue of federal character and corruption in the bureaucracy. The abuse of the federal character principle had led to low morale and performance in the

civil service, thus making One panel to recommend that recruitment into the civil service, especially at the entry grades of professional cadres, should as much as practicable be based on a combination of merit and federal character so that the best candidates from each state are selected on a purely competitive basis. It equally recommended that in order to eradicate the wide spread corruption in the civil service, strict sanctions be applied against those caught in corrupt practices, while the remuneration of civil servants should be sufficient enough to discourage corruption.

#### **5.3.4 Civil Service Reforms of 1997**

The following are the decisions of the Federal Government from the white paper published in June, 1997 on the recommendations earlier submitted to it by the Ayida Panel in June, 1995.

- i. Ministries and extra-ministerial departments should be structured according to their objectives, functions and sizes and not according to a uniform pattern.
- ii. The Minister should no longer be the accounting officer of the ministry. This function now becomes the responsibility of the director-general. The Minister should continue to be the head and chief executive of the ministry while the director-general is the chief adviser to the Minister and the accounting officer.
- iii. Government accepted the recommendation that the title of director general should revert to permanent secretary. This will remove the confusion between the directors-general of ministries and those of parastatals and myriads of government agencies.
- iv. Government accepted the recommendation that the post of permanent secretary should be a career post. Appointments will be made from among serving senior officers in the civil service on the advice of the Head of the Civil Service and the Chairman of the Civil Service Commission.
- v. Government accepted the recommendation that the post of Head of Civil Service should be restored, and that he should be from among permanent secretaries or officers of equivalent ranks. The panel had recommended that both the post of Head of Civil Service and that of the Secretary to the Government should be filled from among the permanent secretaries or officers of equivalent rank. While government accepted the recommendation on the appointment of the Head of Civil Service it rejected the recommendation on the- Secretary to the Government. This latter post will remain a political appointment to be filled at the discretion of the President.
- vi. The panel recommended and government accepted that the following parastatals be scrapped:
  - (i) National Council on Inter-governmental Relations
  - (ii) National Committee against Apartheid

(iii) Centre for Democratic Studies.

vii. The Panel had been astonished to discover that the Office of the Secretary to the Government of the Federation supervises about forty parastatals and agencies. This has made the office complex and unwieldy and has led to duplication of functions, lack of clearly defined lines of authority and conflict of roles. Besides, parastatals and agencies prefer to hide- under the Presidency to avoid close scrutiny and supervision by ministries and to facilitate, obtaining funds through the Presidency. Apart from the three agencies approved for scrapping above, government approved that twelve other parastatals and agencies be transferred to relevant ministries connected with the functions of each agency.

viii. Government accepted the recommendation that the Federal Executive Council should meet at least fortnightly so as to enhance the coordination of government policies. The panel got to know that the Federal Executive Council hardly ever met. There was no coordination of policy, there were frequent frictions between Ministers and each Minister contrived to see the Head of State and get approval for whatever he wanted, while there were some Ministers who never succeeded in getting to the presence of the Head of State.

ix. Government accepted the recommendation that the "Guidelines of Administrative Procedure of the Federal Government" should be updated and applied in the conduct of government business. The document stipulates the procedures and rules for the conduct and interrelationship of various arms of government.

x. Every ministry and extra-ministerial department should have the following staff committees for dealing with personnel matters:

(a) Management Staff Committee for officers on G.L. 14- 17;

(b) Senior Staff Committee for officers on G.L.07-13;

(c) Junior Staff Committee at Headquarters for officers on G.L. 01- 06;

(d) Junior Staff Committee at out-stations for officers on G.L. 01-06.

xi. Recruitment into the civil service at the entry grades should be based on a combination of merit and federal character, but for further progression thereafter it should be based normally on merit.

xii. Maturity period for promotion of staff should be:

G.L. 01-06 - 2 years.

G.L. 07-14 - 3 years.

G.L. 15-17 - 4 years.

xiii. The Pool System which was abolished by the 1988 Reforms was restored in respect of the following cadres: Accountants, Administrative Officers, Auditors (External), Executive Officers (Account and General Duties), Information Officers, Legal Officers,

Librarians and Library Officers, Medical, Health and Auxiliary Officers, Engineers, Architects, Surveyors, Technicians, Secretarial and Typist cadre.

xiv. Government observed that the present 10 per cent of annual personal emoluments, set aside for training appears grossly inadequate. Government therefore directed that adequate provision be made in each department's budget until the training need of the civil service is well addressed.

xv. A senior management course should be introduced for all officers who are expected to attend it before entering the senior management category on G.L. 14.

xvi. Study leave without pay was restored as a way of encouraging officers to improve themselves to render valuable service.

xvii. Government accepted the recommendation that the Centre for Democratic Studies be scrapped. As for the recommendation that the premises be converted to start a Civil Service College, government noted that the premises had already been handed over to the Nigerian Law School. However, government directed that the development of a Civil Service College at Abuja should be given priority attention.

xviii. Ministries and extra-ministerial departments should set targets for themselves, their departments and divisions as well as individual staff, and each ministry should submit an annual report of its activities to the government within the first quarter of the succeeding year.

xix. Retirement age in the civil service should be 60 years irrespective of the length of service.

xx. Government accepted the recommendation that there should be no retirement of any civil servant without following all laid-down procedures. This is to prevent indiscriminate and arbitrary retirement of civil servants. Pensions should continually be reviewed upwards immediately salaries and allowances are reviewed, and in particular government accepted the recommendation that pension rates of those who retired since 1991 be harmonized.

xxii. A funds Allocation and Budget Committee should be established in every ministry, extra-ministerial department and parastatal and its recommendations should be submitted to the Minister of Chairman, as the case may be for approval.

xxiii. Powers to approve expenditure should be devolved down to G.L. 14 officers and heads of out-stations.

xxiv. Government approved that tenders procedures should be followed strictly in the award of contracts. (Adebay, 2000:217-8)

### **Self-Assessment Exercise 3**

Why was Ayida Panel set up?
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#### 5.4 Summary

The 1997 reforms of the civil service went to the roots of the problems militating against efficiency and devotion to duty in the civil service. However, it is another to ensure that the prescription is carried out. Compliance with any reforms of civil service must spring from the mental attitudes of the civil servants. It must be informed by a conscious determination on the part of the rulers to the state and federal levels to maintain and uphold an enlightened and honest public service. Irrespective of the different orientation of the various civil service reforms in Nigeria in both pre and post-independence the basic fact remains that the main aim of all of them had always been to make the civil services more efficient, effective and result oriented. However, it quite appealing that despite all the resources sunk into the civil service in Nigeria, it has failed to live up to expectations of the people as the engine of growth and development. The various reforms of the service have not helped in any significant way in bringing about the desired state. Worse still, some have even seen the reforms as a way of creating jobs for retired bureaucrats and political cronies of the governments that interest such reforms.



#### 5.5 References/Further Reading

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## **5.6 Possible Answers to Self-Assessment Exercise(s) within the content**

### **Answer to SAE 1**

How did the Udoji Commission contribute to the development-oriented programmes in the public service?

The Udoji Commission in its pursuit of a development oriented public service recommended the adoption of modern management techniques like

- i. the Planning, Programming, Budgeting Systems (PPBS), Management by Objectives (MBO) and project management in the Nigerian Civil Service.
- ii. It equally advised that the dual hierarchies in ministers be abolished, while training should be intensified in order to make workers suitable to handle senior management positions. It reviewed and simplified the wage scales in the public service and reduced it from over a hundred to just seventeen.
- iii. the opening of the post of Chief Executive of the Ministry referred to as permanent secretary, to both administrative and professional/specialist staff;
- iv. the harmonization and unification of job grading and salary system throughout the service;
- v. the introduction of a new code of conduct for all public officers.

### **Answer to SAE 2**

List four (4) major submissions of the 1988 civil service reforms?

Four major submissions of the 1988 reforms:

- i. Change of staff structure in the civil service to three basic staff categories, namely; Assistant, Officer and Director, (each at different grades); the Assistant is a sub-professional, the officer is a full professional, and the Director is a full professional with general management responsibilities;
- ii. Staff nomenclatures have been changed to reflect areas of specialization, profession or basic function;
- iii. The central pooling and central deployment of staff have been discontinued;
- iv. Each staff is now to spend his entire career in his ministry or extra, ministerial department;
- v. Much greater emphasis is now to be placed on staff training, which is now to be obligatory and systematically periodic for every staff in the civil service;

vi. Performance evaluation schemes at institutional and individual levels are being revamped to reflect overriding emphasis on concrete performance and accord less weighty than hitherto to politics, seniority and subjective factors