<u>PRIVATISATION IN NIGERIA</u>

Comments by Professor Anya O. Anya, Chief Executive, The Nigerian Economic Summit at the Netherlands Congress Center (NCC), The Hague as part of the Independence Day Celebration by The Nigerian Embassy at The Hague

All over the world, the public service as a matter of experience, has not been known for their capacity to create wealth. Consequently, public enterprises have usually been perceived as drain pipes for government budget, thus creating budgetary strains and avoidable burden on the economy. It became a national policy imperative therefore to disengage the public sector from those areas where the private sector has the comparable advantage to perform, while letting the state concern itself with the provision of infrastructure, security and the enabling environment for business to thrive through enhanced wealth creation. It is important to observe that for many developing countries like Nigeria it was perhaps unavoidable for the government, in an earlier epoch, to promote the initial investments in the early phase of national development when the private sector was almost non-existent. Unfortunately the government got herself so involved in business that could best be tackled by the private sector, that government could no longer perform her traditional functions: **the provision of infrastructure and security through the maintenance of law and order as well as the promotion of an enabling and conducive environment for investments and wealth creation.**

Privatisation as a tool for economic management came to the front burner when Chile became the first country to turn public assets/businesses to private operators in the early 1970s. Since then, over 140 countries (both developed and developing) have embraced privatisation as a route to economic growth and prosperity. While the details and strategies of the privatisation exercise may vary in each of these countries, the ultimate objective is to liberalise the economies through increasing private sector involvement and capacity utilisation. A critical aim is to free enterprises from control by rigid and bureaucratic structures, and make the management of such enterprises more flexible in their management and investment strategies. In Venezuela, it is termed <u>Capitalisation</u> while Brazilians call it <u>Flexibilisation</u>. In other countries such as Argentina, United Kingdom and Mexico where it has worked, different tags have been adopted but the aim and purpose have remained the same. It is worth noting that over 120 countries have embraced the idea of privatisation. In the process of privatisation, more investible capital have been injected into the various economies through local and foreign investors to the benefit of the country at large. In the process, funds that would have been committed to the maintenance of otherwise inefficient enterprises have been freed into more productive sectors of the economy.

In the case of Nigeria, the issue of mismanagement and under-utilisation which led to huge wastage of resources and manpower potentials gave the government of the day no other option but to pursue quickly the privatisation programme. There are about 600 public enterprises in Nigeria run by or controlled by the Federal Government. Many more are controlled by State Governments. These companies take a sizeable portion of the Federal Budget and account for over 5,000 appointments into their management and Board – a powerful source of political patronage. Transfers to these enterprises ran into billions of naira. These transfers were in form of subsidized foreign exchange, import duty waivers, tax exemptions and/or write-off of arrears, unremitted revenues, loans and guarantees and grants/subventions. These companies were also infested with many problems which became an avoidable drag on the economy such as - abuse of monopoly power, defective capital structure, heavy dependence on treasury funding, rigid bureaucratic structures and bottlenecks, mismanagement, corruption and nepotism. With all these problems the government had no other option but to take a positive step. In March 1988, the then Nigerian Head of State, Ibrahim Badamosi Babangida promulgated a decree establishing the **Technical Committee on Privatisation and Commercialization (TCPC)**. The committee was formally inaugurated in July 1988 to undertake the task of reform of public enterprises, as an integral and critical component of the Structural Adjustment Programme (SAP), which was started in 1986. The reform as conceived has two interrelated components – **Privatisation** and **Commercialisation**. The overall objectives of the privatization exercise were:

- To improve on the operational efficiency and reliability of our public enterprises;
- To minimise their dependence on the national treasury for the funding of their operations;

- To roll back the frontiers of State Capitalism and emphasise private sector initiative as the engine of growth;
- To encourage share ownership by Nigerian citizens in productive investments hitherto owned wholly or partially by the Nigerian Government and, in the process, to broaden and deepen the Nigerian market.

During the first phase of the exercise which spanned from July 1988 and June 1993, the following programmes were executed:

- 36 enterprises were privatised through public offer of their shares;
- 4 enterprises were privatised on Deferred Public Offer method;
- 8 enterprises were privatised via Private Placement method;
- 8 enterprises were privatised via Sale of Assets method;
- 1 enterprise was privatised through Management Buy Out method (MBO).
- Sale of non-water assets of about 18 River Basin Development Authorities.

Under the Phase I programme, about 88 public enterprises were either fully or partially privatised. These were enterprises in which the Nigerian Government invested jointly with foreign or private Nigerian investors. With the exception of the Cement and the Oil Marketing companies, the capitalisation of most of them was small. The huge capital-intensive and basic industries like the Fertiliser Companies, Sugar companies, Vehicle Assembly Plants, Paper and the Steel Mills which hold vital positions in the economy could not be privatised for various reasons ranging from financial insolvency to negative networth. Finally, there was lack of clarity of Government's policy on some critical issues associated with the Implementation of the programme. The issues include:-

- Whether to privatise as "is" or rehabilitate before privatisation.
- To relieve the Enterprises' managers of their duties before or after privatisation.
- The type of regulatory framework that will be in place.
- Whether the sales should be given to both foreigners and Nigerians.
- The valuation methods to be used.
- The role of foreign core investors in the ownership and management of the national economy.
- Loss of jobs resulting from the privatisation.
- Income inequality arising from the ownership of privatised assets.
- Whether to deregulate before or after privatisation.
- Utilization of the privatization proceeds
- Whether Government should go ahead and own any 'Golden Shares'
- The level of transparency in the programme

The exercise had an unqualified success. Unlike other countries, the privatisation exercise in Nigeria was done by Nigerians for Nigerians without any foreign technical assistance. The programme succeeded in relieving the government of the huge and growing burden of financing public enterprises, minimised the overstretching of government's managerial capacity through a redefinition of the role of the supervising ministries, created a large body of shareholders and deepened and broadened the Nigerian Capital Market to the position of being the most developed in black Africa. The market capitalisation of the Nigerian Stock Exchange (NSE) through which the shares were sold has grown from N8.9 billion in 1987 (before privatisation) to N65.5 billion in 1994 (after the Phase-I) and currently stands at N428.9 billion as at the end of August 2000. The catalytic effect of the volume of shares released into the market via the privatisation exercise cannot be over empahsised.

In summary, we can say that the Phase-I of the privatisation has given the Nigerian economy some benefits, like:

i) Performance of the privatised enterprises so far has led to a considerable increase in the volume of corporate taxes accruing to the national treasury. Thus not only has the drain on public finances been halted, it has become a positive bonus, with subsidy soaking deficits – being replaced by tax-yielding profits.

ii) The sale of shares and assets realised over N3.7 billion as gross privatisation proceeds from the privatisation of 55 enterprises whose total original investment according to the records of the Ministry of Financed Incorporated (MOFI) was N652 million. This represents less than 2% of the total value of the Federal Government's investments as at 30th November 1990 which stood at N36 billion.

iii) The programme of privatisation has greatly minimised the scope of political patronage in the form of Board appointments and jobs for the boys. Under the Phase-I of the programme, the Federal Government relinquished about 280 Directorship positions in the privatised enterprises. The operational autonomy enjoyed by these enterprises has put a stop to their use as dumping grounds for political appointees at management and board levels.

iv) Privatisation has massively expanded personal share ownership in Nigeria. Over 800,000 shareholders were created, almost twice as many as there were in 1988 when the exercise started. The programme has also intensified the operations of the Capital Market, created new awareness in the virtues of shareholding as a form of savings rather than an elitist pastime, which it was thought to be. This is a good development which enhances capital formation and economic growth.

v) By reducing the reliance of public enterprises on the government for finance, the programme of privatisation has encouraged new investments in the enterprises concerned. The cold hands of Treasury Control have been replaced by the warm hands of the Capital Market which are as stimulating as they are invisible. Many of them have discovered that it is easier to raise funds through the capital market than it is to do so from the treasury, once the necessary investor confidence has been developed.

vi) The new operational autonomy of these enterprises and their liberation from political interference in day to day management has improved the internal efficiency of these enterprises allowing them to liberalise their purchasing as well as rationalise labour practices. This has increased massively their profitability. The negative perception of public enterprises in the minds of the general public as nobody's business has also changed.

vii) Flotation of shares of privatised enterprises have greatly stimulated the rapid growth of the Nigerian Capital Market and helped to deepen and broaden it. As stated earlier, market capitalisation has grown from N8.9 billion in 1987 to over 65 .5 billion by 1994 and N428.9 billion as at August 2000.

viii) Privatisation has allowed the management of privatised enterprises full freedom to realise their optimum potentials. This has led to more productive employment and economic growth in general terms.

The Technical Committee on Privatisation and Commercialisation wound up her activities and submitted a report to the President on June 05, 1993. The TCPC also transformed to the Bureau for Public Enterprises (BPE). The Bureau was to monitor the performance of the enterprise privatised in the past exercise and plan for the future phases.
Because of the success of the past exercise, the military government under General Abdulsalam Abubakar promulgated the Public Enterprises (Privatisation and Commercialisation) Decree No. 28 in early 1999 (before the hand-over to a democratically elected government). The Decree kicked off the Phase II of the privatisation exercise under the Bureau for Public Enterprises (BPE). The Decree allows BPE to alter, add, delete or amend the provisions in the document in the best interest of the country. Initially sixty-one (61) enterprises were slated for privatisation (36 partial and 25 full privatisation) but because of the new powers granted BPE, it has increased the list by 37 extra enterprises (some of which were originally meant for

commercialisation). Some of the big government companies being privatised now include National Insurance Corporation of Nigeria (NICON), Nigerian Re-insurance Corporation, Nigerdock Plc, National Aviation Handling Company (NAHCO), Nigeria Railways Corporation (NRC), Nigerian Ports Authority (NPA), Nigerian Postal Services (NIPOST) and Savannah Sugar Company. This is an indication of the enhanced interest in and success that privatisation has achieved in Nigeria.

In December 1999, the democratically elected government of President Olusegun Obasanjo picked interest in the privatisation exercise and gave it a boost by establishing the National Council on Privatisation (NCP) with the Vice-President, Alhaji Atiku Abubakar, as its Chairman. The Council is empowered among other things to determine the political, economic and social objectives of the Privatization and Commercialization programme, approve guidelines and criteria for valuation of public enterprises marked out for privatisation - including choice of strategic investors - identification of enterprises to be privatised or commercialised, and approve the prices for shares or assets of the public enterprise to be offered for sale.

The privatisation exercise is seemingly slow as a result of the desire of the government to ensure maximum transparency in the process as well as introduce measures that will sensitise the people to participate massively. Overall, this second phase should help the government raise funds to:

- narrow down the budget deficit;
- payback public debt;
- avoid new borrowings;
- restructure other enterprises;
- support social sectors as education, health, power and rural development.

Since December 1999, about 9 enterprises more have been privatised, adding 2.5 billion shares to the capital market while the Federal government realised a revenue of N35.6 billion from the sales. The programme as envisaged in the near term are as summarised in the attached table *. Privatisation is geared to transform the Nigerian economy. Given the size of the population (120 million) and the potential market which includes the West African sub-region, the scope for foreign investment is enormous. Given the relative transparency and technical competence that has characterised the on-going programme, the attractions of the Nigerian economy for foreign investors could prove irresistible.

For the medium term it is possible to envision the emergence of Nigeria as one of the attractive depots for foreign investment given the present Governments' determination to create the necessary enabling environment to attract investors through the privatisation programme, the direct fight against corruption and the other sources of hidden costs for operators in the economy, and the stated commitment to make the private sector the engine of growth as a strategic option. Given the efforts to address social flash-points such as the Niger Delta, there is a basis for cautious optimism that the Nigerian economy may yet, despite incipient worries, become the first African Leopard.

Table 1. Nigeria: Privatization Action Plan	Completion

Electric Power Sector Reform

• Retain the services of an expert to develop a national energy policy.	May 2000
• Complete draft policy document.	June 2000
• Appoint Legal/Regulatory adviser.	June 2000
• Submit new Electricity Law and Regulatory Framework Law to the National Assembly	Dec. 2000
• Restructure the national electricity power company (NEPA) with a view to creating self standing companies for power generation and distribution for privatisation thereafter.	June 2001
Emergency Power Projects	
• To address the immediate need for a reliable source of power for industrial users in Lagos and other key urban centers, the government has initiated an emergency power program with the support of the World Bank, to attract on a build-operate-own basis, independent power producers to supply electricity to the national grid. The NEPA will be able to offer local industries a guaranteed supply of power at a premium rate based on cost-plus pricing, while residential and other consumers will continue to be provided with less reliable electricity supply, but at a subsidized rate.	May 2000
• On completion of the new legal and regulatory framework for the sector, several independent power producers will be expected to compete along side unbundled NEPA in an active electricity market in which the tariff schedule is liberalized.	July 2000
Telecommunication Sector	
• Bring policy on telecommunication up to international standards.	June 2000
• Submit a draft telecommunication law and a draft policy framework for the sector.	Dec. 2000
• Complete the reform of the legal and regulatory framework.	Nov. 2000
• Strengthen the telecommunication regulatory authority (NCC).	Ongoing
• Retain the services of a privatisation adviser for the privatisation of the national telecommunication companies (NITEL/M-TEL) and bring them to the point of sale.	Dec. 2000
Petroleum Sector Reform	
• Complete management audit.	June 2000
• Adopt an action plan for the full deregulation of the petroleum sector.	Jan. 2001
• Bring the refineries to the point of sale.	Oct. 2001
Reform in Other Sectors	
• Issue a call for competitive bids for the privatisation of the fertilizer factories (NAFCON/FSFC).	June 2000
• Complete the ongoing sale of government shares in banks, cement companies, and oil marketing firms already listed on the Nigerian Stock Exchange.	June 2000
• Complete the divestiture of government holdings in hotels.	Dec. 2000
• Issue calls for competitive bids for Nigerian Airways with assistance from the IFC.	March 2001
• Technical review of the options available regarding the privatisation of the Ajaokuta Steel Complex, understanding with Fund staff on steps to be taken.	Sept. 2000
• No further capital injections into the Ajaokuta Steel Complex.	
• Break up NEPA into a number of companies that will be responsible for power generation, • transmission and distribution with World Bank Technical Assistance.	

Source: IMF/Nigeria stand-by arrangement, August 2000