

Privatizing Airports in Nigeria: Lessons learnt from Emerging Economies

Issue 2020001

Introduction

The aviation industry is, without doubt, one of the top global industries. Besides being central to globalisation, it steadily facilitates economic growth, tourism, international investment and world trade. Its centrality to economic development of countries makes a case for the need to guarantee its survival by the Government.

In the past decades, however, new and disruptive trends have emerged in the aviation industry forcing industry players to device means to survive and be prosperous in order to meet the demands posed by a challenging local and international market.

This has compelled many to recognise the need for a radical change in the management and control of the industry. The effectiveness of this change is what this article considers. It briefly discusses the Nigerian aviation sector and its proposed privatisation, examines the outcome of privatisation in other countries and the argument for and against privatisation of the aviation industry and finally sets out key considerations for private entities looking to enter the industry.



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Nigerian Aviation Sector

Nigeria has thirty-one airports and twenty-six of them are operated by the Federal Airports Authority of Nigeria (FAAN) while the remaining five are currently international airports. In 2019, the aviation industry contributed about N198.62 billion to the Nigerian economy, an increase of 0.14% compared to its contribution in 2018[10]. Air transportation in Nigeria accounts for the second highest share of modal contribution to transport output. The aviation sector has great potentials for contributing to the local economy, sustaining development and conserving foreign exchange. It currently supports more than 250,000 jobs[8]. Currently, however, Nigeria does not have a national carrier.

Privatisation of Airports in Nigeria

Privatisation entails the transfer of the ownership of property or business of the government to private entities for management, control and operations. Where it concerns a state-owned enterprise, the moment the privatisation of the enterprise is finalised, government ceases to have control over it. With regards to airports in Nigeria, privatisation would mean the government's transfer of the management, control and operations of government-run airports to the private sector.

For several years, the Nigerian Government has expressed its desire to privatise the country's four main airports through the exploration of Public-private partnerships, but the government has constantly met with resistance, especially from trade unions and this is among the many issues that could discourage investors.

The core idea behind the privatisation of state-owned enterprises like airports is to raise its efficiency level. Argument for such is that properties, generally, are better managed when they are privately-owned. That is, the more

control a private entity or individual has over a property and the understanding that profit or loss is determined by how well-controlled the property is, the better it would be managed.

Because governments, particularly those of developing African countries, have little or no motivation to ensure that state-owned enterprises are optimally run, and are less likely to be checked for their inefficiency in the management of state-owned enterprises, the argument for privatisation becomes valid, especially for the hope of ensuring the proper management of the nations' heritage and the improvement in the quality of service being rendered to the public.

Often, for privatisation to take place, it must be established that the concerned state-owned enterprise is not being optimally put to use, and that the government in existence is willing to ensure the conversion of the ownership of the state-owned enterprise to the management of private entities on the belief that such change would make quality difference in the efficiency and service provision of such enterprise.



With Nigerian airports, that it is not optimally being used is not in doubt. The government has also been in the forefront of privatisation hoping to reduce national spending by handing over the management of the airports to private entities.

Also, stakeholders in the aviation sector have argued that privatisation may be the only choice the government has to attract private funds for the deployment of state-of-the-art terminals, standard security and technology. And because private entities are profit-driven, investors' funds can only be secured through privatisation or at least a public-private partnership to concession the airports. Whichever form it takes, the greater part of the management and control of Nigerian airports must be handed over to the private sector to meet international standards.

Another argument for the privatisation of Nigerian airports is the projected increase in passengers' traffic across the globe. The International Air Transport Association (IATA) forecasts that 7.8 billion passengers will pass through airports in 2036, a near doubling of the four billion that travelled in 2017. To meet up with this demand, there is an urgent need to expand infrastructure and improve service quality. However, given the capital-intensive nature of airport projects and the rise in operating costs of airports, privatisation of airports may be the only logical way to increase investment in the aviation sector.



“...Privatization is easier to launch and more likely to produce positive results when the company operates in a competitive market and when the country has a market-friendly policy environment and a good capacity to regulate. The poorer the country, the longer the odds against privatization producing its anticipated benefits, and the more difficult the process of preparing the terrain for sale.... [Privatization] cannot in and of itself make up for a total lack of competition, for weak capital markets, or for the absence of an appropriate regulatory framework. But where the market is basically competitive, or when a modicum of regulatory capacity is present, private ownership yields substantial benefits.”

Thus, the Nigerian Airports may be in need of urgent privatisation to prepare ahead for the imminent bloat in demand for air transportation service and keep up with infrastructure development, but what can Nigeria learn from countries with similar problems who have undergone privatisation of their airports?

Privatisation of Airports Outside Nigeria: Kenya and Australia in Consideration

In recent times, governments' privatization of public enterprises has risen to become a key component of the structural reform process and strategy for globalization in many developing countries. Governments in African countries, especially, have embarked on privatisation as a means of achieving economic growth and reducing governments' spending. However, not all of these privatisation exercises have yielded the desired result. Some have been successful while some are still a shadow of their past glory.

The story of privatisation of airports in Kenya and Australia provides a white and black case of how privatisation of airports can turn out.

.Kenyan Airways Privatisation

Kenya Airways was incorporated in 1977 as the country's national flag carrier under the control and management of the Government. As time passed, the airline began to experience financial loss and accumulated huge debt due to its inability to service its borrowing arrears.

Prior to the privatisation process, there was a huge loss on the part of the government as it was heavily subsidising the Airways to enable it stand on its own by, for instance, exempting them from import duties, yet the government was not getting a reasonable return on investment. In 1992, it became clear that the government had to rescue the drowning airline, and the basis for a nationwide privatisation was laid where Kenya Airways was chosen as one of the first entities to be privatised. Kenya Airways was the first African airlines whose management and control were handed over to private entities. It underwent a two-year privatisation process with 77% of its shares sold to different private investors.

Government's privatization of Kenya Airways made a great change to the country's aviation sector. It propelled the new private controllers to focus on result and profit-oriented actions since they were now responsible to shareholders. The successful outcome of the privatisation was partly due to the socio-economic circumstances of Kenya at the time. The privatisation subjected the controllers to the pressure of the highly competitive financial markets and to the persistent check of profit-oriented investors.

With the privatisation, there was a reduction in subsidies which led to increase in government revenue, there was increase in the airways' financial efficiency, positive improvement in the performance of the Kenya Airways, and in a short time, Nairobi, the country's capital, turned into a regional hub. Ever since, Kenya Airways has maintained its success.

Privatisation of Australian Airports

Before privatisation, the Federal Airports Corporation (FAC) established in 1987 was the Australian government enterprise responsible for air transportation in the country. In 1997, the year of its privatisation, the FAC was managing more than 20 airports and performing well above average.

The government's argument for privatisation was that the sales to private entities would improve economic efficiency with quality service, improve managerial efficiency, reduce government cost by allowing government to avoid large capital investment and increase global competitiveness of the aviation industry and its users.



Privatisation, often present private entities with the opportunity to increase efficiency, compete fiercely and allow market forces determine their profit which if handled properly, with the kind of expertise found in the private sector, is always on the high side. It is, however, not always the case that every privatisation turns out well.

Most times when private entities fall on the losing end of privatisation, it may have less to do with the handling of the privatised enterprise, but some seemingly insignificant yet fatal conditions which have been ignored by the private entities

However, since its privatisation, Australian airports have not yielded the expected result. The failure of the privatisation is majorly attributed to the absence of stringent regulations to guide the private entities in their operations. Sadly, Australian passengers and the economy are now paying more for less because the private entities have emerged as a strong monopoly in the aviation industry.

The Pros of Airport Privatisation

One of the strongest arguments for privatisation of airports has been that it is a great strategy to ensure and increase the production, operational efficiency and reliability of the public enterprise.

The argument is that public ownership of airports is a textbook example of what is known as 'the tragedy of the commons'. That is, public airports, especially in developing countries, will always suffer from mediocrity and be destroyed if not privatised, because the gain that its public controllers make overexploiting it will always be seen to outweigh the loss the people suffer as a result of its overexploitation. The example of the privatisation of the Nigerian Aviation Handling Company (NAHCO) in August 2005 supports the argument on mediocre handling. In 2005, the year of its privatisation, the total number of flights being handled by NAHCO under the federal government was 9586. In 2006, under private ownership, it increased by 34% to 12,879 and in 2007 to 16,564 flights, an increase of 29%[4]. This fast and steady improvement obviously justifies the privatisation of state-owned enterprises.

Proponents of airports' privatisation also argue that it brings about economy competitiveness which is central to economic development of nations, especially developing countries. The argument is that to achieve a great level of economic success which will propel citizens from poverty and give room for economic and social well-being, countries have to create and ensure competitive advantage, and it is private firms, not nations, that have the unparalleled ability to achieve this both in local and international markets.

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Cons of Airport Privatisation

Privatisation of airports, contrary to popular opinions, may not achieve the expected level of efficiency. This is because often, the major concern of governments of developing countries is on securing short term financial gains from the airport privatisation. Hence, there is a possibility that the government may prioritise the private entity with the highest bid over those with proven record of efficient management, thus relegating the capacity for improved efficiency which is the central idea behind privatisation. An example of this is the privatisation of the Nigerian power sector in 2012/2013. Despite the 80% and 60% privatisation of the Generation companies (GENCOS) and the Distribution companies (DISCOS) respectively, there is yet to be a significant improvement in the utility of power. Also, the collapse of the economy of Argentina following the massive and aggressive privatization programme of the then president, Carlos Menem, between July 1989 and December 1999 is another example of the shortfalls of privatisation.

Another demerit of airport privatisation is that, often, it is not a viable economic strategy and only increases the profit margin of private entities while ripping the public off its wealth. It simply has a negative effect on distribution of wealth because privatisation of airports widen social and economic inequalities by causing a reduction in income levels and access to basic social services. The fact that airports in private controls have a tendency of becoming a monopoly is worrisome. With privatisation of airports, service charges shoot up massively and immediately even when the private entity is still struggling to find its footing in the sector and without a guarantee that better efficiency would be achieved in the long run.

From the social well being perspective, privatisation of state-owned enterprise may not be the best decision. Besides that private entities have the high tendency to metamorphose into an industry monopoly, the poor are always on the receiving end of each privatisation. One, with privatisation, private entities would restructure and consequently retrench workers. Two, because the private sector is driven by profit, privatisation raises the fear of exorbitant charges that would obviously prevent the public from having access to quality service, and lastly, private sectors are not immune to corruption especially in a country with ineffective regulatory reforms and slow judicial and legislative process. The problem

then becomes controlling private entities when their operations begin to negatively affect the common people.

Privatisation of Airports: Key Considerations for new entrants in the Industry

Privatisation, often, present private entities with the opportunity to increase efficiency, compete fiercely and allow market forces determine their profit which if handled properly, with the kind of expertise found in the private sector, is always on the high side. It is, however, not always the case that every privatisation turns out well.

Most times when private entities fall on the losing end of privatisation, it may have less to do with the handling of the privatised enterprise, but some seemingly insignificant yet fatal conditions which have been ignored by the private entities.

The World Bank, while persistently advocating for privatisation of ill-managed state-owned enterprises also exercised some level of caution by recognising the fact that privatisation may not always be the solution because of some social-economic conditions which have nothing to do with the internal management of the privatised enterprises

The success story of Kenya Airways was hugely due to the good socio-economic circumstances at the time of privatisation. Without stretching the elastic band of what the situation in Nigeria is, it is obvious that on different local and international indices, the country is not at its best, neither is the economy whose exchange currency depends largely on the global price of crude absolutely dependable.

More so, at this time of global emergency where the economy has been forecast to fall into recession, private entities may want to soften pedals with their entry into the industry. For instance, The Guardian Nigeria, in May 2020, reported that the outbreak of coronavirus disease pandemic in the last four months has not only grounded the (aviation) industry, it has thrown all airlines into debts. The International Air Transport Association (IATA) expects Nigerian airlines to see full year passenger revenues fall by \$252 billion (-44 per cent) in 2020 compared to 2019. The second quarter is the most critical with demand falling by 70 per cent at its worst

point, and airlines burning through \$61 billion in cash. Global debt is expected to rise to \$550 billion by year-end. The red flag is that experts have predicted that things would not return to normal for two to three years. The aviation sector has a lot of potentials for the private sector if only the socio-economic factors stifling growth could be addressed.

Also, there are financing challenges that new entrants into this Industry must examine. The aviation sector is capital-intensive and there this financial exposure is even more in the face of certain factors such as:

- i. User fee increases are always subject to government approval as airports are public-purpose projects, thus, this may negatively impact investor revenue.
- ii. Low standards of safety and the security concerns in Nigeria, making the industry less attractive to investors and financiers
- iii. The interdependence of electricity, security, baggage handling and other major systems with energy disruptions
- iv. Lack of legal provision in concession law for airport concessions.
- v. Foreign financing for airport projects – a project with limited ability to generate foreign funds causes currency risk.



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- The Guardian Nigeria



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Conclusion

Privatisation of Nigeria airport may be the best thing to happen in the aviation industry if the government addresses the critical issues like bribery and corruption, shortage of regulatory laws and bodies to enforce them. The story of past privatisation and what it has become today may also affect public trust in the privatisation of airports in Nigeria. All these need to be addressed while also ensuring that competent private hands are handed the control and management of Nigerian airports too, and not just the private entity with the highest bid.

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