

**INAUGURATION OF THE NATIONAL COUNCIL
ON PRIVATIZATION**

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**STATEMENT BY PRESIDENT OLUSEGUN OBASANJO
ON THE OCCASION OF THE INAUGURATION OF THE NATIONAL
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THE IMPERATIVE OF PRIVATIZATION

Up till recently, there have been many years of exhaustive deliberations by stakeholders on how to put the Nigerian economy on the path of sustainable growth and development. Right now, a consensus has emerged on the imperative of privatization and commercialization of State-owned enterprises.

Today's inauguration of the National Council on Privatization is, therefore, very significant in several important respects. Firstly, it is a critical step in our Administration's socio-economic agenda. Secondly, it is a demonstration of our commitment to institutional reforms. Thirdly, the response of stakeholders in the months ahead will enable us determine, with a great measure of accuracy the extent to which we have regained international faith and confidence in our country in general and in our economy in particular.

It is important to observe that there was a time when it was considered sound economic policy for Government to establish and invest in statutory corporations and state-owned companies. Socialism existed side by side with Capitalism. It was argued that public-owned companies were better for stimulating and accelerating national economic development than private capital. The result was a proliferation of such state-owned enterprises covering a broad spectrum of economic activities, from steel plants and petro-chemicals, through banks and hotels, to mass transit and abattoirs !

It is estimated that successive Nigerian Governments have invested up to 800 billion naira in public-owned enterprises. Annual returns on this huge investment have been well below 10 per cent. These inefficiencies and, in many cases huge losses, are charged against the public treasury. With declining revenue and escalating demand for effective and affordable social services, the general public has stepped up its yearning for state-owned enterprises to become more efficient.

State enterprises suffer from fundamental problems of defective capital structure, excessive bureaucratic control or intervention, inappropriate technology, gross incompetence and mismanagement, blatant corruption and crippling complacency which monopoly engenders. Inevitably, these shortcomings take a heavy toll on the national economy.

The problems associated with state-owned enterprises and monopolies are not peculiar to Nigeria. It is true, however, that many developing countries have overcome the problems through a well-designed and single-minded pursuit of privatization programme. The rationale is that privatization permits governments to concentrate resources on their core functions and responsibilities, while enforcing the "rules of the game" so that the markets can work efficiently, with provision of adequate security and basic infrastructure, as well as ensuring access to key services like education, health and environmental protection. The objective is to assist in restructuring the public sector in a manner that will affect a new synergy between a leaner and more efficient government and a revitalized, efficient and service-oriented private sector.

In the case of Nigeria, there are over-whelming facts and figures in support of the absolute necessity to realign ourselves with these global trends. There are over 1000 State-owned enterprises in Nigeria. Many of these enterprises gulped billions of naira without yielding much positive results in terms of customers satisfaction.

It is conservatively estimated that the nation may have lost about 800 million US dollars due to unreliable power supply by NEPA, and another 440 million US dollars through inadequate and inefficient fuel distribution. And figures like this do not even tell the whole story. They cannot, for example, capture the scope of human suffering and even loss of lives caused by shortage of petroleum products. That is not to mention the frustration and debilitation of the informal sector where business centres, repair workshops, hairdressing salons, etc. depend on steady supply of electricity to function.

We are privatizing for the benefit of our economic recovery and our social life. We are not embarking on this exercise to please the World Bank or the IMF. It is not designed to share our national assets to a few rich people. We are not about to replace public monopoly with private monopoly. Rather, in our determination to be unyielding and uncompromising in the pursuit of the best interest of this country, we want to remove the financial burden which these enterprises constitute on the public and release resources for the essential functions of government.

We want to ensure that many more service providers are brought in to compete and thereby regulate the market for fairer pricing. We want to ensure that these utilities work and deliver quality services. The process will avoid any possibility of further hardship to the public. A vigorous public enlightenment programme will ensure that as many Nigerians as possible do participate in the programme. The process will be transparent and guided throughout by the best interest of the country and the Nigerian public.

Privatization is also one of the reforms we have to undertake to integrate our economy into the mainstream of world economic order. There are two interrelated aspects to this integration. In the first place, we need the technology ; the managerial competence and the capital from the developed world to enhance the performance of our utilities. Secondly, there are very serious linkages between the efficient functioning of our utilities and our ability to attract foreign investments. We cannot be talking about creating a conducive environment for foreign investments if the performance of our transport, telecommunication and energy sectors remains dismal and epileptic.

The critical issue is how we can carry out a privatization programme that is well designed, properly co-ordinated and sequenced, credible and widely acceptable. This is where the National Council on Privatization has a pivotal role to play. As the apex body on privatization and commercialization, the Council is charged, among other things with the following :

- (i) approve policies on privatization and commercialization ;
- (ii) approve guidelines and criteria for valuation of public enterprises for privatization and choice of strategic investors ;
- (iii) approve public enterprises to be privatized or commercialized ;
- (iv) approve the prices for shares or assets of the public enterprises to be offered for sale ;
- (v) approve the appointment of privatization advisers and consultants, etc.

As you all are aware, we are not starting privatization from the scratch. Some work has been done by previous Administrations. There is also a pool of knowledge and experience we can draw on from other countries that have successfully privatized their state-owned enterprises. Where such previous exercises will promote the integrity and transparency of our privatisation exercise, they will be adopted and built upon.

As a first step, we will dispose of government equities quoted on the Lagos Stock Exchange, namely, in cement and banks, which are relatively easy to evaluate. In doing so, the absorptive capacity of the market will be closely watched and efforts would be made to encourage core investors to take preferential allocation.

There is no need for payment of non-refundable deposit of 10,000 US dollars, (as recent newspaper advertisements have been indicating), for this particular exercise. When the shares are ready for sale, they will be equitably available for investors who are interested.

For the utility companies, such as NITEL and NEPA, a lot more work would have to be carried out to prepare them for sale. We have secured the support of the World Bank for a comprehensive management and valuation audit of many of these entities. Privatisation will only follow after we have established the correct value of these parastatals. The government will not be short-changed in this exercise.

The three stages of the programme will be as follows :

- (a) Phase I-(to be completed by December, 1999) include : Commercial and Merchant Banks and Cement Plants that are already quoted on the stock exchange.
- (b) Phase II-to include Hotels and Motor and Vehicles Assembly Plants ;
- (c) Phase III-to include NEPA, NITEL, NAFCON, Nigeria Airways ; and Petroleum Refineries.

As part of the efforts to ensure transparency, our Privatization Programme will involve international privatization advisers. This will not only enhance credibility but also guarantee access to the special skills and knowledge required for handling the Privatization of utilities. It is expected that the international advisers working with Nigerian professionals will help to provide the desired investment climate.

Another group that will be involved will be Core Group Investors. These are experienced groups with the capabilities for adding value to an enterprise and making it operate efficiently in the face of international competition. They should also possess the capabilities of turning around the fortune of such unhealthy enterprises. The Core Groups must not only possess the technical know-how in relation to the activities of the enterprises they wish to invest in but also possess the financial capacity to pay competitive price for the enterprise and increase their capital base.

It is now my pleasure to formally inaugurate the National Council on Privatization and to wish the Chairman and members the very best of luck.