

FGN CONCLUDES PLANS TO PRIVATISE KEY ASSETS

INTRODUCTION

In recent years, the Federal Government of Nigeria (**FGN**) has demonstrated its preference for the adoption of privatization as a way of managing its economic responsibilities to its citizens. With dwindling crude oil revenues and the ever-increasing costs of governance, the Federal Government has again resorted to privatization as a means of improving liquidity, reducing operating costs and improving the operational efficiency of certain government assets given the depth of resources and higher levels of expertise that is abound in the private sector.

According to news reports, the FGN has once again concluded its plans to dispose of at least

36 of its properties between now and November 2022. The FGN intends to use the proceeds realized from the disposal of these assets to fund the 2021 budget. The assets cut across energy, industries, communications and infrastructure, and will be disposed of using different sale strategies. Some of the assets will be privatized using a 'core investor sale' which involves a sale of at least 51% of the shares of an entity while others will be privatized of by way of asset sales or more temporary arrangements such as commercialization and concession.

The schedule of the proposed FGN-owned assets for privatization is provided below.

S/N	PROPERTY	SALE STRATEGY
1.	Yola Electricity Distribution Company	Core Investor Sale
2.	Mineral House, Lagos	Asset Sale
3.	Geregu Power (20% Shareholding Sale)	Willing Buyer - Willing Seller
4.	Zungeru HydroPower Plant	Concession
5.	Transmission Company of Nigeria	Concession
6.	NIPP Assets – Geregu II, Calabar II and Omotosho II power plants	Core Investor Sale
7.	Refineries - the Kaduna, Warri, and Port-Harcourt refineries	Core Investor Sale
8.	Nigerian Postal Service (NIPOST)	Reform/Restructuring
9.	Nigerian Film Corporation	Commercialisation
10.	Abuja Environmental Protection Board (AEPB)	Concession
11.	Abuja Water Board	Commercialisation
12.	International Conference Center, Abuja	Concession
13.	River Basin Development Authorities	Commercialisation/Concession
14.	Tafawa Balewa Square	Concession

1. The process for the sale of the Yola Disco has already begun and is nearing completion.

S/N	PROPERTY	SALE STRATEGY
15.	Lagos International Trade Fair Complex	Concession
16.	The Federal Mortgage Bank of Nigeria	Restructuring
17.	Federal Housing Authority	Restructuring
18.	Bank of Agriculture	Restructuring/Recapitalisation
19.	Nigeria Commodity Exchange	Restructuring/Recapitalisation

Culled from the Premium Times Ng website - <https://www.premiumtimesng.com/news/headlines/443532-exclusive-nigeria-to-sell-refineries-icc-34-others-full-list.html>

None of the reports provide any exact or estimated figures as to the total sum of money the government expects to raise from the privatization exercise. However, it is reported that in addition to the funds to be raised from the sale of the government assets, the FGN intends to also borrow \$14.69 billion from local and international lenders. In the country's 2021 budget, a statutory transfer of \$1.3 billion and \$8.65 billion was approved for debt services. From the foregoing, it is clear that the funds raised from the privatization exercise will be used to shore up the country's finances and keep the national debt at sustainable levels.

The proposed sale of the 36 public owned properties will be the latest major privatization exercise following the privatization of the assets of the Power Holding Company of Nigeria which was largely concluded in 2013. Prior FGN-asset privatization efforts have yielded mixed results. Whilst there appears to have been some success from a fund-raising perspective, the success of past privatization exercises has been doubtful from a holistic cost reduction and operational improvement perspective.

A number of the assets listed have been subjects of previous partial or total privatization efforts in Nigeria, including the National Integrated Power Projects (NIPP) Assets, which were subject of significant investor interest but was ultimately unsuccessful due to a number of technical

issues (not least of which was feedstock availability) and bankability concerns arising from the documentation provided by the Federal Government to bidders for the assets. Also, Yola Electricity Distribution Company, was successfully privatized by the Federal Government in 2013 but the transaction was subsequently unwound, when the private sector investor exercised its 'put option' in respect of the shares acquired – on account of insecurity and related issues in the company's coverage areas.

For some of the others, it will be interesting to see the deal structure and terms that the Federal Government takes to the market in a bid to draw investors. For instance, with assets such as the refineries, the changing competitive landscape will certainly make potential deals quite interesting – in particular, sector observers will be keen to see how the Dangote Refinery (due to come onstream in 2022) and the proposed BUA Refinery (due to begin commercial operation in 2024), as well as the various modular refineries which the Department of Petroleum Resources seems to be encouraging, will impact investor appetite for the assets.

It will also be interesting to see how the proposed concession of the Transmission Company of Nigeria's assets will be undertaken, in view of the proposed establishment of an independent system operator (as distinct from the market operator, both functions currently undertaken by TCN),

and bearing in mind the various issues with the now terminated operation and management arrangement with Manitoba Hydro.

Also, as it relates to the assets slated for restructuring and/or recapitalization (such as the Federal Mortgage Bank, Federal Housing Authority, and Bank of Agriculture), it is unclear what specific mechanisms the FGN intends to deploy to implement these restructurings – whether by morphing them into public companies and then seeking investments on the capital markets or simply injecting new capital through the Central Bank of Nigeria or other liquid government entities.

CONCLUSION

This is an interesting development, undoubtedly one which will be monitored by investors keen to deploy capital towards infrastructure and other assets falling within

the identified groups. In view of some of the challenges with previous privatization efforts in Nigeria, it remains to be seen how this process will be implemented by the Federal Government.

For potential investors, it will be important to pay particular attention to the diligence, structuring and documentation aspects of the process for any deal – and perhaps, given the Federal Government's apparent keenness to execute this process successfully, there may be more flexibility from the government, and scope for investors to propose some more creative solutions to challenges that may arise.

In all of these, it will be critical to engage skilled and experienced advisers and partners to assist with navigating the complex and challenging, but ultimately rewarding, Nigerian market.

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