PRIVATIZATION PROCESS IN ACTION

NIGERIA

ADDRESS AND TRIP REPORT BY

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CENTER FOR PRIVATIZATION

1750 New York Avenue, N.W.
Washington, D.C. 20006

Center Project No. 11

May 23, 1986

Prepared for the
BUREAU OF PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

CENTER FOR PRIVATIZATION

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BRIEF SUMMARY REPORT ON TRIP TO NIGERIA

The speech to the Securities and Exchange Commission's "Conference on Privatization" was extremely well received, and I judge the talk and my close involvement in the Conference to have been a complete success.

The major elements of my address were adopted by the Conference, and were prominently included in the first two pages of the six page set of "Resolutions" sent to the Head of State, General Babangida. I stressed there the need to organize privatization of assets as a multi-step <u>process</u>, in which the goals are achieving economic efficiency and reducing the burden on the government.

It is now clear that privatization is emerging as one of the top two or three economic issues in the country. Nigeria represents an interesting and, in African continental terms, extremely important "window of opportunity" to make a contribution to the early stages of a sincere privatization effort. (Indeed, if privatization fails in Nigeria, can it succeed elsewhere in Africa?) There was more interest on this trip among all the participants, than there was when I gave similar talks in Lagos only several weeks before. It is a subject of continual newspaper examination and statements by public and private sector officials.

There were over 105 attendees, beyond even the expectations of the Security and Exchange Commission which organized the seminar. (Extra hotel rooms had to be arranged throughout the city at the last moment when the participants began to arrive in large numbers). Those attending included stockbrokers and businessmen, federal government officials including the Vice Chairman of the Central Bank, the Director of Office of the Budget, representing the Minister of Finance, and others. Especially impressive were the number - and quality - of those who attended from the 19 state governments. One of the principal speakers at the conference who was present at may of the sessions, was the Commissioner of Finance for Kano state. This is important because by reaching state level businessmen, stockbrokers and other government officials, one begins to get the message out beyond the capital city of Lagos.

The event drew a large number of financial writers from the many Nigerian dailies, the weekly news magazines, the business press and from radio and television. Since returning to the U.S. I have been contacted by individuals and business organizations who had read about the conference and the speech in one of the news magazines.

There is a clear recognition that the public sector must be cut back, and all Nigerians want to reduce the burden that the public enterprises impose on their society, especially at a time of economic stagnation and, in some areas, sharp decline. The central government is committed to the idea, and has already launched several initiatives in the hotel industry and in agriculture and is seriously considering other fields. I made a point of talking to a lot of state level businessmen, bankers and government officials, and it is clear that the economic crunch, prompted by the collapse of oil prices, continues to worsen; the states are simply having to shut down their parastatals for lack of money.

In Nigeria, as in all other countries, the shared recognition of the imperatives to change does not lead to unanimity on the methods, nor to the ranking of priority goals, sectors or firms to be privatized. There is considerable debate over the "modalities" of privatization. This refers in the Nigerian context to the mix of goals and methods to be selected by the government. Some elements want full and speedy sale of assets to the private sector through the medium of the three branches of the stock exchange in the country. Many others, especially the politically powerful Northern part of the country, very much prefer to try to make the existing public enterprises work more efficiently. All elements seem to agree that a realistic program of economic reform, designed to make the country develop through increased competition and efficiency, must use a variety of public policy tools. Of those tools "Privatization" is now seen as extremely important.

In all of this, politics is as important as economics. Over the course of the Conference I saw that arguments simply to "commercialize" or try to reform the existing parastatals were made, but were well refuted by reference to many shabby monuments to failed "commercialization" experiments of the past. However, the political realities of the country are that the less economically developed parts of the country are leery of quick and widespread privatization. And other thoughtful observers, remembering past efforts at economic "reform" that led to increased inflation, disorganization and decreased efficiency, insist that government approach this important subject carefully and thoroughly.

In this process of careful consideration of privatization options, outside technical assistance does have a role to play. Privatization efforts in Black Africa's largest market, with Africa's largest pool of local businessmen, are tackling the problems at various stages simultanously. Some are working through the conceptual and definitional issues ("what is privatization and what isn't"). Others are beginning to select instruments, i.e. investment banks or national commissions. Others are actively identifying firms to be sold or closed down. In one sense, Nigeria is Africa's greatest laboratory for privatization. In these experiments, Nigerians will determine their own outcome, but they appear eager to listen to the experiences and insights of others.

Several Nigerian public sector officials and private sector businessmen asked if the U.S. Government planned to do anything more on the subject of Privatization. A senior financial official of one of the country's influential development banks, the Northern Nigerian Development Corporation, asked whether I would be willing to return to do a seminar for his organization and the ten or so state development corporations in the North. I suggested that he make a formal request along those lines through the U.S. Embassy in Lagos and/or the Consulate in Kaduna. I anticipate that he will do so within the near future. There was also interest expressed among some of the Conference participants in doing a seminar or series of seminars in Lagos. They too may be contacting the Embassy in Lagos.

PROGRAMME

FOR

NATIONAL SEMINAR ON PRIVATISATION

ORGANISED BY

SECURITIES AND EXCHANGE COMMISSION

THEME: *RESTRUCTURING THE NIGERIAN ECONOMY: THE PLACE OF PRIVATISATION*

DATE: *THURSDAY 24TH – SATURDAY 26TH APRIL, 1986*

VENUE: *CENTRAL HOTEL, KANO, KANO STATE.*

WEDNESDAY 23RD APRIL, 1986

6.30 – 8.30 p.m.		*REGISTRATION*

DAY 01

HURSDAY 24TH APRIL, 1986

8.00 a.m.	–	*Registration continues*
8.40 a.m.	–	*All delegates and guests seated*
8.50 a.m.	–	*Welcome address by the Chairman of the SECURITIES AND EXCHANGE COMMI-SSION, Alhaji A.O.G. OTITI.*
9.00 a.m.	–	*Keynote address by Col. Ahmed Daku, Governor of Kano State.*
9.10 a.m.	–	*Opening address by Hon Minister of Finance – Dr. C.P. Okongwu.*
9.20 a.m.	–	*Group Photographs*
9.45 a.m.	–	*Tea/Coffee break*
10.00 – 10.40 a.m.	–	*Theme Paper*
10.40 – 11.00 a.m.	–	*Discussions*
11.00 – 11.40 a.m.	–	*2nd Paper*
11.40 – 12.00 a.m.	–	*Discussions*
12.00 – 1.30 p.m.	–	*LUNCH*
1.35 – 2.15 p.m.	–	*3rd Paper*
2.15 – 2.35 p.m.	–	*Discussions*
2.35 – 3.15 p.m.	–	*4th Paper*
3.15 – 3.35 p.m.	–	*Discussions*
7.00 – 8.30 p.m.	–	*COCKTAIL - Sponsored by Kano State Properties and Investment Corporation (KSPIC).*

DAY 02

FRIDAY 25TH APRIL, 1986

8.55 a.m.	– *All delegates seated.*
9.00 – 9.40 a.m.	– *5th Paper*
9.40 – 10.00 a.m.	– *Discussions*
10.00 – 10.40 a.m	– *6th Paper*
10.40 – 11.00 a.m.	– *Discussions*
11.00 – 11.10 a.m.	– *Tea/Coffee break*
~~*11.10 – 1.10 p.m.*~~ 2pm	– *Committee Sessions*
	– *Group A*
	– *Group B*
1.10 – 2.30 p.m.	– *LUNCH*
2.30 – 5.00 p.m.	– *Sight seeing of Kano City Organised b the SEC*
7.30 p.m. 8:30	– *Buffet Dinner*

DAY 03

SATURDAY 26TH APRIL, 1986

8.55 a.m.	– *All delegates seated*
9.00 – 10.45 a.m.	– *Closing plenary session: Committee reports.*
10.45 – 11.00 a.m.	– *Tea/Coffee break*
11.00 – 11.50 a.m.	– *Resolutions*
11.50 – 12.00 p.m.	– *Closing remarks by Mr. G.A. Akamiok Executive Director, Securities & Exch Commission.*

END OF SEMINAR

PAPERS AND DISCUSSIONS

THEME PAPER:	*Restructuring the Nigerian Economy: The place of Privatisation;*
SPEAKER:	*MR. C.O. IBIE, Managing Director, EFCHI Ltd., and Retired Federal Permanent Secretary.*
PAPER II:	
TITLE:	*Capital restructuring for successful Privatisation;*
SPEAKER:	*MR. ARTHUR C. MBANEFO, Chief Executive A.W. Consultants Ltd.*
PAPER III:	
TITLE:	*Modalities for successful Privatisation: The role of Securities and Exchange Commission;*
SPEAKER:	*MR. G. A. AKAMIOKHOR, Executive Director, Securities and Exchange Commission.*
PAPER IV:	
TITLE:	*The role of Capital Market Operators in the Privatisation process;*
SPEAKER:	*ALHAJI MUKHTAR AHMAD, Managing Director, ICON Ltd. (Merchant Bankers).*
PAPER V:	
TITLE:	*Privatisation and the Nigerian Worker:*
SPEAKER:	*DR. A. ADERINTO, Associate Professor, Human Resources Research Unit, University of Lagos.*
PAPER VI:	
TITLE:	*Privatisation process: The International experience;*
SPEAKER:	*PROF. E. J. WILSON III, Special Adviser to the President of United States.*

Chairman: Day 01: *MALLAM H. ZAYYAD, Executive Chairman, Phoenix Investment Services Limited.*

Chairman: Day 02: *ALHAJI BALARABE ISMA'ILA CON, Chairman/Managin Director, Premier Petroleum Co. Ltd., Kano.*

COMMITTEE ON PRIVATISATION – CONCEPTS, PROCESSES AND IMPLICAT

Rapporteur: *MR. NKEM OSSAI, Economic & Business Correspondent, The Guardian Newspapers.*

COMMITTEE ON STRATEGIES FOR SUCCESSFUL PRIVATISATION

Rapporteur: *MRS. FUNKE ADEKOYA Legal Practitioner, Abdulai Ibrahim & Co.*

Seminar Co-ordinators: *DR. J. E. EZIKE*

MISS D. EKINEH.

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Ref _______________ Date_______________

NATIONAL SEMINAR ON PRIVATISATION

R E S O L U T I O N S

CONCEPTS

1. IT WAS OBSERVED THAT THE CONCEPT OF PRIVATISATION IS "THE PROCESS OF TRANSFERRING OWNERSHIP INTEREST AND CONTROL IN A GOVERNMENT-OWNED ENTERPRISE TO THE PRIVATE SECTOR"

2. IT WAS ALSO OBSERVED THAT PRIVATISATION CAN EITHER BE TOTAL OR PARTIAL.

THE RATIONALE FOR PRIVATISATION INCLUDE:

(a) EFFICIENCY:

(b) PROFITABILITY:

(c) ELIMINATION OF BURDEN OF SUBVENTIONS AND SUBSIDIES OF GOVERNMENT AS WELL AS INCREASING THE REVENUE.

PROCESSES OF PRIVATISATION

3. THE SEMINAR AGREED THAT FOR ANY PRIVATISATION POLICY TO BE SUCCESSFUL, THE FOLLOWING PHASES SHOULD BE FOLLOWED:

PHASE ONE - INSTITUTIONAL DEVELOPMENT WHICH INVOLVES:

(i) ORGANISING FOR PRIVATISATION

(ii) ASSESSING THE POLITICAL CLIMATE

(iii) CREATING PRIVATE SECTOR COALITION

(iv) DEVELOPING STRATEGIES AND GUIDELINES

PHASE TWO - SELECTING TARGETS: THIS INCLUDES

(i) POLICY REVIEW

(ii) ORGANISATIONAL SURVEY

(iii) BUSINESS EVALUATION

(iv) STRATEGIC ANALYSIS

PHASE THREE - PRIVATISATION TRANSFER

(i) ESTIMATING VALUE (I.E. VALUATION OF TARGET INDUSTRIES)

(ii) SETTING CONDITIONS FOR ISSUE AND SOLICITING FOR TRANSFER

(iii) EVALUATING AND SELECTING SUCCESSFUL BIDDERS:

(iv) NEGOTIATING AND EXECUTING TRANSFERS

PHASE FOUR - MONITORING END RESULTS

(i) ESTABLISHING REGULATORY ORGANS AND MECHANISMS

(ii) MONITORING PERFORMANCE OF THE WHOLE PROCESS OF PRIVATISATION.

IMPLICATIONS OF PRIVATISATION

THE SEMINAR OBSERVED THAT THERE ARE THREE MAIN BROAD IMPLICATIONS AS REGARDS PRIVATISATION: THEY ARE

(1) ECONOMIC:

(2) SOCIAL: AND

(3) POLITICAL

ECONOMIC IMPLICATIONS:

(i) PRIVATISATION HAS THE EFFECT OF REDUCING GOVERNMENTS' OVERALL FINANCIAL COMMITMENTS IN THE FORMS OF SUBSIDIES, SUBVENTIONS AND LOANS TO STATE-OWNED PARASTATALS

(ii) HIGHER REAL ECONOMIC GROWTH CAN BE ACHIEVED WITH WIDER IMPACT ON LIVING STANDARDS THROUGH GREATER EFFICIENCY

(iii) PROCEEDS FROM THE SALE OF GOVERNMENT INTEREST IN THE PRIVATISED CONCERNS WILL RAISE GOVERNMENTS' REVENUE. TAX BASE WILL ALSO WIDEN

(iv) NEW OWNERS MAY IN THE BID TO INJECT HIGHER PRODUCTIVITY ADOPT CAPITAL INTENSIVE PRODUCTION METHODS THAT WILL PUT STRAIN ON THE NATION'S FOREIGN EXCHANGE.

(v) PRIVATISATION IN MOST CASES ARE FOLLOWED BY UPWARD REVISION IN THE CHARGES FOR GOODS AND SERVICES OF COMPANIES SO PRIVATISED.

(vi) THERE IS THE POSSIBILITY OF UNDER-SUBSCRIPTION FOR LOSS MAKING COMPANIES.

(vii) NEW OWNERS OF PRIVATISED COMPANIES MAY DIVERT OPERATIONS FROM ORIGINAL AREAS INITIALLY ENVISAGED FOR THESE INDUSTRIES

(viii) DIFFERENCES IN INCOME LEVELS MAY AFFECT PARTICIPATION BY THE LESS ENDOWED MEMBERS OF SOCIETY

SOCIAL IMPLICATIONS

IT WAS RESOLVED THAT THERE MAY BE POSSIBLE DISLOCATION IN THE PROVISION OF SOCIAL GOODS AND SERVICES

THAT SOCIAL DISENCHANTMENT COULD RESULT CONSEQUENT UPON HIGH PAYMENT FOR GOODS AND SERVICES

THAT PRIVATISATION MAY IN THE SHORT RUN RESULT IN THE RETRENCHMENT OF WORKFORCE, WITH THE ATTENDANT EFFECT ON CRIME RATE.

THAT PRIVATISATION MAY LEAD TO UNEQUAL DISTRIBUTION OF WEALTH DUE TO VARYING LEVELS OF AWARENESS.

THAT UNCOORDINATED PRIVATISATION MAY RESULT IN THE CONCENTRATION OF WEALTH IN THE HANDS OF A FEW, THEREBY INTENSIFYING CLASS STRATIFICATION.

POLITICAL IMPLICATIONS

IT WAS RESOLVED THAT THERE IS THE POSSIBILITY OF NEW GOVERNMENTS RENATIONALISING THE PRIVATISED COMPANIES

THAT WHERE PRIVATISATION WAS MOTIVATED BY THE PRESSURE OF EXTERNAL INFLUENCES, THE SOCIETY MAY REACT VIOLENTLY TO WHAT IT SEES AS NEO-COLONIALISM

THAT WHERE THE DEMAND FOR EVEN SPREAD OF OWNERSHIP WAS NOT MET SECTIONAL AGITATION MAY RESULT.

THAT TOO MUCH PURSUIT OF THE GOAL OF GEOGRAPHICAL SPREAD IN THE DISTRIBUTION OF OWNERSHIP OF PRIVATISED INDUSTRIES MAY DEFEAT THE VITAL ASPECT OF EFFICIENCY IN MANAGEMENT OF THESE COMPANIES.

IN VIEW OF SOCIAL, POLITICAL AND ECONOMIC IMPLICATIONS, THE FOLLOWING STRATEGIES WERE RECOMMENDED:

IT WAS RESOLVED THAT A NATIONAL BODY IN THE OFFICE OF THE PRESIDENT TO IMPLEMENT AND MONITOR THE PRIVATISATION EXERCISE BE SET UP. THE COMPOSITION OF THE BODY SHOULD INCLUDE THE RELEVANT MINISTRIES, THE ORGANISED PRIVATE SECTOR AND ORGANISED LABOUR

THE TERMS OF REFERENCE OF THE BODY SHOULD INCLUDE:

(i) DRAWING UP OF A NATIONAL PROGRAMME FOR THE PRIVATISATION EXERCISE WITH THE SEC AS THE BODY OF CONTROL AT THE TIME OF SALE:

(ii) RESTRUCTURING OF PUBLIC ENTERPRISES WHERE NECESSARY.

(iii) CLASSIFYING PUBLIC ENTERPRISES INTO THE FOLLOWING:

- (a) THOSE TO BE TOTALLY LIQUIDATED
- (b) THOSE TO REMAIN WITH GOVERNMENT
- (c) THOSE TO BE TOTALLY PRIVATISED
- (d) THOSE TO BE PARTIALLY PRIVATISED

IT WAS RESOLVED THAT THE SEC SHOULD GIVE PREFERENTIAL ALLOTMENT TO ALL STATES' INTERESTS TO ENSURE GEOGRAPHICAL SPREAD WHILE AVOIDING OVER FRAGMENTATION OF SHAREHOLDINGS WHICH MIGHT HAVE ADVERSE EFFECT ON MANAGEMENT AND CONTROL

IT WAS RESOLVED THAT STATE GOVERNMENTS SHOULD BE ENCOURAGED TO ESTABLISH STOCKBROKING FIRMS THROUGH THEIR INVESTMENT COMPANIES.

IT WAS RESOLVED THAT THE ENTERPRISES TO BE PRIVATISED SHOULD AS MUCH AS POSSIBLE BE CONVERTED INTO PUBLIC COMPANIES SUCH THAT THE CAPITAL MARKET WOULD BE THE MAIN AVENUE FOR PRIVATISATION.

IT WAS RESOLVED THAT THE LEGAL FRAMEWORK GOVERNING PUBLIC ENTERPRISES SHOULD BE REGULARIZED BEFORE PRIVATISATION AND THAT FOR LOSS MAKING ENTERPRISES, GOVERNMENT INCENTIVES APPROPRIATE TO EACH COMPANY SHOULD BE MADE AVAILABLE FOR CERTAIN PERIOD.

PROVISIONS SHOULD BE MADE TO ENABLE WORKERS TO ACQUIRE SOME OF THE SHARES OF THE COMPANIES TO BE PRIVATISED.

APRIL 26, 1986

PRIVATIZATION IN AFRICA

Ernest J. Wilson III
University of Michigan

Wherever one travels through Africa this year one is struck by the explosion of public debate on privatization. 1986 seems to be the year that reform of the parlous state of public-private sector relations has taken top billing in discussions about policy. Africa is in the middle of a sea change in the way the public and private sector are talked about. Words like "privatization" and "commercialization" are everywhere. But it remains to be seen whether the currents of public rhetoric will actually be reflected in the content of public policies.

At first glance it appears that, indeed, governments have taken the first steps to trim down the fat and excesses of the public enterprise sector:

: Nigeria's Armed Forces Ruling Council has unilaterally slashed subventions to public enterprises by 50%, and is actively considering several major privatization proposals. And in populous Oyo State, the new Ibadan-based Commissioner for Economic Development and Finance stated in an interview that after education, the issue of privatization is the most pressing issue before government.

: Kenya has actually sold government interests to the private sector, and a high visibility panel is exploring ways to strengthen public-private sector relations.

: Mozimbique, Tanzania and Benin are actively exploring ways to improve the economic performance of the state economic sector, and to widen somewhat the scope for private businesses.

: All the major multilateral institutions are pressing for public enterprise sector reform, as is U.S. A.I.D., and they are devoting considerable financial resources to expanding the scope of private sector initiative.

But before we blindly embrace or reject these reforms out of hand, we need a full picture of what is actually taking place in Africa. This article will try to shed some light on what is an extremely important, complex and emotionally charged debate over the character of African economic and political development. Conversations with top government officials, PE managers themselves and with intellectuals reveal the depth of discontent with the past performance of the public enterprise (PE) sector in all countries, and their search for new solutions. We will try to give some sense of why these changes are taking place, to define what is occuring, and demonstrate the range of countries in which change is occuring.

The preferred terms for these reforms vary from country to country and sometimes by successive governments in the same country. In Nigeria, for example, the preferred term was "commercialization" under the previous Head of State General Buhari. His successor, Gen Babangida, has come out for "privatization". The Mauritanians use "reform and rehabilitation" of the sector, while some other francophone countries and also the World Bank employ "restructuring". The changes may be greater in Guinea, Mali and Zambia than in Tanzania or Benin, but whatever one calls it, this wave of economic reform is sweeping throughout Africa.

There are several reasons for this sea change in government attitude and action toward public - private sector relations. The first is that in good times and bad the Public Enterprises on the whole have been a waste of money. The overwhelming evidence from across Africa, from governments' own reports and white papers, from World Bank missions and from scholarly studies clearly demonstrate that PEs have consumed far more resources than they have generated. They do not contribute to, they take away from, national economic surplus; as a rule, they do not create growth they help reduce it. All too many public enterprise sit like huge white elephants over the African landscape and vorasciously consume what has been produced by others. There are some important exceptions - in agriculture, in the power sector, in banking. But these exceptions prove the rule. Many PEs were created for good reasons - to provide infrastructure or to substitute for absent local entrepreneurs. Now they have grown in size and inefficiency out of all proportion to government's capacity to prop them up.

The shattering economic crisis that afflicts the continent is the second reason for governments' re-assessment of the parastatals. The GNP per capita in many countries in 1986 is sliding back to 1960 levels. Indeed, the aggregate macro-economic figures are becoming as distressingly familiar as the pitiable pictures of children suffering from drought and starvation. One consequence of economic deterioration is, quite simply, that African governments have run out of cash. No longer can central governments prop up their sagging parastatal organizations with unending subventions. Officials of the central bank of the francophone West African states (BCEAO) admit quite candidly that the PEs are so badly overborrowed from the

Dakar-based bank, that they are now forced to slash their loans for good projects that could be productive and employment-and growth-generating simply because there is no more money in the till. Fully 70% of Benin's long term borrowing is tied up in loans to the inefficient public enterprise sector, and the interest payments alone are a serious burden on the government.

The sustained pressure of internatinal lending institutions, like private banks or the International Monetary Fund, is another reason governments turn to "Privatization" as a solution to stagnation. To convince governments they should reform, the World Bank offers a lot of carrots (loans and technical assistance), and sticks (cutting off access to their own, and de facto, new private capital as well). Clearly it has played a major role through Fund programs and the Bank's Structural Adjustment Loans. U.S. bilateral programs push in the same direction. But while the IMF and the World Bank have been visible and ideologically charged contributors to this sea change, there are other macroeconomic, microeconomic and domestic political factors pushing in new directions. Growing consumer discontent with PE performance has also pressed governments to allow more room for private suppliers and to shrink the relative size of the public enterprise sector. In Dar es Salaam, the much-criticized public monopoly over bus transportation has given way to public-private competition. Finally, the rise of interest in reform and privatization springs from a new assertiveness by local private interests, often expressed through local chambers of commerce.

The Many Meanings of Privatization and Reform in Africa.

Privatization, or more broadly what I call public-private sector reforms, can be described as follows.

1. Asset Diverstiture.

This is "privatization" in its purest form. It refers to government sale of assets and/or equity in a PE to one or more private buyers. It is the most often talked about, and the most difficult to achieve, for reasons we discuss below. Still, it has occured in Kenya, where government has sold Kenya Fisheries, and has put its long haul transport company up for sale. In Mozimbique, six light industrial facilities previously run by government will be turned over to private firms, including a radiator factory and a truck and railroad car parts factory. Sometimes a losing enterprise cannot be sold for lack of buyers, yet year after year it is a terrible drain on the public purse. Then, government may simply liquidate a PE and close it down. Ivory Coast shut two of six expensive sugar complexes that made sugar in the country among the most expensive in the world. Benin closed seven national and 48 provincial companies. Zambia closed down several of its companies in fact if not in legislation, keeping a skeleton office crew but abandoning the company as an ongoing enterprise. Niger, Somalia and Zaire have each liquidated at least three state companies. All of these are examples of Asset Divestiture.

2. Management Contracts.

In this form government retains full or partial ownership of the enterprise's equity, but hires a private management firm or a "technical" or operating partner to come in and turn the company around. This strategy has been tried with some success for breweries in Zambia and a large new hotel in Benin. Sometimes the managing parter will also take a minority share in the enterprise. A study of 44 parastatals by a young Cameroonian scholar revealed that companies in that country with 100% government ownership also had the worst financial performance; companies with mixed ownership (and probably management too) performed the best. Guinea, Liberia, Mali, Togo and Zaire have all tried management contracts in their PE sectors.

3. Contracting Services.

A few African governments (but many outside Africa) arrange to contract for the provision of services with private providers. Government offers franchises or concessions to firms, specifies the population to be served and the quantity and quality of the service, and hires the firm to provide it. The government of Ivory Coast's capital, Abidjan, has its water supplied through a concession with a private firm, and Kenya uses private contractors to do road maintenance work.

4. "Commercialization" or De-Monopolization.

In many African countries increasing the competition between former government monopolies and private buyers and sellers is one of the most important public-private reforms. Rice agencies in Madagascar and Sierre Leone, and cereals marketing boards in Mali have been liberalized in this way. In Nigeria, customers claim they can already see improvement in the Nigerian Airlines domestic services since private airplanes have been permitted to compete between Lagos and Benin City. This kind of competition can provide tangible benefits to consumers, as well as energizing parastatals that had gotten fat and complacent and delivered poor service. Benin permitted private firms to compete against its Alimentation Generale du Benin, and already several companies have opened stores in areas where there were none before. Where the AGB sells at lower prices, shoppers can still buy their goods.

5. Rehabilitation.

Almost all African governments have attempted to rehabilitate their existing public enterprises to greater or lesser degrees. Houphouet-Boigny launched a massive reform campaign in the Ivory Coast as long ago as 1978, appointing his trusted Minister of the Interior to the new post of Minister of Public Enterprise Reform. After carefully categorizing the PEs by their commercial or service orientation, and their financial performance, the government began an extensive house cleaning and efficiency campaign that still continues today. Like all countries that successfully re-structure their public enterprise sector and that improve their performance, the Ivoriens improved financial controls within the enterprises, they rationalized the relations between the government (via ministries) and the parastatals, and they improved procedures for pricing, hiring and investment. Zambia is another case where rehabilitation efforts were successful. In Tanzania and Benin the government has given lip service to PE reform, but their modest actions haven't matched their rhetoric.

The lesson of reform movements in Africa today is that "Privatization", to be successful, must encompass all of the above. Successful reform consists of a bundle of separate economic policy tools that African governments can employ in different mixes to re-start their faltering economic growth. Different tools work best in different sectors. Indeed, focusing exclusively on the ideologically-laden term "Privatization" may dissuade as many as it convinces. Equity sales alone are unlikely to work well in Africa. Few governments try to privatize the railroad or power supply; these sectors respond best to rehabilitation. Manufacturing PEs on the other hand may work better through equity sales and management contracts. Increased competition from private farmers and traders can improve both marketing board performance and agricultural production.

Potential Benefits of Public-Private Sector Reforms.

The gains from successful reform in Africa have included greatly reduced government expenditures; increased government earnings from the immediate sale of assets and, more revenues over the medium term as newly-efficient PEs start to pay taxes and dividends; and improved delivery of goods and services to the population. These gains are not automatic, of course. There are dangers that equity and efficiency after the reforms will be as bad or worse than before. But, pushed to the financial wall, most governments are taking some initial steps to make their reforms work. In Zambia and Ivory Coast PEs operating in the red have been turned around to work efficiently.

Barriers to Public-Private Sector Reform.

If there are real benefits to Public/Private Reform there are nonetheless real tangible reaons why privatization and reform haven't gone further in Africa. In many countries there is a lot of political opposition to Privatization. Labor unions, youth groups and some intellectuals have actively opposed privatization, declaring it a sellout to imperialism or to local capitalism. Nigerian labor leaders issued a pamphlet entitled, "Nigeria Is Not for Sale." Some fear that privatization or reform will benefit only the wealthy, further skewing income and wealth distribution and corrupting the development process. Others respond politically when Public/Private Feform threatens their own personal interests - civil servants may lose jobs and senior government officials may lose access to opportunities for political influence and personal income. There may also be sectional disputes over economic reform. In Nigeria, for example, there are some strong pressures in the southern part of the country for an share privatization strategy, using the Lagos Stock Exchange as the device to sell and buy PE stocks. This parallels similar arguements that occured during the Indigenization Decree excercises of 1972 and 1977. Others, in the south and perhaps especially in the north, would prefer a "commercialization" strategy that would emphasize the reform of existing parastatals to make them work better, rather than selling off state property to the highest bidder. Some fear privatization via equity sales would benefit the south more than the north. Conversations in Nigeria, and the many news reports and editorials on this subject, express real concern about the threat to regional balance if the PEs are sold only through Lagos and not through a scheme more cognizant of the federal character of Nigeria.

There are also institutional and social barriers to reform. Most African governments lack the strong finance ministry staffed with experienced and highly trained cadres necessary to control the PEs adequately. Few countries possess the sophisticated stock exchanges with enough capital depth to conduct a full scale equity sale, and many lack local firms with the investment banking or managerial skills necessary to arrange the sales of millions or even billions dollars worth of public assets. Perhaps most important are the sizable social barriers. African countries like Zambia or Tanzania have a lot of educated civil servants but relatively few local businessmen big enough to buy privatized PEs. *De facto*, equity privatization would mean selling PEs to non-Africans, perhaps Lebanese in West Africa and Asians in the East, outcomes unappealing to nationalist-minded African politicians. And even where there are local buyers, politicians fear the new power of the commercial class. Finally, governments too often want to sell the losers and retain the money makers, something no businessperson will find attractive. These are real barriers against public-private sector reform, but they are counterbalanced by the many pressures pushing for change. These are the contradictory pressures African governments are now grappling with.

THE PRIVATIZATION PROCESS ITSELF

If the domestic and international pressures in favor of reform do outweigh the negative ones, then in practical terms, how can government proceed to bring about the liberalization of the economy? Let us briefly examine the process of privatization.

Government can usefully consider the privatization process as proceeding through a number of major phases. In this particular approach, developed by the Hay Group, we identifv four phases.

Phase One = Institutional Development;
Phase Two = Selecting Targets;
Phase Three = the Privatization Transfer
Phase Four = Monitoring End Results

Each phase is critical to the ultimate success of the excercise. Governments that try to jump over or ignore a phase put the entire privatization excercise at risk. We will concentrate on Phases One and Two in light of current interests in Nigeria.

Phase One.

Before the political leadership launches a massive national campaign of economic reform, it should first organize and assess its own organizational capabilities, its constituencies and its objectives. Let us briefly consider these, in reverse order.

My research found that most African governments have turned tc privatization and reform out of economic necessity, not out of big ideological shifts. One African minister of finance told me that when he goes to his ministry 's bank account at the end of the month to transfer subsidies to the PEs, he discovers there is simply no more money left. Financial constraints push privatization; therefore, a big objective of reform is reducing government's financial burden. This essentially negative objective may expand to include increasing government revenues, and eventually, accelerating economic growth. After all, the privatization/reform process is not an end in itself, but a means to improve the efficiency and equity of national development.

Whatever they are, government objectives should be set out explicitly, clearly, and very early in the process. At the same time, of course, the leadership assesses the local political conditions in order to create private sector coalitions in support of privatization.

Phase One also covers organizational issues. The leadership should assign responsibility for policy development to a single unit of government. This unit must consult with many agencies and groups public and private, but successful reform programs usually have one unit with ultimate responsibility for setting policy - in some African countries, for example, a new ministry of Parastatal Reform. In others, the Ministry of Finance; in still others, the President's Office or Cabinet Office determines privatization policy. A separate governmental unit may have responsibility for implementing the policy, perhaps a separate, semi-autonomous agency or commission. Consulting closely with other private and public actors, the lead policy body should design the general strategies and guidelines that will direct the rest of the process. In Nigerian parlance, this means selecting the "modalities". This includes setting principles about how to transfer ownership and title - i.e. through the stock exchange or private placements? To one large buyer or many smaller ones? Using unconventional means like Employee Stock Option Plans, or entirely through standard procedures. This may involve selecting one or more specialized bodies to assist government in this process - including investment banks, consultants, lawyers, or some combination of all three. In a number of African countries the World Bank or bilateral aid agencies have provided technical assistance in this area. There are relative advantages to each, and they can be used togother. In Turkey, for example, government announced that it wanted assistance in designing a general privatization plan. Bids were accepted, and an investment bank won the bid. That bank then developed a framework for privatization, and further advised the government as to the kinds of specific skills and ancillary services it would require. Government will now probably draw up additional requests for bids from other companies to perform specific tasks.

Phase Two.

Phase Two is critical. It can make, or break, the privatization process. It must begin with a complete survey of all PEs - their legal standing, their financial structure (especially debt-equity ratios), and their economic performance. Then, in line with its objectives, government should select priority sectors and areas of activity for reform. Typically, governments choose privatization targets based on three broad criteria. The first, an economic criterion, scrutinizes the parastatal's financial and economic burden on government, especially the size of losses and subsidies. This helps meet the objective of cutting losses. Second, an appropriateness criterion. Should government be in a particular activity, whether it is losing money or not? Should government be in hotels or dry cleaning establishments? Is that where its own comparative advantages lie? These are clearly political and ideological as well as an economic questions.

Government can use this excercise to promote greater efficiency by selling off properties, including those that are currently profitable.

Here we confront the tough issue is: will government only try to sell the red ink companies, the money losers that nobody wants, or will it also try to privatize companies that are earning profits, but in which government no longer feels it needs to be involved? This is a sensitive issue of political economy that must be answered in each instance by the political leadership. Finally, there is an organizational criterion. A PE or sector seem ripe for privatization on financial or appriateness grounds, but entrenched political resistance, and organizational confusion, may make immediate reform impossible. In all of this, government should try to establish some order or sequence in which PEs will be reformed: which PEs are targeted for immediate privatization, which will come second, etc.

Phase Three.

In Phase Three the general principles are applied to specific sectors, markets and individual firms. An agency must evaluate the assets and fix the selling price. It must determine the conditions of transfer and payment. It must evaluate and select the successful bidder, and it must negotiate with the buyer. In these discussions the burden of debt and superfluous employees are especially difficult. Government must decide whether the prospective buyer shall be required to assume all of the debts of the company. Or should government write off the debts? Should the buyer be required to hire all the staff or to assume pension obligations? Should the PE be sold with its current organizational structure, or be re-structured to separate profitable from unprofitable units? These and many other issues are indicated on the "Privatization Flow Chart" which is attached.

Phase Four.

The last phase is beyond the focus of this paper. However, monitoring should occur throughout the process. As government offers equity for sale, and as it tries an array of other reform tools, public officials must evaluate the process and correct it where necessary. For example, some strategies may work better with some sectors than with others. Government should adjust the process along the way as it gets new information and learns new lessons.

Finally, each of these four phases must be accompanied by a progressive loosening of the intrusive and often confused macro-economic controls that African governments so often apply to all enterprises, public and private. "Privatizing" ownership will not improve national efficiency unless governments agree to slash the power of government bureaucrats to determine pricing, investment and personnel decisions, and hand this authority over to the enterprise managers who should be directly responsible for enterprise success or failure. Indeed, the "freedom to fail" should be the cornerstone of this new economic environment for enterprises. In turn, each phase should be recognized as contributing to a broader national objective, and is not an end in and of itself. Instead, the broader national purpose is to promote structural adjustments, to improve equity and increased efficiency and resource allocation.

CONCLUSION

There are perhaps three lessons to be drawn from the study of economic reforms in Africa. First, there is no substitute for political will and committtment at the top. The best technically designed programs complete with input/output ratios will fail without presidential backing. Where reform programs are successful, the head of state has gotten directly involved and invested a lot of his own personal prestige on public enterprise sector reform. Second, the people assigned to do the reforms are close to the head of state and they wield real power, and implementation has been assigned to one agency, not a string of committees, advisory groups or a handful of separate ministries. And third, public/private reforms are country-specific, they involve a range of reform policies, and they take years to do well.

Africa very badly needs economic reform to halt its decline and recover its lost forward momentum. This is proving to be a difficult task. Government leaders face serious opposition to reform. Indeed, they face a kind of double dilemma. On the one hand they must push hard and enthusiastically for public support to get public enterprise reform past reluctant but entrenched civil servants and party officials. On the other hand, they must recognize that overselling privatization - an inherently time consuming and difficult process - will surely lead to disappointment and the danger of returning with a vengence to even more state intervention, when the promised fruits of reform do not ripen immediately. Good public/private reform takes years. Many governments have begun the long march toward economic reconstruction. But the distance still to travel is great.

PRIVATIZATION PROCESS -- FOUR PHASES

Four Phases

I. Institutional Development

II. Selecting Targets

III. Privatization Transfer

IV. Monitoring End Results

. . . AND 14 STEPS

Phase I – Institutional Development

1. Organize for privatization
2. Assess political situation
3. Create private sector coalitions
4. Develop strategies and guidelines

Phase II – Selecting Targets

5. Policy review
6. Organizational survey
7. Business Evaluation
8. Strategic analysis

Phase III – Privatization Transfer

9. Estimate value
10. Issue conditions and solicitation for transfer
11. Evaluate and select successful bidder
12. Negotiate and execute transfer

Phase IV – Monitoring End Results

13. Establish regulatory and oversight mechanism
14. Monitor performance

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EXECUTIVE DIRECTOR

Ref:..

Date:......May..5,..1986.......................

Prof. Ernest J. Wilson III
The Petroleum Finance Co. Ltd.
2000 Pennsylvania Avenue NW
Suite 8500
Washington DC 20006

Dear Sir:

APPRECIATION

On behalf of the Chairman and the entire staff of the Securities and Exchange Commission, I write to convey to you our deep appreciation for the thoroughly researched paper you presented at the Commission's just concluded seminar on "Restructuring the Nigerian Economy: The place of Privatisation" which was held in Kano, Kano State.

Both the rapt attention of the audience and comments emanating from other participants have borne testimony to the quality of the research work carried out in writing your paper. It is our conviction that tapping the experience of people like you would make for meaningful education of the public in the wider interest of our socio-economic development.

Your goodwill and friendship with Nigeria in general, and co-operation with the Commission in particular are manifested in not only taking time off from your tight work schedule but also leaving your home/family to present a paper at the seminar in Nigeria. I hope you had a pleasant journey back to the United States.

May I therefore, thank you immensely for honouring our invitation to you as one of the Speakers at the two and half day long seminar.

// A copy of the resolutions passed at the end of the seminar is attached for your information.

We look forward to your continued co-operation.

Yours faithfully

G.A. AKAMIOKHOR
Executive Director.