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A Literature Review of Privatization Models, Theoretical Framework for Nigerian Railway Corporation Privatization

Oye Abioye[1]

[1] Faculty of Arts, Business and Science, University College of the North, Thompson. Manitoba, Canada

Correspondence: Oye Abioye, PhD, Faculty of Arts, Business and Science, University College of the North, Thompson. MB., R8N 1L7, Canada. Tel:1 416-731-2930.

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Abstract

Privatization is the transfer of ownership from the state to the private sector. The main idea behind this economic strategy is to relieve government from the saddle of management of state enterprises that can be seen to be best managed by the private sector for maximum performance. The main method and critical choices for the privatization of the Nigerian Railway Corporation are management-buyout, concession, management contract, leases, share option and franchises. In addition, the research paper discusses the main performance indicators, such as effectiveness, efficiency, productivity, infrastructural investment, and profitability. These are the parameters set to measure the performance of privatized state enterprises after privatization discussed in the research study.

Keywords: privatization, models, theoretical framework, critical choices

1. Introduction

This study provides a literature review of the overall background study, options, theoretical framework of privatization, and railway development. It provides an evaluation of the arguments for and against privatization, its implications, the benefits of privatization and strategies of privatization. It reviews the theoretical framework of privatization including the study of privatization policies and a critical evaluation of privatization choices. Finally, it examines the performance indicators and the critical success factors of privatization strategies including the issue of informed consent of the public, the middle class, and the employees of the NRC.

2. Privatization: General Overview

Most government run establishments and enterprises are presently in a state of disrepair, devoid of market driven ideologies let alone operated as a business for profit motives. They are all saddled with poor productivity, poor performance, inefficient and less competitive globally. They suffered from poor, yet basic strategic infrastructures such as power, road, telecommunication which could assist their efficient and effective operations. The above economic ills were exacerbated because of overblown government size, increasing cost of governance, over centralization of management authority resulting in administrative inefficiency, ineffectiveness and a battered economy. As such, Fatemi and Behmanesh (2012, p. 42) observed that there is “a new paradigm for public management which is called ‘New Public Management’ that has emerged since the 1980s which was formed to confront the present economic problems.” In the empirical study, there was an evidence of chronic government overload which was observed together with fiscal distress, of which in view of these situation, the respective administrative reforms put in place to tackle the worldwide pandemic, mismanagement of state-owned enterprises failed to achieve the desired results. In view of this, it has led government policy makers to enthusiastically accept privatization as a major component of major economic reforms and as a potential panacea for better and new world order of the New Public Management (Peters, 1996 as cited in Durrant & Legge, 2002). The NPM therefore embraced a radical market reforms resulting in decreasing government size, reducing cost of governance, decentralization of management authority, while laying emphasis on efficiency, effectiveness and the economy which were now encapsulated in the privatization policy (Fatemi & Behmanesh, 2012).

The theory of privatization strives to enhance efficiency in addition to effectiveness and equity of operation in the delivery of public services. It also suggests that unless there is a radical approach to address the current situation, including an adoption of economic models for political and administrative motives. The concept of competition, performance based, service delivery and customer satisfaction, will merely be a far cry and hence without the achievement of the desired result considered as the gain or the economic policy thrust of privatization (Kaboolian, 1998 cited in Savas, 2000, p. 1736).

Several schools of thought were considered, in terms of defining the term “privatization”, in ways that reflects the different economic and developmental stages of the country as well as the objectives sought from adopting the strategy. Agba, Agba, Ushie, and Festus, (2010), in their contribution commented that privatization can be seen as a reform mechanism that is aimed at ensuring an effective and efficient operation of state-owned enterprises in the provision of their respective statutory obligation to the Nigerian people.

3. Privatization Definitions

“Privatize (vb.) to transfer (the production of goods or services) from the public sector of an economy into private ownership and operation” (Collin English Dictionary, 1995, p. 375). Similarly, Agba et al. (2010, p. 95) described it to “involve the transfer of government owned shares in designed SOEs to private shareholders.” Whereas Cowan,1987 as cited in Agba et al. (2010, p. 96) defined privatization to include “an activity that ranges from selling of state-owned enterprises (SOEs) to contracting out of public services to private contractors.”

Taking another view at the policy, privatization of SOE is seen as the transfer of government equity shares in these ventures to private owners (Ayodele, 1994; Carter, 2014). For commercialized enterprises, the government retains ownership of the relevant infrastructure, but realigns the company toward maximizing the return on capital as in private enterprises. Both scenarios are a means of attaining a higher level of performance. However, where privatization implies commercialization, the reverse is not necessarily true of commercialization (Carter, 2014).

Ramanadham (1996, p. 138), however, defined privatization as a term that is employed to convey a variety of ideas, noting that “in the United Kingdom, the idea that is most prominently suggested is denationalization, in the sense of transferring the ownership of a public enterprise to private ownerships. Another idea in vogue is 'liberalization and deregulation' which unleash forces of competition. By the idea of deregulation allowing private participation in the market economy, “this idea enhances corporate efficiency, effectiveness and, above all, foster consumer choices.”

Furthermore, Adeyemo and Salami (2008) defined Nigerian commercialization and privatization in Decree No 25 of 1988 to include the restructuring or the re-organization of state-owned enterprises that is either wholly, solely or partly owned by government such that the state enterprise becomes privately owned therefore becoming performance driven and a profit orientated ventures operating without any government financial assistance or subventions operating as a profit oriented private business entity.

From the literature reviewed, and for the purpose of this research therefore, privatization is referred to as the transfer of ownership and control of SOE from government to private ownership and control for the primary purpose of an efficient and effective driven operation leading to better productivity and profitability of the state owned enterprises (Agba et al., 2010); Cowan (1987) resulting to development and economic prosperity; Yodeled (1994); Ramanadham (1996); Adeyemo (2008). The reason for privatization is because of the poor performance of the NRC by measuring its activities against the performance indicators identified above.

4. Privatization: Theoretical Framework

In view of the above discussions and in relation to the theme of the study, the theoretical framework for the research examines the privatization policy in four theory dimensions which informed the theoretical research philosophy discussed later. The following are the research theoretical framework lenses considered relevant to the study.

4.1 Property Rights Theory

This theory argued the notion that property is best managed if it is privately owned, especially where there is a strong belief of a perceived threat to ownership and risk of bankruptcy if investments are not well managed. That is, if assets are not well managed to bring to bear a commensurate and required return on investment to cover the initial investment cost, bankruptcy could occur. Which implies that, if such assets are in the public domain, otherwise state owned controlled enterprise, because of the perception that it is government owned, no particular attention is usually paid to this aspect of bankruptcy threats, therefore returns on investment are usually not pursued with the desired vigor as compared to being in private control, so much so that profit motives are relegated to the back burner, therefore resulting in poor performance as it is witnessed in most public managed businesses today, which incidentally account for the poor performance of SOE’s (Rowley & Yarrow, 1981 cited in Carter 2013; Kay & Thompson, 1986). However, Nheri (2014, p. 98) in a research study, observed that there was “higher improvements in efficiency and output for firms privatized after financial liberalization and where the government relinquishes control” which clearly supports the property rights theory approach.

Also, Adeyemo (2008, p. 404) argues that "the character of the traders and that of the sovereign are inconsistent, that public administration was negligent and wasteful because public employees have no direct interest in the outcome of their actions." This explains the reasons for the SOEs' abysmal performance despite the colossal amounts spent on them and, as such why the NRC is performing so poorly with the various sums of money spent on it at different periods of each government (Omoleke, Salawu, & Hasan, 2011).

4.2 Agency Theory

The agency theory is concerned with the relationships between the principals of a firm, who are owners or shareholders, especially in an incorporated business, and the agents who are the management team of the firm (Omoleke et al., 2011; Nellis, 1994; Clarke, 2004, cited in Muogbo, 2013). The principals, who are typically the investors or shareholders, are interested in their return on investment, hence, having a vested interest in the company performance. Whereas, the agents who are the management team, want to protect their employment, on the one hand, as well as other management perks for good performance, on the other hand. Therefore, the profit motive is the only avenue in meeting their respective economic goals as well as increasing shareholders wealth. As such, effective control will be put in place to ensure the achievement of overall corporate goals, whereas with a SOE, the motive of profit is usually of less importance, hence not vigorously pursed. For example, Eisenhardt 1989 cited in Carter (2013, p.114) observed that agency theory assumes that individuals are risk averse; "suggesting that privatized firms may assume higher risks or costs for engaging in opportunistic behaviors against their government especially in cases that effective monitoring and control mechanisms are in place".

4.3 Resource-Based View

The resource-based view theory takes a strong view of procuring and sustaining a state-of-the-art infrastructure, which gives the enterprise a competitive advantage. The theory suggests that firm's infrastructure will enhance the achievement of competitive advantage, improved performance and simultaneously achieving advancement. Whereas, if left in the public sector control, the objective of a sustained and effective infrastructure will not be important and thereby making the enterprise to become less competitive, as presently observed in the case of Nigerian Railways (Omoleke et al., 2011).

Wade and Hulland, 2004 cited in Carter (2013, p. 114) hence argued that "resources that are valuable and rare can lead to the creation of competitive advantage, which can be sustained over longer time periods to the extent that the entity is able to protect against resources being imitated, transferred or substituted." Whereas, in most SOE, because of the monopoly power advantage they have and the lack of competition or substitutes for a similar service provide. There is little or no motivation for efficient service compared with the private sector's competitive environment, which enhances competition, efficiency, and profitability. For example, Fatemi & Behmanesh (2012, p. 44) also suggested that "new public management does not emphasize on processes (input) but on efficiency (output)". This view was echoed and shared by Adeyemo (2008, p. 404) who noted that" this theory would reap the advantages of the market system and competition, namely effectiveness, productivity, and efficient service."

4.4 Contingency Theory

The contingency theory argued it by taking the position of privatization in terms of what method is best in implementing the privatization program. It considers the cultural background, values and beliefs as important factors that affect the success of the privatization program and, hence, posits that all these factors have bearing and impact on the implementation and success of the policy when the privatization program is implemented. For example, according to Smircich & Stunnart, 1985 cited in Carter (2013, p. 112), "every country has its own unique environment that historically constitute a set of forces to be adapted to, co-aligned with, controlled, or uncontrolled." This is what informed the observation made by Lawrence and Lorch, 1967 cited in Carter (2013, p. 112) who noted that "there is no one best way to privatize."

However, on a broader approach, Joseph (2010, p. 145), in a recent empirical study, saw the process of privatization as "carrying a wide range of possibilities from decentralization at one end to market discipline at the other. Whereas Agada, 2002 cited in Joseph (2010, p. 145) looked at the process in a broader sense to also "involve not only the sale or other form of transfer of state assets but also the transfer of the management of state enterprises to the private sector." From all the above definitions, the main goal of the privatization process and which is equally shared by all the empirical studies identified, suggests that privatization, is the process of relinquishing government control of SOE's to private control for better performance which also espoused the privatization theoretical framework discussed above as well as align with the epistemology belief of the research (Ojo & Fajemisin, 2010).

For example, Kouser, Azid, and Ali (2011, p. 36) stated further that the policy of "privatization is the termination of public programs and separation of state from its manufacturing and other different kind of corporate activities." This view was also shared by Nellis (1994, p. 1), who described the issue of privatization as a "neoclassical economic theory which suggests that the relationship between ownership and performance is tenuous; efficiency is seen mainly as a function of market and incentive structures". Nellis (1994, p. 1) therefore stated further that, "in theory, it makes little difference whether a firm is privately or publicly owned as long as it operates in a competitive or contestable market without barriers to entry or, just as important, barriers to exit", which clearly espouses the resource-based theory discussed earlier.

In addition, Nellis (1994, p. 1) noted that "the owner instructs management to follow the signals provided by the market and gives it the autonomy to do so. Management is rewarded and sanctioned based on performance." This is typical of a private entrepreneur demonstrated by the agency theory discussed earlier, which also corroborates the fact that reward and punishment is a motivational factor that encourages efficiency, productivity, and profitability. This is obviously not normally evident in SOEs which suggests why most SOEs are inefficient, let alone not profitable. Moreover, any hardline actions taken can equally be misconstrued to be politically motivated hence the soft stance sometimes adopted in the running of the SOE's by the government officials. Another dimension is the employment protection, potential risk, or fear of stepping on toes of powerful individuals in government which may also have grievous consequences.

Furthermore, Nellis (1994, p. 1) discussed the empirical study's "evidence that the theory does indeed apply in practice—with two crucial qualifications. First, the full set of necessary conditions is only rarely met. And second, even when it is met, it tends to stay met for only a while; the necessary conditions cannot be made to endure." Nellis' assertions presuppose the reasons why new governments in Nigeria target the railway transport for investment: for the increased performance and efficiency of the rail transport and to act as a catalyst for achieving the public's acceptance of the new government as discussed earlier.

To buttress the above point further, Gupta and Sathye (2008, p. 4) equally observed the Nellis study with the Indian Rail (IR) study and noted that "the key reason for the IR's financial performance decline was politicization of the decision-making processes that emphasized taking populist action over hard business decisions". The above observation by Gupta and Sathye (2008) is quite like the NRC's situation of which the result is the usual favorable response to the government funding initiatives with an increase in turnover through increased patronage by the helpless teaming population. However, the improved performance is usually not sustained because it was an ad hoc measure in the first place, which is rather political just to fulfil political manifestoes of the government of the day and never a business decision which as well is lacking both strategic or long-term views. Hence shortly after diverting attention from the rail sector, performance drops and services become erratic (Gupta & Sathye, 2008; Odeleye, 2010). As a follow up with another perspective, privatization is seen as a process of disencumbering the state from the burden of running business enterprises that could better be managed by the private sector. This mobilizes the private sector to take the lead in entrepreneurship and industrial investment, leaving the state to play a supportive role (Babangida, 1986). This dimension clearly supports the property right philosophy of the theoretical framework.

Furthermore, in considering the operational indicators of privatization, another study defined privatization as a move by the public sector towards the pursuit of efficiency and effectiveness in the attainment of objectives with a dominance of financial considerations through the adoption of management styles that reward good and penalize poor performance (Nheri, 2014; Kayode, 1986). This study corroborates the views of the research theoretical framework, particularly the agency and resource-based theories. However, Adam, Cavendish, and Mistry (1992, p. 2) argues that "no definition of privatization is ever likely to be watertight, and in many cases the extent to which privatization has occurred is a matter of degree and interpretation." Hence, the research will take the position of the privatization theoretical framework, discussed earlier, as it describes the direction of the study. In other words, it is a known fact that publicly run enterprises are inefficient, they lack clear goals, suffer from chronic political interference, lack goal congruency and, as such, are susceptible to poor performance. They have been seen as a drain on public funds and usually do not merit the motives of their establishment. The Nigerian Railway was profitable during the colonial administrators' era and, as a matter of fact, Nigeria inherited a very vibrant railway service, pre-independence, but just shortly after independence which also orchestrated a change to an indigenous management, performance in the system started declining (Durant & Legge, 2002; Odeleye, 2000; Nheri, 2014; Fatemi & Behmanesh, 2012).

In addition, it was observed that Nigeria inherited a flourishing, efficient and effective rail system prior to independence from the colonial administration. Again, notwithstanding the fact that Nigeria inherited a single-track, with narrow-gauge system running diagonally across the country, the railway service was still able to efficiently haul agricultural products harvests from far North to the seaports situated in Lagos and Port Harcourt. For example, the cocoa harvests from the West, groundnut pyramid from the North and palm oil from the East were contributions to the Nigerian economy that were facilitated by the rail service and are a good reminder of the NRC past good old days (Odeleye, 2000).

Therefore, judging from the performance experience of the railway system during the colonial administration, the dilemma for serious consideration appears not to be an issue of ownership problem that is affecting the Nigerian Railway but rather management of the corporation that is the major problem confronting the efficient performance of the system. Where ownership is seen to be the problem, the research therefore explores the critical choices and different forms of ownership that could best be suited for the NRC situation.

5. Privatization: The Theoretical Arguments

Privatization would induce a market led operation which may also enhance efficiency as observed by Adam et al., (1992, p. 4), who emphasized that while "deregulation and liberalization policies may expose state owned enterprises to greater commercial pressures, they do not necessarily either alter control and ownership structures in the economy or change the source of supply of goods and services." This may force competition as well as encourage the provision of an efficient infrastructure to obtain competitive advantage argument equally supported by the resource-based ideology (Omoleke et al., 2011).

While direct public enterprise reform interacts with privatization, it could also be said that all privatizations might generally involve some reform of public enterprise management structures and state shrinkage, there is also a large class of public enterprise reforms, mainly the adoption of private sector practices, which entail neither privatization nor state shrinkage. For instance, the adoption of 'private sector-style' management systems (commercialization), employment incentive structures, balance sheet restructuring as well as debt and capital restructuring are all reforms that will bear directly on the efficiency of the sector, but they are not privatization, as observed with the situation for the Indian Rail reform (Gupta & Sathye, 2008).

5.1 Privatization Implications

The following are some of the implications of a privatization program. Privatization is expected to act as a turnaround strategy, particularly for turning loss-making corporations into more profitable businesses. Amakon (2003, p. 4), opined that "as a last resort in Nigeria today, privatization is seen as a means that will guarantee the most rapid and irreversible progress towards solving and surmounting the legion of problems confronting and antagonizing most state-owned enterprises especially the problem of low productivity and inefficiency and at the same time help in reducing the financial burden through government borrowing in order to meet up with its commitments."

By way of a follow up, Abubakar (1998) equally observed that if a government divestment of 40 per cent of its holdings in public utilities means a withdrawal of subsidies attached to infrastructural facilities, consumers will have to pay for improved services. The populace will have a variety of choices and they are at liberty to decide who to patronize as observed with the previously deregulated and privatized telecommunication sector and the recently deregulated and privatized power sector.

Stating further, Galang (1993) cited the experience of the Philippine Government of 1992 when it formally turned over control of Philippine Airlines (PAL) to a private-sector consortium in the country's biggest privatization, thereby reducing the government's holdings in PAL to 13 per cent. The outcome of this process was an efficient and profitable PAL, seen today. Another benefit expected from the program is a change in the employee morale towards joint action and responsibilities for increased performance of the corporation (Nellis, 1994; Eisenhardt, 1989). This corroborates the agency theory and the research theoretical framework, discussed earlier.

However, Smith (1995, p. 10) viewed the subject by considering the five management buyouts bidding for British Coal with the two successful bids (i.e., Betws Anthracite and Hatfield). For example, it was observed that "both were already running, and trying to make money out of pits in the latter years of British Coal's stewardship which were previously unprofitable. But Betws Anthracite in 1995 was exceeding its weekly target after taking over in April 1994. Also, instead of the company's reported target of 2,340 tons a week it was producing 2500 tons. In addition, their 100 employees were achieving high levels of productivity by returning to traditional mining methods using shovels rather than mechanical coalface shearers." This is in consonance with the agency theory which emphasize cost control and monitoring for better performance currently lacking in SOE's (Eisenhardt, 1989 cited in Carter, 2013b).

Furthermore, Gawith (1992, p. 5), in a research study, noted that "when the Chiluba government took over power in November 1991 and installed new management at the Zambia Consolidated Copper Mines (ZCCM), the corporation was in serious financial trouble where debts to overseas suppliers had reached a level where these companies had stopped selling to ZCCM. The 1992 annual report was awash with references to plant breakdowns, equipment obsolescence and shortages of spare parts and supplies as a direct result of financial difficulties." These were because of the government's increasing failure, over several years, to invest in the core activity of metals production. However, the government's stance was to privatize the corporation with a mandate to return it to its core peripheral businesses activities. The benefits of these changes were observed to be filtering through with increased production and a trimming of the labour force; unit costs also improved dramatically.

6. Privatization and Performance Indicators

Success of the privatization is measured using the following criteria noted by Berg (1994) in his paper 'Privatization: A Pragmatic Approach', a well-developed financial market, which creates the proper legal, fiscal, and institutional framework conducive to increasing the volume and efficiency of the flow of financial resources and as a prerequisite for a successful privatization. Therefore, the following are the performance indicators of a privatized corporation which also form part of the prime motive for their privatization are hereby discussed.

6.1 Effectiveness

SOEs in Nigeria are ineffective because of several factors, among which are the decades of neglect, decay and lack of maintenance culture that have made them to be less productive Oyedepo and Fagbenle (2011). For example, Kikeri et al. (1994), cited in Salawu (2005, p. 172) noted that "the high costs and poor performance of state-owned enterprises (SOEs) with modest and fleeting results of reform efforts have turned many governments towards privatization". In other words, most SOEs have constituted a source of budget drain as opposed to supporting the economic development agenda of government through the creation of jobs and could have resulted to increasing the disposable income, stimulating economic growth and by extension increasing the economic propensity to consume. This is currently not the case and is the reason for SOE's clamor for their privatization.

For example, citing an empirical study by Ayodele (1994, p. 301), who also noted that "in most cases, particularly in the case of NEPA (now Power Holding Company of Nigeria - PHCN), product prices of PEs were subsidized to the tune of between 36% and 52% of the production cost in the pre-Structural Adjustment Program period. As a result of this situation, Kouser, Azid, and Ali (2011, p. 35) noted that "governments took privatization stances to reduce their burden in terms of the underutilization of resources, over and redundant employment, fiscal burden, financial crises, heavy losses and subsidies in order to improve and strengthen competition, public finances, funding to infrastructure, and quality and quantity of services in terms of management." Hence with the various government reform initiatives, effectiveness of the SOE is enhanced and achieve the much desired benefit of privatization.

6.2 Efficiency

Efficiency involves the elimination of redundancies or factors which may not add value to the process. According to Ugorji, 1995, cited in Mercy (2011, p. 491) in an empirical study, viewed "privatization to have become an acceptable paradigm in the political economy of states, it was seen as a strategy for reducing the size of government and transferring assets and service functions from public to private ownership and control." In addition, Jerome (1999 and 2005) further argues that privatization brings operational efficiency, increases productivity, creates employment, ensures job security, and widens the distribution of wealth in society. Similarly, Bishop, Kay, and Mayer (1996) opined that, privatization as a policy was designed to improve the operating efficiency of public sector enterprises through increased exposure to competitive market forces, which is also in line with a suggestion in another study by Adeyemo (2008).

Therefore, the private sector sees a strong correlation between lean structure and an increase in efficiency also enhancing effectiveness, productivity, and profitability, which is usually not present in SOEs (Adeyemo, 2008). Additionally, Salawu and Akinlo (2005, p. 171) further observed that, "privatization has been recognized as a key element to promote efficiency, reduce fiscal burden and helps in developing capital market." Additionally, Omoleke et al. (2011, p. 77) noted that "in Nigeria, privatization came as an integral part of economic adjustment program and policy aimed at enhancing the efficiency in the government resource allocation."

6.3 Productivity

Mercy (2011, p. 490), opined that "in assessing the productivity of the privatized state-owned enterprises in Nigeria, certain indices were used for analysis, such as profitability, output, and employment. Analysis showed that certain factors such as corruption, lack of transparency, etc., have led to low levels of productivity in the goal attainment of the policy. Consequently, suggestions were made for the sustainability of the reform and a better level of productivity in Nigeria."

Hence, if the public enterprise were privatized and became a public corporation, the corporate governance provisions in place would help to sustain the transparency and integrity of the financial statements. As such, Muogbo (2013, p. 81) defined corporate governance as “a response to the agency problems that arise from the separation of ownership and control in a corporation.” The financial statements of privatized corporations are subjected to an annual audit, which is statutorily required. The statutory requirement to produce a published set of financial statements will increase and improve accountability and transparency, which is currently absent in SOEs.

For example, in accordance with the provisions of effective corporate governance, internal control is another statutory requirement, which is also the subject of an annual audit and evaluation to assess its effectiveness. All these provisions will assist in corporate transparency and, hence, reduce the incidence of corporate corruption, ultimately improving productivity which is currently not available in virtually all state-run state-owned enterprises (Omoleke, 2011; Muogbo, 2013).

An empirical study by Muogbo (2013, p. 81) posited “the results to show that corporate governance has a significant positive relationship with privatization in terms of setting up sound corporate objectives and maximizing shareholders’ wealth. This indicates that investment in privatized firms will be more profitable than investment in firms with government presence.” Also observed in an empirical study by Gupta & Sathye, 2008 appears to be a replicate what is happening to the Nigerian Railway which also explains the cause of its present abysmal performance in spite of the colossal amounts of money spent.

Another argument derives from the property rights theory of Kay and Thompson (1986, p. 20); they perceived the privatization policy as a “change in ownership; in that by altering the structure of property rights it will improve the incentives for productive efficiency.” This argument presupposes the fact that private firms need to perform efficiently to remain in business. Hence, if privatization merely converts a public monopoly into a private monopoly, the enterprise will not be compelled by competitive pressures to improve its productive efficiency (Carter, 2013).

It was argued further that the change in ownership may impose the discipline of a private capital market on the enterprise which in theory will ensure that management performs in a manner that is consistent with a profit maximization goal. Help maintain its public listing on the stock market or through the threat of take-over or delisting from the stock market, if it is a public quoted company. This argument hence supports the property rights theory philosophy which is the main argument in support for the NRC’s privatization.

6.4 Infrastructural Investment

According to Sarbib Jean-Louis 1997, cited in Amakom (2003, p. 2), “privatization in Africa is not only bringing about a change of ownership or management control; it is also encouraging much needed new investment in these businesses.” In addition, Iyoha 2000; Ndebbio 2000, cited in Agba (2010, p. 99) also opined that, “privatization of SOEs is expected to attract substantial investment, increased employment and reduce poverty.” Hence, because of the increase in investment through acceleration effect, it will lead to an increase in productivity which will also warrant an increase in employment. This view also corroborated with the resource-based view which emphasized firm’s competitiveness. This position was also supported by Ndebbio 2000, cited in Agba (2010, p. 99), who suggested that “labour demand is directly related to industrial investment; that is, in every 10 percent increase in capital investment, in small and medium enterprise (SME), labour demand (new jobs) would increase by 1.97 percent.” Furthermore, looking at the process from another angle of positive investment, Mahmoud 2005, cited in Omoleke (2011, p. 74) observed that, “the core objectives of the privatization policy are to reduce fiscal deficits, building a broader tax base, attracting more investment and growing of the private sector” this will hence assist in achieving the investor’s goal of wealth creation motives of the private operator which is also espoused with the position taken by the property right theory philosophy.

6.5 Profitability

According to Adewale 2011, cited in Mercy (2011, p. 493), “the primary drive for the so-called private sector is quick and super profits they could appropriate by cheaply seizing of the formerly state-owned enterprises. It was not a desire to contribute to economic development and job creation.” Particularly if this is considered form the agency theory lens, however, when profit is generated, it increases the shareholders’ value and as well as an increase in wealth. The new wealth created therefore increases the economic activity and lead to an increase in the propensity to consume which will also assist in achieving economic development.

The profit maximization actions therefore are typically the result of the lean structure of the six sigma, which tends to identify areas of waste and duplication that the private sector seeks to identify and eliminate to achieve profitability. The state enterprises were established to aid economic development objectives as opposed to the profitability views of the private sector; the ideology of the lean structure is typically not an agenda of the state-run enterprises.

7. Privatization: Models and Policies – An Evaluation of Critical Choices

Having studied the theoretical arguments for privatization, it is also important to evaluate the respective methods and the potential success rates. The following presents the tested methods considered (see Table 1).

Table 1. Privatization methods – a comparative analysis

Management Function	Methods of Privatization					
	Management-Employee Buy-Out	**Private Ownership**	**Management Contract**	**Franchising**	**Leases**	**Concession**
Privatization type	Full	Full	Partial	Full	Partial	Partial
Management of operation	Private	Private	Private	Private	Private	Private
Commercial Risk	Private	Private	Public	Private	Private	Private
Operating Risk	Private	Private	Public	Private	Private	Private
Investment Risk	Private	Private	Public	Private	Private	Private
Ownership of Rolling stock	Private	Private	Public	Private	Public	Private
Ownership of Infrastructure	Private	Private	Public	Private	Public	Public

Source: World Bank (2003, p. 3), Abioye (p.50,2016).

7.1 Management-Employee Buyouts (MEBO)

Bennett, Estrin, Urga (2007, p. 662), defined management-employee buyout (MEBO) as privatization by a market transaction at a positive price, but the buyers are insiders to the firm – managers or workers. From Bennett et al. (2007, p. 662) it was concluded that the method of MEBO privatization hardly ever has a statistically significant effect on the privatized state-owned enterprise. However, using the property rights theory, issues of property protection is achieved (Muogbo, 2013) equally in terms of transparency and accountability which is currently not present in SOEs is corrected (Kay & Thompson, 1986).

7.2 Public Offering and Share Issue (Private Ownership)

Bennett et al. (2007, p. 662), defined a public offering "as a sale which includes any method in which ownership in the bulk of enterprises is transferred on the basis of sale at an agreed (market) price of shares to people not previously associated with the firms, including foreigners." From Bennett's empirical study, it was concluded that privatization by sale never exerts a significant independent influence on growth of the SOEs; however, other indices of the benefits of privatization will be achieved such as profitability, productivity, and wealth creation for the new shareholders of the now privatized company.

7.3 Management Contract

Galenson and Thompson 1993, cited in Mescht (2005, p. 998), defined a management contract as "the form of technical assistance, where the contractor carries no financial risk, to more complex cases where compensation is based partly on results which could include performance incentives. The contractor assumes responsibility for operations and maintenance of a particular activity which includes running the entire railway." This invokes the method in which the government provide the infrastructure and an enabling environment for the private operator to run the SOE's as a profit orientated enterprise, this method typically supported the NPM new management style discussed earlier (Osborne & Gaebler, 1993). This method limits the financial risk of the private operator and puts most of the financial risk of liability to the government which also makes it less risky method and potentially an attractive method.

7.4 Franchising

Preston and Nash 1993, cited in Shires, Preston, Nash and Warden (1994, p. 19), defined franchising as the type of contract in which franchises are required "to provide all the capital assets involved in the production of that good or service prescribed in the contract. Such capital investments constitute 'sunk costs' which prevent 'costless entry and exit'. With an operating contract, capital is provided by either the state or a public body. Whilst overcoming the problems associated with 'owning franchises' 'operating franchises' lead to inefficiencies in the deployment of assets which are not under the control of the operating agents who have the incentives to minimize costs."

In view of Preston and Nash's position, shines et al., (1994, pp. 19-20), suggested that "franchising makes a market more contestable, improving both productive and allocative efficiency. It increases market contestability by allowing firms to bid for the 'rights to supply' before they have committed any resources to the attempted entry. Put another way, franchising reduces the 'sunk cost' element to purely the costs of constructing the bid." Hence, making the privatization option much more competitive and clearly in line with the resource-based view philosophy of company obtaining competitive advantage with an efficient infrastructure (Carter, 2013).

7.5 Leases

Regarding leases, Mescht (2005, p. 998), sees them as the type of contract in which "the contractors could be charged a fee for the use of fixed assets." Thompson, Budin, and Estache (2001, p. 2), similarly, defined "leases is a form of agreement in which a rail operator rent locomotives and or rolling stock from a private entity for a predetermined periodic regular payment (rent)." This type of leasing is usually an operating lease agreement in which ownership revers to the lessor at the termination of the lease agreement. The lessee is generally responsible for maintenance of the coaches and locomotives, always keeping them in top operational performance for the contract period. Bullock (2009, p. 46) also added, "Lease contract, is that in which the private operator assumes only the risks to the operation's revenue and costs but not the risks to investments."

7.6 Concession

Budin 1997, cited in Metscht (2005, p. 998), defined concession "as a partnership between the government (the property owner) and a private operator (the concessionaire), where the government maintains ownership of the rail infrastructure and transfers the operations to the concessionaire as spelt out in agreement. Bullock (2009, p. 44) noted that, "concessionaire under the terms and conditions stipulated in the agreement, operates the rail transport as a profit-making business activity at its own risk, cost, and expense."

In addition to the Budin's definition, the World Bank (2003, p. 2), defines "a railway concession as a form of public-private partnership under which the operation of railway activities on a network is entrusted to a concessionaire, while the ownership of the railway infrastructure is directly or indirectly retained by the State, the conceding authority." Typically, in most concession contracts, it is usually for a limited period of about 5-15 years at a time to enable the supervisory agency to assess the private sector's performance and then decide to either renew for a longer period, or re-negotiate the terms of contract, or revoke the license if the performance does not justify contract renewals.

7.7 Voucher Privatization Shares of Ownership

Bennett et al. (2007, p. 662), defined voucher privatization as a "method which entails the transfer of the enterprise at a zero or nominal price, either to insiders, as was common in Russia, or to outsiders, as occurred in the Czech Republic." An empirical study by Bennett demonstrated that this method of voucher privatization is shown to be positively associated with growth of the state-owned enterprises.

8. Privatization of Railway Transport: Experience of Other African Countries

Since 1993, thirteen concessions have been awarded in Africa, with a further seven in the process of being concessioned (Table 2). Bullock (2009, p. 9) observed that the Sub-Saharan railway system shared fairly in the country's transport partly due to poor road infrastructure or restrictive regulation, but following liberalization of the transport sector, and coupled with improvements in road infrastructure, had led to much stronger competition, leading to fewer, but much more efficiently functioning, smaller railways. Also noted in a World Bank (2003, p. 3) report which also stated that "traffic is once again on a growth path after a decade of decline, and a portion of the traffic volume that had been lost to road transport is returning to the railways. The customer base recognizes the improvement in quality of the service provided and notes that these railway systems have ceased to be government administrations and are becoming commercial enterprises".

As such consumers were left with many choices, hence act as catalyst for driving up competition that, in turn, enhance acquisition of better infrastructure (resource based view), which helps in achieving competitive advantage. Equally, competition will encourage better performance and customer service (agency, property right theories) which is lacking in rail transport management in Nigeria today (Rowley & Yarrow, 1981 cited in Carter 2013; Kay & Thompson 1986).

Table 2. Railway Privatization by Concession

(A Comparative Analysis of African Countries Experience and Outcome)

Concession by Country	Concessionaires	Year Awarded	Year Started	Pre-Qualification	No. of Yrs.	No. of Bidders	Successful bidder	Outcome of Privatization
Cameroun	Camrail	1994	1999	Yes	20	3	2	Successful
Congo Brazzaville	Sizarail	1995	1995	Yes	5	23	5	Cancelled
Côte d.Ivoire – Burkina Faso	Sitarail	1993	1997	No	15	3	2	Successful
Ethiopia	CDE			N/A				N/A
Gabon	Transgabonais Gabon Rail	1996	2003	Yes	20	15	2	Cancelled
Ghana	United Rail	2002	2005	N/A	N/A	N/A	N/A	In process
Kenya	Tangayika Rail	2002	2004	Yes	N/A	N/A	N/A	N/A
Madagascar (North)	Madarail	2002	2003	Yes	25	2	1	Failure
Malawi	CEAR	1999	1999	N/A	20	N/A	N/A	Failure
Maputo/Corridor	NLPI/Spoornet	2002	N/A	N/A	15	N/A	N/A	N/A
Mozambique-Beira	Beira Rail	2004	2004	N/A	25	N/A	N/A	In Process
Mozambique-Nacala	CBN	2000	2005	N/A	15	N/A	N/A	In Process
Namibia	Transnamib Ltd			N/A		N/A	N/A	N/A
Senegal-Mali	Transrail	2003	2003	N/A	25	2	N/A	Failure
South Africa	Transvaal						N/A	Successful
Tanzania	Tazara Line	1997	2007	Yes	5	7	4	In Process
Togo	WACEM	1995	2002	N/A	5	N/A	N/A	N/A
Uganda	Uganda Rail	2002	2004	Yes	N/A	N/A	N/A	N/A
Zambia	RSZ	2002	2003	N/A	20	4	2	In Process
Zimbabwe	BBR	1998	1998	N/A	5	N/A	N/A	In Process

Source: Bullock (2009, p. 49), Abioye (p.54, 2016) and Literature Reviews.

In another study by the World Bank (2003), the research findings saw an improvement in the performance of the railway service privatized by concession in Africa. It reported a very positive outlook for the privatization exercise of some African country's railway services (see Table 2, above). The World Bank (2003, p. 3) report stated further that "these railway systems have been improved and modernized; they employ fewer people but who are better trained and highly motivated; infrastructure has been rehabilitated and is well maintained; and rolling stock is available and reliable." As a result of the above reforms, appreciable improvements have been witnessed in terms of efficiency, effectiveness and productivity which ultimately lead to a profitable rail transport operation. Equally, government is relieved of the mundane tasks of running SOEs that could be best operated efficiently and effectively by the private sector.

These clearly support the research epistemology as well as the theoretical frameworks discussed earlier. For example, the reasons for the improved performance can be inferred to be because of the commercial orientation structure, clear corporate goals, sound business objectives, and profit motives of the agency theory. Equally, efficient infrastructure of the resource base theory which also enhances competitive advantage and the property rights theory view discussed earlier (Rowley & Yarrow, 1981 cited in Carter 2013; Fatemi & Behmanesh, 2012; Kay & Thompson 1986).

8.1 Effectiveness

Effectiveness is measured in term of the use of train infrastructure reducing operating cost, while increasing service delivery and ensuring passenger safety. It was observed that concession strategy enhances service efficiency which could also lead to resource surplus that can be redeployed to selected users. These benefits large corporation or extractive industries shipping in large quantities or other rail users willing to pay for premium services which enhance economies of scale and ultimately reduce costs and improve operation's effectiveness (Bullock, 2005).

Bullock (2009, p. 15) noted that "rail travel is still safer than road travel, but the safety record of Sub-Saharan African railways is much worse than that of comparable railways elsewhere due to a combination of obsolete track infrastructure, poorly maintained rolling-stock, and a lack of operational discipline. But, as with productivity, safety has generally improved following concession." This also assists in achieving lower downturn of train operation and improving customer patronage and satisfaction. Bullock (2009, p.60) however noted further that "concessioned railways cannot necessarily improve transit time, but they do generally try to address other aspects of service quality such as safety, security, and reliability."

8.2 Efficiency

In an empirical study by Nheri (2014, p. 98), the research "find higher improvements in efficiency and output for firms privatized after financial liberalization and where the government relinquishes control". In corroborating Nheri's stance, it was observed that productive efficiency has clearly improved. It was noted that allocative efficiency might be difficult to evaluate directly, however, there was a general positive outcome. Equally, the concessionaires' constant search for new traffic as well as an improvement in general business practices have led to an improvement in railway cost structure. Also more importantly is the quality of service which has significantly contributed to the improvements in rail service level and helping in attracting more rail users (Bullock, 2005). It was further noted that technical efficiency in productivity equally increased after railway concession which also provide a very positive outlook for an increase improvement.

Additionally, in making concessionaires to be justifiable and in consonance with the profit motive philosophies of the private operator (agency theory), it tends to improve the passenger transport allocative efficiency objectively and by not hesitating to notify government of a loss-making passenger services, it enhances exploring other feasible alternative arrangements. Also, where it is almost a matter of necessity to run a loss-making network, then concessionaires do so in the most efficient manner particularly in the areas of revenue drive and collection. In other words, the private sector runs the concessionaires as a business venture and purely for-profit motives as opposed to the government social welfare posture. Hence the private sector will ensure it runs the concessionaires in a very profitable manner (Bullock, 2005).

8.3 Productivity

Productivity is in terms of output which is a measure of labour usage to output per hour. Bullock (2005, p. 28), observed that "asset productivity has also generally increased and has improved railway productivity." This has equally increased steadily in all the concessions that were observed to be in operation for a period of five years and with a similar expectation during the life of the concessionaires.

This is made possible owing to the most economic deployment of resources such as using fewer trains' staff, efficient and tactical asset utilization which also supports the resource-based views as well as the property rights theorists discussed above (Kay & Thompson, 1986; Carter, 2013). For example, in two African countries railway privatization by concession experience, Camrail labour productivity sharply increased as traffic grew after concession before stabilizing and steadily increasing again. CEAR productivity equally grew when it only re-absorbed about two-thirds of the previous workforce after concession while growing its traffic level by about 30 percent on an adjusted annual basis (Bullock 2005).

8.4 Infrastructural Investment

Bullock, (2005), observed that privatization by concession in most African countries have been associated with significant investments in infrastructure and funded principally by bilateral and multilateral lending agencies while noting that investments in infrastructure maintenance have not been kept up to date. Furthermore, Bullock (2005, p. 20) commented that "infrastructural renewals typically arrived after the damage was done, and in some cases not at all, thus making the continent full of railways that can best be described as walking wounded."

This situation characterized the railway infrastructure in many African countries and is responsible for the current poor position. For example, this has been the fate of rail transport in Guinea, Sierra Leone, the north-east network in DRC and some of the Angola short lines. In addition, rail transport infrastructure has also suffered during civil wars in some African countries such as in Mozambican Central and Northern Systems, Angola, Ethiopia, Eretria, and Ivory Coast which have either damaged the train lines or prevented the rail service because of those conflicts. In other cases, the trains have also been unable to operate due to other operational and logistical reasons. Although in most cases it is the desire of the governments of the affected countries to reinstate services to those rail lines, but because they are often too expensive or uneconomical to do so owing to the enormous amounts of financial resources it involved in comparison to the return on investment makes the idea railway resuscitation to be shelved in most cases (Bullock, 2005).

8.5 Profitability

Bullock (2005) in an empirical study observed, it was that the concession arrangement in rail privatization in most African countries have been successful, citing CAMRAIL as an example. It was noted that CAMRAIL has been generating significant returns on investments for its operators, also showing improvements in its financial performance and has equally achieved the expected profit margins projected by its concessionaires. However, the main drawback was their inability to fund long-term renewals. Hence if CAMRAIL can generate sufficient return but cannot sustain its ability to fund its long-term renewals, then privatization policy alone will not result in profitability, but instead a formidable and feasible business processes in terms of cost cutting, efficient application of resources, effective dispensing of all productive factors and backed up with sound management will ensure a profitable operation. This is further reiterating the property rights and agency theories discussed above (Kay & Thompson, 1986; Carter, 2013).

8.6 Critical Evaluation of African Railway Concession Experience

On a critical analysis and a closer look, few of railway privatization in Africa through concession process appears to be successful as well as their results, indicating that the concessionaires are operating more efficiently and achieving increased productivity. Infrastructural investments have equally increased and largely funded through bilateral and multilateral loans at competitive concessional rates although after substantial delays. It is also observed that funding concessions from other sources other than bilateral or multilateral loans has been comparatively smaller; to sustain and ensure long-term survival, further injections of funds from public investments is highly desirable possibly through share option scheme or public sale of equities of privatized rail companies.

Furthermore, railway shows an improvement after concession, however, it was observed that political interference was a major setback to the performance in most cases. For example, Briceno-Garmendia & Dominguez-Tores (2011, p. 17) "indicated that SITARAIL is one of the strongest performers on a wide range of operational indicators, including labour productivity, traffic volumes, and average tariffs. Strong traffic growth took place during the first five years of the concession, from 1995 to 2000, when the volume of freight almost tripled from 450 million to 700 million tons-km." This also highlights the need to constantly support the rail system with adequate funding, sound management and congruent corporate goals that support the overall business initiatives (Gupta & Sathye, 2008).

Briceno-Garmendia et al. (2011, pp. 17-18), commenting further observed that "due to political disruptions that started in 2002, SITARAIL's traffic volumes dropped dramatically however after the crisis, SITARAIL recovered progressively, and from 2006 onwards it once again reached, and then exceeded, the peak volumes of the early 2000s. As of 2010 SITARAIL was on track to achieve the highest-ever traffic volume of more than 900 million tons-km." This is similar to the findings of an empirical study by Gupta and Sathye (2008), in the case of the Indian Railway.

9. Privatization of Railway Transport: Empirical Study and Analysis of the UK Experience

Martin (2002) in his study observed that, British Rail (BR) was previously a single entity and known to be an integrated network bound together in a hierarchical bureaucratic structure. The entity was subsequently re-organized and restructured into more than 100 separate business entities and subsequently privatized as a standalone autonomous entity. This exercise resulted in a few modern concessions to divisional and decentralized strategic business units, interconnected companies that are now accountable to their supervisory, regulatory bodies and their shareholders.

Faulks (1999), cited in Mescht (2005, p. 998), noted that the "British Rail era ended on 1 April 1994 when the strategic business unit of the national rail system were dismantled and fragmented into separate units while each then operate and become accountable as different business and as an investment center. The process therefore saw train services being distributed among 25 different operators who leased the rolling stock from another third-party leasing companies. Rail infrastructure was also separated from train operations which came under ownership of a private company call Rail track."

9.1 Effectiveness

Effectiveness measures operational indicators such as timeliness of the service, quality of the service, customer satisfaction, price of the service and customer safety. The privatization of the rail transport in the UK saw an increase in investment of new coaches which led to an increase in quality of service, however, despite this, safety standards dropped in the quest for high profits. According to a study, Martin (2002) observed that with the increase in the train frequency, it also resulted to an increase in maintenance costs of the rail tracks at a much faster rate. This therefore resulted in an increase in Railtrack's operating costs which was also disproportional to the revenue it was generating from the operation.

Incidentally, the privatization terms and conditions also fail to stipulate any maintenance schedule for Railtrack's, nor were there any investment target requirements as well as failing to empower the Office of Rail Regulators (ORR) for ensuring and enforcement of a strict maintenance regime for rail users and public safety. All these inadvertently resulted in an inevitable growing maintenance backlog. These put together, was responsible for severe rail track wear and tear leading to the multiple crashes reported within the few years after the privatization of the rail service (Martin, 2002).

9.2 Efficiency

Sylvester (2011, p. 4), identified a few reasons why the BR privatization failed among which include an increase in wage costs. This was without commensurate increase in performance to justify the wage increases, which were the result of key BR staff becoming consultants at a very high price. The wage induced frequent strike actions all too often, bringing trains to a halt. Also, the fragmentation of the industry, with costs rising at all the different interfaces between train operating companies (TOCs) and rail network as roles are duplicated and the different parties have to compensate each other for their possessions and other inconveniences (Akwara et al., 2014).

9.3 Productivity

In evaluating the effects of privatization on productivity, it was observed that between 1996 and 2000, passenger journeys witnessed an increase of about 25 percent of total passengers that use the service in the period. Also, the freight services equally observed an increase in activities with a report of about 40 percent increase in freight volumes hauled. To improve labour productivity, concessionaires were observed to have used fewer staff thereby reducing operating costs and improving performance, asset utilization index which also helps in contributing to a better performance to the bottom line and profitability of the concessionaires in general (Martin, 2002).

9.4 Infrastructural Investment

In assessing the impact of privatization on the infrastructural investments, the general belief is that privatization will promote investments in infrastructure particularly in line with the resource-based theoretical framework which suggested the pursuit of competitive advantage and profitability of operation by the private sector (Omoleke et al., 2011; Carter, 2013). It was therefore observed that the resource-based theory belief was evidenced with an increase in infrastructural investment. However, the supposed benefits of competitive advantage were negated by the private sector aggressive pursuit of profitability where safety was then compromised for profitability. Maintenance of the rail track was therefore not properly carried out and this has contributed to the multiple crashes previously witnessed and with the fourth crash resulting in seven rail user fatality. While carrying out an investigation into the cause of the of the fourth crash in particular, it was observed that there were poor maintenance, while all the necessary checks and balances as well as safety standards were equally neglected or compromised (Martin, 2002).

9.5 Profitability

Profitability motive, at the expense of public safety, increased the incidence of crashes with the experience of UK privatization and this was one of the reasons why it was judged a failure (Eisenhardt, cited in Carter, 2013). For instance, after the Hatfield BR crash, as part of panel of inquiry’s outcome investigating into the accident. It was evident that public and rail user safety were compromised in favour of aggressive pursuit of profitability and improvement to the bottom line. As part of the evidence, the CEO was reported to have submitted that to make profit, Rail track might have to compromise its safety standard and avoid doing what will make the railways better. Hence, the aggressive pursuit of profits at the expense of public safety led to the train crashes (Martin, 2002; Glaister, 2004).

9.6 Critical Evaluation

Glaister (2004, p. 53), concluded that, “the fundamental principle driving the British Railways policy of the 1990s was not about change in ownership through privatization, but rather a change orchestrated by competition in every aspect of the business to achieve cost efficiency, increased performance through transparency of policy. The policy was designed to maximize the opportunities for effective competition while catering for natural monopoly in infrastructure. It also created the need to continue to pay subsidy in order to preserve the scale of the industry which was successfully implemented and started to produce some remarkably good results.”

10. Privatization of Nigerian Railway Corporation – Historical Perspectives

Ogunsanya (2006), cited in Odeleye (2010, p. 5), asserted that “government intervene in transport development because a malfunctioning transport system can affect adversely national and international trade; and consequently, retard spatial economic development. Hence, up till late 19th century the global transport sector-railways inclusive, operated in a monopolized market structure.”

For example, Odeleye (2000) observed that railway transport system just like any other state-owned enterprise has been inefficient let alone effective over the years. It has suffered from neglect from successive governments, poor management from the senior management of the corporation with series of conflicting policies and lack of continuity of company policy usually orchestrated from the frequent changes on top management. In addition to the above, efforts made to reposition the railway are usually seen as a populist agenda, for successive and new governments to achieve acceptance amongst the people. Hence, Odeleye (2000) opined that total ownership of the Nigerian Railway by the federal government has contributed greatly to the neglect the corporation is facing today a position also supported by Carter (2013). However, with more investment seen from 2017 to 2022, there is little efficiency or productivity that has been seen due lack of will power or due to political implications. Which implies that government lacked the business acumen to run state enterprises for profit but rather as a social amenities.

Odeleye (2000) noted further that because of the capital-intensive nature of railway transport, the Federal government of Nigeria should encourage competition through private participation. This will allow private investors in participating and enhance private sector funding as well as encouraging bilateral and multilateral funding which will increase infrastructural investment requirements, assist in modernizing and improving the quality of service of the rail transport sector. This position was also shared by Gupta and Sathye (2008).

10.1 Effectiveness

NRC is presently dogged by lateness, poor customer service and inadequate availability of locomotives and passenger coaches, despite the colossal sums of money invested on the network over the years. An improvement in its effectiveness is yet to be appreciably seen in the service. In terms of customer safety, rail transport is generally safe; however, this can only be maintained if the train infrastructures are maintained through a form of regulated schedule. Safety is a serious issue particularly with the recent bombing of Kaduna-Abuja rail line on March 28, 2022, and the subsequent kidnapping of the train passengers for political reason is evidence of the government failure of securing the properties (property right theory) or profit motive (resource-right theory).

10.2 Efficiency

This is a measure of the capital outlay to asset utilization. Efficiency drives down cost as well as increases return on investment. Currently, there is high capital cost though the sunk cost of the rail project (Odeleye, 2000). From various experiences observed, concessions by leases will probably be an ideal situation in the Nigerian Railway privatization. It will encourage multiple operators, therefore increasing customer choice as well as the asset utilization factor. With rail concession by leases, the infrastructures and their maintenance will be in public control, whereas the service part will be handled by the private sector (Nheri, 2014; Gupta & Sathye, 2008).

10.3 Productivity

This measures the number of inputs to outputs. Currently, NRC is not productive in relation to the asset cost and the return on investment. Concession will enhance the productive use of the capital assets by increasing the number of rail operators. Therefore, the initial capital outlay invested can be justified.

10.4 Infrastructural Investment

Kakumoto (1999), cited in Odeleye (2010, pp. 9-10) observed that “politicians often influence the direction of growth and development in all modes of transport- railways inclusive for political gains, because investment in transportation facilities offers socio-economic benefits” and an immediate and direct benefits of democratic governance to the populace. Additionally, Odeleye (2010, p. 10), stated that “state owned enterprises sometimes dictate the direction of investment as well as the day to day running of the railways, while the institution management has little or no say in determining the priority areas of investment.” This single act tends to be counterproductive and has resulted in the several billions of dollars spent on the system, so far, without any appreciable benefit, neither to the corporation nor to the target market the rail transport meant to serve.

10.5 Profitability

Odeleye (2010, p. 10) observed that “the railway tariff, among other important issues, cannot be reviewed by the management of the Nigerian railways, without recourse to government Ministry of Transport.” This, therefore, is another factor which affects its profitability and hence the inability of the corporation to sustain its operation and has been a major source contributing to the corporation being a perpetual loss-making venture (Gupta & Sathye, 2008).

10.6 Critical Evaluation of the Success or Failure of Privatization Policy

To assess the efficacy of the privatization policy therefore, the foregoing critically evaluates the success or failure of the policy. Omoleke (2011, p. 78) observed that most public goods cannot be efficiently provided by the market mechanism and hence government becomes a substitute. This hence explains why SOEs are relevant as well as the reasons for their establishment. As such having noted this drawback, it was suggested that because the individuals and firms are motivated by self-interests (property right theory) for example, individuals maximize utility while the firms maximize profits (resource-based theory), the neoclassical price-auction model explains the research theoretical framework particularly the agency theory of profit maximization. Property right theory which emphasizes the private sector as an efficient property manager and the resource-based theory which emphasize on securing and sustaining an efficient state-of-the-art infrastructure to achieve a competitive advantage. All these therefore invariably assist in profit maximization motives of the private sector which equally demonstrates the benefits of privatization.

However, most of the failures of the privatization exercise in Nigeria were as a direct result of continuous government intervention, bending the rules for short-term political gains, lack of due process and inconsistency of policies among others. For example, in the most recent privatization of the power project in Nigeria. For example, Onuorah (2013, p. 5), observed that: “there were apprehensions in Abuja and the electricity industry to the point that the government had to interfere. This has impacted negatively on previous privatization initiatives orchestrating its avoidance of the exercise. Stakeholders were worried over government’s alleged interference in the process. For example, the privatization of 15 successor companies of the Power Holding Company of Nigeria (PHCN) would have been concluded earlier than scheduled. The delay in concluding the process adversely affected the scorecard given by international development partners who funded some aspects of the reforms in the power sector. They had called it ‘a world class model’ because of its openness and adherence to all laid-down rules and agreements.” These also explain the incidences of policy inconsistencies and summersaults discussed earlier, which affects most of the SOEs operations.

11. Critical Success Factors for Railway Privatization in Nigeria

A privatization program requires effective, practicable and achievable policies and targets for its successful implementation, which is an assertion also noted by Hemming and Mansoor (1988). For example, Glaister (2004, p. 48) noted that for a privatized rail transport to work “it manifestly can be in a stable and fairly predictable way, but only on the three crucial provisos mentioned by Hemming and Mansoor (1998) which includes: an effective legal system that is sufficiently competent, robust and respected; appropriate performance regime; uninterrupted by government or political interference.”

11.1 Issues Regarding Informed Consent of Respondents

Overall, the starting point of a major policy thrust, such privatization of the NRC, is the achievement of the agreement and informed consent of the Nigerian people. Many stakeholders will be affected either positively or negatively and, hence, all parties involved, as well as their respective concerns, must be fully addressed before taking a firm stand on the policy decision and implementation. For example, Temperman (2011, p. 43) commented that “privatization may not only affect the enjoyment of the right to public participation itself but might also impact other substantive rights.” For this reason, it is quite understandable that a necessarily radical solution might have far reaching consequences, which may be resisted, so there is the need to fully engage the public on the policy direction of any reform initiatives (Temperman, 2011).

The middle-class users of the rail transport need to be educated about the various privatization methods available as well as fully understand the implications of each choice will have on the public. In other words, a full enlightenment campaign needs to be launched to fully sensitize and inundate the public. Employers and senior managers need to fully understand the various methods available as well as their implication on the NRC. This will be in terms of various reorganization efforts such as staff retrenchment exercise, possibly downsizing or right sizing and outsourcing of inefficient operation as part of rationalization efforts to streamline to achieve efficiency, effectiveness, and productivity. In addition, NRC employees need to ascertain the employment security implication of the privatization method adopted as well as any contractual obligation therein (Temperman, 2011).

11.2 Regulation

The regulation and legal system must be sufficiently competent, robust, and respected to put in place the necessary contractual arrangements. For example, Bathelemy et al. (2004), in Hilary (2004, p. 3), noted that the absence of an effective regulation was also observed with the experience of the BR privatization discussed earlier, increasingly led to profit maximization behaviour of private led sector to keep investment below necessary levels.

On the topic of why some African countries’ privatization policy and implementation may have failed, as noted by Bathelemy (2004) who also suggested that there were failures, particularly in the case of public utilities, when privatization has not been preceded by the creation of a regulatory framework to ensure that contractors or bidders respect their undertakings made at the time of privatization and obliges them to maintain a competitive environment. Similarly, this has resulted in the rural area communities and the urban poor to be sidelined and further marginalized in terms of access to electric power and water supplies despite the utilities privatization.

In a study to strengthen the regulatory powers by the World Bank (2003, p. 15) it was recommended that "managers of the national public rail companies should not have a steering authority in preparing for the concession of operations and should rest preferably with an independent agency."

Furthermore, Bullock (2005, p. 14) suggested that, to increase the success of concessionaires as well as deliver the benefits of privatization to the public, it was suggested that an extremely strong regulator must be present, of which its absence led to the failure of the Rail track discussed above.

11.3 Monitoring

Galcier (2004, p. 48) suggested that "monitoring must be possible to specify an appropriate performance regime with its consequential repercussions for non-compliance that will help instigate the desired incentives that induces the required and acceptable behaviour of efficient service delivery. This is open to question: there are both analytical questions (such as, what are the right financial penalties to use?) and legal questions (such as, can they be successfully drafted into contracts that are enforceable in practice). Finally, once created, these arrangements must be left alone to mature, without the fatally damaging consequences of interventions by government or others that undermine the incentives carefully designed into the 'fragmented' structure."

11.4 Formidable Consumer Pressure Group

A formidable consumer pressure group is another factor considered necessary for the effective operation of the privatized rail system. The pressure group will act as a watch dog and advocate, including the monitoring of the service. Any lapses will be reported to the commission in charge and any necessary action taken (Onion, 2014).

11.5 Strong Political Commitment and Support

A strong political commitment will enhance a successful privatization program in the sense that there will be all necessary checks and balances as well as an established repercussion available to deal with defaulters. As stated by Berthelemy et al. (2004, p. 8), "good governance, at a time of privatization, the authorities can strengthen their initiatives in the struggle against poverty through transparent, participative and equitable public policy."

In a study report produced by the World Bank (2003, p. 15), it was identified that as a factor to have "adversely affected the privatization process and has contributed to the failure of the Railway privatization. The proposed concession project is to have political support which the Gabonese and Senegal-Mali projects lacked for a number of years."

Bathelemy et al. (2004, p. 102), observed that "the privatization of the Société Nationale d'Electricité (Sonel) in Cameroon and of the Société Nationale d'Electricité du Sénégal (Sénélec) are relevant examples of privatizations that failed owing to inadequacies in political commitment and the regulatory framework" a stance espoused by Glacier (2004).

Onuorah (2013, p. 6), cited a similar experience with the privatization of the Daily Times of Nigeria PLC. It was noted that with "the privatization of Daily Times, a core investor was originally slated to be used but following stories that a former vice president Atiku Abubakar was poised to influence the sale to one of his associates, former President Olusegun Obasanjo opted for the nation's oldest government-owned newspaper to be privatized through an Initial Public Offer (IPO). However, it turned out that Daily Times offering was the least capitalized in the history of Nigeria's capital market. The Federal Government was forced to revert to the original choice of sale to a core investor and was sold to a private investor in 2004. However, operations were suspended after Folio Communications which formally took over the media giant on March 14, 2007, was accused of asset-stripping. The fate of the newspaper is still uncertain as it has not restarted production." This scenario is also witnessed with the sale of Ajaokuta steels in which the buyers were accused of asset stripping.

Onuorah (2013, p. 6) also noted that there was a similar situation with the privatization exercise of the Aluminum Smelter Company of Nigeria (ALSCON), "The American firm, BFIG, won the bid after the Russian firm, RUSAL, was disqualified for conditional bid. At the airport on their way back to Russia, RUSAL officials were called back and told they could get the bid under the willing buyer, willing seller option. In addition, they were given concessionary terms for gas, which made ALSCON unattractive and unprofitable for the Nigerian Gas Company (NGC) to supply gas."

12. Conclusion

In summary, Bourguignon et al. (2004, pp. 15-16), in their forward statement, opined that “there is a clear discrepancy between scholarly assessments and the public perceptions of privatization. In recent years, the alleged failures of privatization have led to street riots, skeptical press coverage, and mounting criticism of international financial institutions. Concerns are increasingly being expressed about the potential negative consequences of privatization and market liberalization on the living cost and the living standard especially their effects on basic services for poor households and other disadvantaged groups.”

Bourguignon et al. (2004, p. 16) stated further that there is “extensive information that is required to analyze the links between specific policy reforms and infrastructure outcomes, including their distributional dimensions. As such, because comprehensive data on distributional dimensions of costs and benefits are currently unavailable, it is imperative that a systematic cross-country data collection effort be undertaken” to ascertain the true impact of the reform on the living standards.

Furthermore, Nellis (1994, p. 1), in an empirical study, posed a question: “is privatization necessary?” It was reported that “the answer was a decided ‘yes’. Privatization is necessary, and not simply to improve the performance of state-owned enterprises—though the evidence is striking that it can and does improve performance. Privatization as a change agent was designed as an essential contribution to ‘lock in the gains’ achieved earlier in reforming public ownership or in preparing a firm for sale, to distance the firm from the political process, and to inoculate it against the recurrence of the common and deadly ailment of state-owned enterprises: interference by owners who have more than profit on their minds.”

Odeleye (2010, p. 1) observed that the “discontinuity and incoherence in policy implementation by successive governments, policy reversal as well as uncoordinated national transport policy goal and objectives are clogs in the wheel of progress of railways development in Nigeria,” a stance which was corroborated by Adeyemo (2008). Furthermore, Odeleye (2010, p. 2) stated that ownership change will enhance, “the rapid development of the rail industry in Nigeria on institutional paradigm shift, whereby the rail authority will enjoy a reasonable level of autonomy in decision making, policy consistency finance and investment in rail operations, infrastructure supply and technological advancement in Nigeria.”

Therefore, it is from a private participation perspective that this can take place and will ensure consistency of policies, which is the major, problems confronting the NRC presently. Tynan 1999, cited in Mescht (2005, p.997) confirms this position while noting that: “concessions is more common than any other form of private participation in most countries that aimed at improving the financial performance of the loss-making rail service, as well as restoring deteriorating rail infrastructure” from new cash injections from investments by the private sector.

Thompson et al. (2001), cited in Mescht (2005, p. 999), in an empirical study, revealed an upsurge in “traffic that was orchestrated by an increase in patronage after years of decline in most of the previously state-owned railways. Similarly, labour productivity has improved significantly while tariffs have been reduced to the benefit of rail users.” Typically, this is part of the benefits of privatization as an incentive for putting all productive inputs to maximum use. In addition, infrastructure will be efficiently deployed therefore enhancing competitive advantage (resource-based view theory), while the privatized firm will pursue wealth creation vigorously and profit maximization in line with the agency theory philosophy (Rowley & Yarrow, 1981 cited in Carter, 2013; Kay & Thompson 1986).

In closing, regarding informed consent about privatization policy, Temperman (2011, p. 68) concluded that although “privatization affects the enjoyment of the right to public participation itself, it also impacts on other rights as well. However, the key to remedying this situation lies largely – though not exclusively or necessarily, as illustrated in the case of the privatization of education in a critical, renewed discourse concerning participatory rights.” In other words, engaging the public in an open communication, enlightenment campaign as well as allowing the freedom of expression will have a far-reaching effect in dousing tension that policies of this nature usually generate. Particularly, where skeptics doubt the success of the policy, for instance Durant and Legge (2002, p. 318), in an empirical study, noted that “practitioners and researchers should expect citizen’s attitudes toward market-based New Public Management reforms like privatization of SOEs to be affected by perceptions of what is or is not working in other nations.” This is a normal experience and another form of human resistance to change, however, if the policy is adopted in an atmosphere of open communication, transparency and public participation by policy makers as suggested by Temperman (2011), who also suggested that if all parties including internal, external, and connected, affected by the policy are fully involved, they will all accept change and support change initiatives fully.

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