

British Government, British Businesses and the Indigenisation Exercise in Nigeria*

by

**Chibuike U Uche
Department of Banking and Finance
University of Nigeria
Enugu Campus
Nigeria**

**Being Paper prepared for Presentation at the ECAS 4 Conference (15-18
June 2011).**

*** A longer and more detailed version of this paper has been accepted for publication by
the Business History Review (Harvard University Press)**

Introduction

A landmark development in post independence Nigeria's business history was the promulgation of the Nigerian Enterprises Promotions (Indigenisation) Decree (NEPD) of 1972. This exclusively reserved twenty two enterprises for Nigerian citizens or associations (Schedule 1 companies). Foreign ownership of an additional thirty three enterprises was also restricted (Schedule 2 companies). This decree was sequel to the Second National Development Plan which was published by the Federal Government of Nigeria in 1970. In the plan, the Nigerian government made explicit its intention "to acquire by law if necessary equity participation in a number of strategic industries that will be specified from time to time."¹ In June 1971, the Federal Military Government officially announced its decision to promulgate the Indigenisation Decree. In effecting the above plan "no consultation as such took place." Successions of "secret" drafts of the new decree were however leaked to the expatriate business community.² In 1977, the federal government further increased the stake of Nigerians in foreign businesses operating in the country by replacing the 1972 Decree with a more stringent decree. Because Nigeria was at the time Britain's "most important ex-colony", the British government took keen interest in the development of the indigenisation process from the very beginning.³

Given the importance of the indigenisation exercise in Nigeria, it is not surprising that the topic remains one of the most researched subjects in Nigerian business and economic history. In the past, for example, researchers have among other issues critiqued the origins of the indigenisation policy and the provisions of its enabling decrees,⁴ the financing mechanism of the scheme,⁵ its role in economic development⁶ and strategies adopted by foreign businesses

¹ See Federal Republic of Nigeria, *Second National Development Plan 1970-74: Programme of Post-War Reconstruction and Development* (Lagos, 1970). P.239. Prior to indigenization, the Nigerian economy was dominated by foreign businesses. See Odufalu, J, Indigenous Enterprise in Nigerian Manufacturing, *The Journal of Modern African Studies* 9 (1971), 599.

² See Economic and Commercial Department, British High Commission File Notes dated April 1972 (Public Records Office (PRO) Board of Trade (BT) 241/ 2558).

³ See McMeekin (Department of Trade and Industry, DTI) to Wilson (Foreign and Commonwealth Office, FCO) Confidential Letter dated February 9, 1972 (PRO FCO 65/ 1220)..

⁴ See Beveridge, F, Taking Control of Foreign Investment: A Case of Indigenisation in Nigeria, *The International and Comparative Law Quarterly* 40 (1991), 302-333 and Ndongko, W and Abraham, E, The Problems and Prospects of Implementing Nigeria's Indigenization Policy, *Afrika Spectrum* 17 (1982), 67-86.

in either adhering to or circumventing its provisions.⁷ Very little attempt has however been made to document the role of foreign governments in attempting to influence the provisions of the NEPD in order to create a more conducive environment for foreign businesses. This is because evidences of such roles, particularly the covert ones, are rarely published. Rather, if documented, they are usually found in restricted internal memos of governments which normally end up in national archives. Because of their sensitive nature, such materials are not habitually made public until considerable time has elapsed.⁸

Using newly available evidence mainly from the Public Records Office in London, this paper documents the dialogue between the British government, British businesses and the Nigerian government at the time and explores how this impacted on the indigenisation process. It shows how the British Government overtly and covertly interceded on behalf of British businesses in its bid to create a more conducive environment for their operations during the indigenization period. At the very least, this gave British businesses more room to rethink their investment strategies and minimise their losses. Specifically, the British Government was of the view that profit margins in Nigeria were “traditionally high... (some would say excessively so) and... provided the new measures are not implemented in any punitive way, there is still money to be made, albeit less than before.” Given the fact that the British Government from the very beginning believed that the drivers of the indigenisation process in Nigeria “will attempt to go as far as they can in increased indigenisation and nationalisation for as long as they can,” it counselled British firms to “seek a quick return on any investment made.”⁹ The forced indigenisation of the capital of foreign businesses ensured that such businesses increasingly lost interest in long term investments in the country. Such businesses

⁵ See, for instance, Zayyad, H., Commercial Banks in the Indigenisation of Commerce and Industry in Nigeria: Problems and Prospects, *The Nigerian Journal of Public Affairs* 3 (1973), 5-11 and Teriba, O, Financing Indigenization, *The Quarterly Journal of Administration* 9 (1975), 159-176.

⁶ See Hoogvelt, A, Indigenisation and Foreign Capital: Industrialisation in Nigeria, *Review of African Political Economy* 14 (1979), 56-68 and Balabkins, N, *Indigenization and Economic Development: the Nigerian Experience* (London, 1982).

⁷ See, for instance, Biersteker, T, *Multinationals, the State and Control of the Nigerian Economy* (Princeton, 1987); Sanda, A, *The Challenges of Nigeria's Indigenization* (Ibadan, 1982); Inanga, E, The First Indigenisation Decree and the Dividend Policies of Nigerian Quoted Companies, *The Journal of Modern African Studies* 16 (1978), 319-328 and Bobo, B, Multinational Corporations in the Economic Development of Black Africa, *Journal of African Studies* 9 (1982), 13-21.

⁸ The PRO London, for instance, has a thirty year rule in this regard.

⁹ See Williams to FCO, Confidential Telegram dated July 12, 1976 (PRO BT 241/ 2559) and Pickard (BHC) to Douglas-Home, Confidential Letter Dated June 15, 1972 (PRO FCO 65/ 1221).

mainly focused on reducing their indigenisation related losses. The smooth transfer of management and technical skills to locals was unlikely to have been seen as priority by such foreign businesses.

At the same time, the social fabric of the Nigerian society had begun to show signs of decay. The country's emergent oil wealth increasingly fuelled the deterioration in the country's social values, exacerbated tribal rivalries and oiled corruption.¹⁰ Under this scenario, "fronting" of Nigerians, which was a mechanism used by foreign businesses to subvert the capital transfer objective of indigenisation, was extremely profitable for both the multinationals and their Nigerian "fronts".

To achieve its objectives, this paper is divided into four parts. Part One traces the origins of the Indigenisation Decree and the various efforts made by the British government to influence its contents. Part Two documents how the British government tried to aid British firms during the implementation of the Decree, which stipulated a deadline of March 1974 for compliance. Part Three discusses how the 1975 change of government in Nigeria culminated in the revision of the Decree and the role of the British government during the revision and implementation process. Part Four concludes that the attempt to indigenise labour and capital together was a major policy error. A more effective policy would have been to guarantee capital and indigenise labour. At the very least, the "traditionally high" returns earned by foreign businesses in Nigeria would have created reasonable incentive for such businesses to respond positively to the indigenisation of labour only policy.

Origins of the Indigenisation Decree

The idea of the indigenisation of foreign businesses in Nigeria dates back to 1946, when the colonial government established the Nigeria Local Development Board. Its main function was to grant loans to Nigerian owned enterprises.¹¹ In 1956, a national Committee on the Nigerianisation of Business Enterprises was set up. Although the Committee's recommendation that aliens be barred from the distributive trade was accepted, it was never

¹⁰ See Khan, S, *Nigeria: the Political Economy of Oil* (Oxford, 1994), 8-9. See also Decker, S., Corporate Legitimacy and Advertising: British Companies and the Rhetoric of Development in West Africa, 1950-1970, *Business History Review* 81 (2007), 76.

¹¹ Hoogvelt, Indigenisation and Foreign Capital, 56.

properly implemented. This was arguably because the Belewa government was sympathetic towards western interests.¹² Demands for nationalisation by Obafemi Awolowo, leader of the opposition, therefore received little support from it. In fact, Okotie Eboh, Belewa's Finance Minister, dismissed such demands as irresponsible.¹³ Not surprisingly, the First National Development Plan made explicit the preference of Government to help private indigenous businesses grow rather than expropriate foreign business interests.¹⁴ Belewa's overthrow in January 1966 culminated in the Nigerian Civil War (1967-1970). In 1966/ 67, the government of General Gowon established an Expatriate Quota Allocation Board. The objective of this policy was to maximise the participation of Nigerians in the management of foreign businesses.¹⁵ Such a policy, if well policed, had good potentials. At the very least it would help ensure the development of competent local management and skilled labour by these foreign business interests. Given the prominence of labour among factors of production, the above programme may have proved to be a robust developmental strategy. The profitability of the Nigerian market and the fact that foreign business capital remained unencumbered would have no doubt provided adequate incentive for foreign businesses to take such local staffing requirements seriously. Unfortunately, such policies were rarely well thought out and penalties for non compliance were not clearly established.¹⁶ Rather than fine-tune the mechanism and implementation of the policy and allow time for it to impact on indigenous development, the Gowon government, arguably emboldened by the country's increasing oil revenue, decided to change direction.

Once the civil war ended in 1970, the Nigerian government opted for the more extreme policy of indigenising capital.¹⁷ Given their imminent loss of capital and possibly control,

¹² See Uche, C, Oil British Interests and the Nigerian Civil War, *Journal of African History* 49 (2008), 118

¹³ Onwuka, R. (1992), *A Political Economy of the Control of Transnational Corporations in Nigeria* (Owerri, 1992), 72. See also Akinsanya, A, State Strategies toward Nigerian and Foreign Business in Zartman, I (ed), *The Political Economy of Nigeria* (New York, 1983), 150-2; Donovan, J, Nigeria: Still Safe for US Investors? *Vanderbilt Journal of Transnational Law*, 10 (1977), 601-612 and Adejugbe, M, The Myths and Realities of Nigeria's Business Indigenization, *Development and Change* 15 (1984), 578.

¹⁴ Federation of Nigeria, *National Development Plan: 1962 -1968*, (Lagos, 1962), 24.

¹⁵ See Collins, P., Public Policy and the Development of Indigenous Capitalism: The Nigerian Experience, *Journal of Commonwealth and Comparative Politics* 15 (1977), 141.

¹⁶ Decker, S, Postcolonial Transitions in Africa: Decolonization in West Africa and Present Day South Africa, *Journal of Management Studies* 47 (2010), 792.

¹⁷ This was at least in part because indigenization was at the time fashionable among developing countries. See MacDonald, G, Recent Legislation in Nigeria and Ghana Affecting Foreign Private Direct Investment, *The*

foreign businesses were left with three possible responses: loyalty, exit or voice (engagement). In other words, faced with forced indigenization of at least some of their capital, such businesses could either accept the terms of the indigenization; or move their investments elsewhere; or protest and try to influence the provisions of the decree.¹⁸ Given the handsome profits being made by foreign businesses in Nigeria at the time, engagement with the political process became the most attractive choice of response to the indigenization exercise. In this direction, using the mechanism of the home country government in expressing their views no doubt greatly increased the effectiveness of the engagement process for British businesses. At the very least, this afforded more time to British businesses to devise ways of limiting their losses.

From the beginning, it was clear to the British government that the entire indigenisation scheme was being championed by the group of three economic permanent secretaries – Allison Ayida (Finance), Phillip Asiodu (Mines and Power) and Ime Ebong (Economic Development). These “cautious and brilliant administrators” who also authored the Second National Development Plan, held “strong doctrinaire views” and were “able to force their policies through the Supreme Military Council whose members are neither brilliant nor able to assess the practical effects of what is proposed.”¹⁹

From the very onset the government decided to consult widely with the business community before the promulgation of the Decree. Although the West Africa Business Committee (WAC), an umbrella body established with the aim of protecting foreign business interests in the country, played a key role in the negotiations, some British businesses also sought the assistance of the British High Commission in Lagos (BHC) in interpreting and seeking clarification of the provisions contained in the numerous drafts that were leaked to the Nigerian business community.²⁰ In apparent reaction to such requests, British High

International Lawyer, 6 (1972), 555; Kobrin, S., Expropriation as an attempt to control foreign firms in LDCs: Trends from 1960 to 1979, *International Studies Quarterly* 28 (1984), 333 and Rood, L., Nationalisation and Indigenisation in Africa, *The Journal of Modern African Studies* 14 (1976), 431. Furthermore, the activities of some multinational firms during the war led to some degree of post war mistrust of these firms by government. See Ogbuagu, C., The Nigerian Indigenization Policy: Nationalism or Pragmatism? *African Affairs* 82 (1983), 254.

¹⁸ See Hirschman, A., *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, Mass., 1970).

¹⁹ See Pickard (BHC) to Douglas-Home, Confidential Letter dated June 15, 1972 (PRO FCO 65/ 1221).

²⁰ See McMeekin (DTI) to Wilson,(FCO) Confidential Letter dated February 9, 1972 (PRO FCO 65/ 1220)

Commission officials held several meetings with Nigerian government officials, all with the aim of influencing the final decree. Issues that were discussed in such meetings included: the ability of the Capital Issues Committee to cope with the many new issues that were likely to be necessary; the concern of British businesses over the determination of appropriate compensation by the Nigerian government;²¹ the question of repatriation of the proceeds of the shares that were to be issued to the Nigerians; and the restricted timeframe for the conduct of the indigenisation exercise.²² The request by the British High Commission to be officially consulted on the final draft of the decree before its publication was however turned down.²³

The Decree was finally promulgated on February 23, 1972 and was to take effect from April 1, 1974. It exclusively reserved twenty two enterprises for Nigerian citizens or associations.²⁴ Foreigners were also barred from participating in the ownership of an additional thirty three enterprises if the paid up share capital of such enterprises did not exceed £200,000 or the turnover of such enterprises did not exceed £500,000. If the above limits were exceeded, then foreign ownership was limited to 60 percent.²⁵ The Decree made explicit that references to the above paid up capital and turnover should relate to that reflected in the accounts submitted to the Federal Board of Inland Revenue for the purpose of income tax returns during the year of assessment: 1968/69, 1969/ 1970 and 1970/ 1971.²⁶ Once the NEPD 1972 was promulgated, the British government changed focus and channelled its efforts to

²¹ Confidential notes by C S Pickard (FCO) dated January 26, 1972 (PRO FCO 65/ 1220). See also Pickard to Wilson, Confidential Memorandum dated February 19, 1972, p.7 (PRO FCO 65/ 1220).

²² The decree published in 1972 granted the Federal Commissioner of Industries power, with the prior approval of the Federal Executive Council, to exempt companies from the provisions of the decree and impose conditions for such exemptions (section 9).

²³ See BHC File Notes by Lawrence Hope dated January 27, 1972 (PRO FCO 65/ 1220).

²⁴ Examples of businesses listed in “Schedule 1” in the decree, included: advertising and public relations, block and brick manufacturing, haulage of goods by road, garment manufacture, radio and television broadcasting and retail trade (excepting supermarkets).

²⁵ See Sections 4 and 5 of the Decree. Examples of enterprises affected under this, listed in “Schedule 2” of the decree included: beer brewing, boat building, bicycle and motorcycle tyre manufacture, bottling of soft drinks, construction, cosmetics, departmental stores, distribution and servicing of motor vehicles and machines, estate agency and wholesale distribution.

²⁶ The reasoning behind this provision appears to be the determination of the Nigerian government to prevent companies that had previously understated their profits in the past for tax reasons from presenting different sets of account for the determination of their share prices. See Graves, E. Indigenization in Nigeria, *Black Enterprise* 4 (1973), 50.

reviewing the indigenisation process constantly, with the objective of defending British interests.²⁷

British Government, British Businesses and the Implementation of the 1972 Indigenisation Decree

Even before Nigeria promulgated the Indigenisation Decree in 1972, the British government had already realised the dangers faced by British businesses in developing countries like Nigeria, where there was a positive correlation between the windfall economic returns and the political risks of expropriation. A consequence of this realisation was the introduction of a government backed investment insurance scheme for British businesses in such countries.²⁸ It was therefore not surprising that, from the very onset of the Indigenisation Policy, the British government was concerned about protecting its commercial interests in Nigeria. Although there may have been some scope for a consolidated European Economic Community (EEC) response to the Decree, Britain was wary about championing such a move in order not to give “the impression to the Nigerians of trying to stir up concerted diplomatic action.” Some EEC countries however reacted independently. The West Germans, for example, objected to the capital requirement provisions and also about inclusion as “Nigerians” for the purpose of the exercise of “nationals of OAU member countries whose home governments extend reciprocal privilege to Nigerian nationals residing in those countries”.²⁹

Although the definition of “Nigerians” provision was designed to distinguish between “blacks” and “whites”, it may have benefited non Africans more. This is because “numerous aliens rushed to neighbouring OAU countries to become naturalised citizens of such countries and thereby qualify for benefits conferred on Nigerian citizens or associations”.³⁰ Others simply sold their shares to fictitious OAU citizens.³¹

²⁷ See Pickard to Wilson, Confidential Memorandum dated February 19, 1972, p.1 (PRO FCO 65/ 1220).

²⁸ See Foreign and Commonwealth Office and Department of Trade and Industry, *British Private Investment in Developing Countries*, Presented to Parliament by the Secretary of State for Foreign and Commonwealth Affairs and the and the Secretary of State for Trade and Industry by Command of Her Majesty (London, April 1971).

²⁹ See Hope (BHC) to McMeekin (DTI), confidential letter dated March 27, 1972 (PRO FCO 65/ 1221). For explanation for the inclusion of the OAU exemption clause, see Finlayson (BHC) to Piercy (FCO), restricted letter dated July 21, 1972 (PRO FCO 65/ 1221).

³⁰ Sanda, *The Challenges of Nigeria's Indigenization*, 40.

³¹ Graves, *Indigenization in Nigeria*, 50.

While smaller British commercial enterprises may have exploited this loophole, the bigger British commercial concerns which, no doubt, concerned the British government more, did not.³² The British High Commission and the British government therefore remained active in providing guidance and in attempting to influence the Nigerian business environment to the benefit of such businesses. Once the Decree was promulgated, The British High Commissioner sent a telegram to the FCO advising that it was important for Britain to convey their concerns about the Decree, especially the limited time provided for share transfers, to the Nigerian government.³³

Internally, however, the BHC conceded that the indigenisation of foreign businesses in Nigeria was not unexpected. It argued that despite the astonishing “ubiquitous” presence of British businesses in Nigeria, its indigenisation exercise “lagged behind such developments in the rest of the emerging countries.” It was also of the view that given the general acceptance of the principle of indigenisation, it was unwise to oppose it. The British High Commission therefore asserted that “the most important contribution we could make would be to secure an extension of the time limit of the whole operation to, if possible, 5 years after the date of issue of the Decree.” It then concluded that: “our aim should be to recoup from greater direct exports to Nigeria those losses in invisible earnings which enforced reductions in small and medium sized investments will cause.”³⁴

Mr. Goulden of the FCO was however unimpressed by the above views of the BHC and called for a rethink of the entire British strategy in Nigeria with a view to ensuring that its commercial interests were protected. According to him:

Passivity may be the best policy available to us. But the stake is enormous. I see that the JIC [Joint Intelligence Committee] estimates our investment in Nigeria at £129 million – about a quarter of our total stake in black Africa – without even counting our oil, banking and insurance interests there. The trend of federal economic policy threatens

³² See Confidential Memorandum by Pickard dated February 19, 1972 (PRO BT 241/ 2558). See also De Brauw-Hay, E, Investment in Nigeria and the Nigerian Enterprises Promotions Decree, 1972, *Bulletin for International Fiscal Documentation* 29 (1975), 201.

³³ See Pickard to FCO, Confidential Telegram dated March 10, 1972 (PRO FCO 65/ 1220).

³⁴ See British High Commissioner Lagos to John Wilson (FCO), Confidential Memo dated February 19, 1972 and British High Commissioner Lagos to Secretary of State for Foreign and Commonwealth Affairs, Confidential Memo dated June 15, 1972 (PRO BT 241/ 2558).

what is our largest single interest in black Africa. It also threatens, if pushed ill-advisedly, our interests, as consumers, in the continuing production of Nigerian oil fields.... The following issues might merit reconsideration: ... If we accept that somewhere between 40 and 55 percent of foreign equity is to be nationalised. How should we ensure that reasonable compensation is obtained? ... [S]hould we not actively discourage new UK investment except where it enjoys the protection of partnership with the Federal Government?... Have we no levers on the Federal Government which might be used to minimise the scale of nationalisation and to undermine the influence of the Permanent Secretaries? Our aid programme is rather feeble ... but there must be other ways in which the Nigerians are beholden to us.. Is there any scope for joint action with our European partners? ... Where do we expect to be in Nigeria by the end of the decade? The present prescription seems to guarantee that we will have lost our investments as well as our predominant share of the market.³⁵

On his part Mr Wilson (FCO) suggested that under the current circumstances, British businesses should be discouraged from making further investments in Nigeria unless “investors are confident that they can get back their money very quickly.” If this was the case, then, they would be “making pure profit on their original investment and if they are eventually taken over, then this is not really catastrophic.”³⁶ He was however of the view that it was impractical to overtly or covertly attempt to influence the pace of indigenisation in Nigeria. He made it clear that Britain did not have any effective levers with the Federal Government. Its aid to the country was immaterial and there was little scope for joint action with European partners.³⁷

Based on the above, Wilson predicted that “within say twenty years, nearly all our investments in Africa will have disappeared.” He suggested therefore that it was time to give “serious thought to what the pattern of our [future] economic involvement in Africa is going to be.” Specifically, he was of the view that Britain could still “make money in Africa while helping the development of African countries.” Possible ways of doing this included “management and marketing agreements, the provision of technical skills on a contract basis [and] financing.” He then concluded that “if we are to keep ahead of our competitors we ought to be giving serious thought now to how best to work out this new pattern of economic

³⁵ See Goulden to Wilson, Confidential Internal Memo of the FCO dated July 13, 1972 (PRO FCO 65/ 1221).

³⁶ See Wilson to Goulden, Undated Memo (PRO FCO 65/1221).

³⁷ See Wilson to Goulden, Undated Memo (PRO FCO 65/1221).

involvements both in Whitehall and in consultation with the main British businesses concerned.”³⁸

While designing a strategy that would help protect its long term interests in Nigeria and other developing countries was important to the British government, the Indigenisation Decree raised numerous issues that needed more immediate attention. From the very onset of the Indigenisation Decree, for instance, British commercial interests tried to get the government to expand its definition of indigenous capital to include funds of institutional investors which were mandated by law to hold only local investments even though their shareholding may be foreign controlled.³⁹ The Nigerian government was however wary of such ideas and simply saw such as schemes designed to circumvent the spirit of the indigenisation decree.

Several British businesses also approached the British High Commission for assistance in their peculiar circumstances. One such business was Monotype Corporation Limited which specialised in the supply and installation of a wide range of printing and ancillary equipments. Monotype Corporation was eventually granted exemption status under the decree. Eighty other firms received varying degrees of exemptions all aimed at giving them more time to indigenise under various arrangements. Many of these exemptions were however granted on “questionable grounds”.⁴⁰

Unlike Monotype Corporation, not all British firms were worried. One case in point was Guinness, which was already thinking of ways of getting around the Decree. On June 15, 1972, for instance, Mr. Smedley of the Board of Trade documented his informal discussions with Mr. Roberts of Guinness on the Indigenisation Decree in Nigeria:

He was very relaxed about things in Nigeria. He said that some years ago Guinness had sold 10 percent of shares to Nigeria at a 400 percent profit. They only wish now they had sold more. But they could not complain. He thought there was danger of prices being depressed by the large number of shares on offer. But he did not seem unduly

³⁸ See Wilson to McMeekin, Confidential Letter dated November 17, 1972 (PRO FO 65/ 1222). See also Graves, *Indigenization in Nigeria*, 52.

³⁹ See Ferguson (Irvin and Bonnar) to Hope (BHC), Letter dated March 24, 1972 (PRO FCO 65/ 1221).

⁴⁰ See Federal Republic of Nigeria, *Federal Military Government Views on the Report of the Industrial Enterprises Panel* (Lagos, 1976), 6. Even before the promulgation of the NEPD 1972, it was widely believed that corruption played a part in determining the shape of the final decree. See Collins, *Public Policy and the Development of Indigenous Capitalism*, 134.

discouraged by the prospect. He said he thought a number of firms were thinking of ways of avoiding the main disadvantages of indigenisation. One idea he threw out was the setting up of local holding companies organised by perhaps a British Merchant Bank and with Nigerian majority shareholdings which would buy shares.... On the remittances front, Mr Roberts confirmed what I have always suspected but never seen in black and white: that international companies fixed things for their employees with side payments at home under cover of consultancies etc.⁴¹

Another interesting case was that of the United African Company (UAC). This was the most important subsidiary of Unilever in the country, with investments in almost all sectors of the economy. In order to circumvent the Decree, the company decided to “subsume their wholly owned advertising and public relations firm, LINTAS, with the main company thereby frustrating Schedule 1 and robbing Nigerian firms of some juicy accounts.”⁴² Although this move was roundly condemned in Nigeria at the time,⁴³ UAC had its way.⁴⁴

In order to maintain control in this booming Nigerian market, many foreign firms resorted to “fronting.”⁴⁵

Given the expectation from the very beginning that the drivers of the indigenisation process “will attempt to go as far as they can in increased indigenisation and nationalisation for as long as they can,” it can be argued that the main utility value of such schemes was for most foreign companies to buy as much time as possible operating in a very profitable market while the owners were at the same time plundering the business of its capital in order to reduce their eventual loss. In fact, once the idea of indigenisation was announced, many foreign businesses started paying out very generous dividends which in some cases exceeded 100 percent of net earnings.⁴⁶ Some foreign businessmen may also have employed

⁴¹ PRO BT 241/2558

⁴² See Hall (BHC) to McMeekin (DTI), Confidential Letter dated December 15, 1972 (PRO FCO 65/ 1222).

⁴³ See, for instance, undated Editorial, Nigerian Observer Newspaper (PRO FO 65/ 1222).

⁴⁴ See Jones, G and Decker, S. Unilever as a “multi-local multinational”. *Harvard Business School Case*, 9-808-025 (Boston, 2007), 12.

⁴⁵ Biersteker, T, *Multinationals, the State*, 112-3. See also Biersteker, T, The Illusion of State Power: Transnational Corporations and the Neutralization of Host Country Legislation, *Journal of Peace Research* 3 (1980), 214-6.

unorthodox methods to export their capital out of the country. Had the capital of foreign businesses not been threatened and labour indigenisation policies clearly spelt out and monitored, the lure of future profits would have helped encourage foreign businesses to develop longer term operational strategies in Nigeria and to be more cooperative towards transferring skills to the local work force.

On its part, the Nigerian Government continued to seek ways of making the indigenization programme achieve its goals. One hindrance the government attempted to tackle early in the programme was the issue of funding for the purchase of the shares of foreign businesses by Nigerians. General Gowon, in his 1972/73 budget speech, announced the decision of the government to negotiate with commercial banks the extent of government participation in their ownership and to establish industrial and commercial credit banks to give medium and long term loans to investors to facilitate the indigenisation policy.⁴⁷ The government subsequently decided to take over 40 percent of the shareholding of all expatriate banks during the 1972/1973 financial year. The fear of the government was that without such control of banks, “lending to the indigenous sector would be insufficient to enable Nigerians to buy Schedule 1 enterprises and the 40 percent of the other businesses covered by the Decree... within the time limit that has been set.”⁴⁸ All existing foreign banks agreed to the above proposal except the First National City Bank which decided to withdraw from the Nigerian market.

The negotiation for the government acquisition of the 40 percent shareholding in these foreign banks was swift but fair.⁴⁹

Aside from being forced to support the indigenisation process, another concern of these foreign banks at the time was the issue of expatriate quotas. The banks feared that given the progressive reductions in its expatriate quota, “there would come a critical point beyond which they could not go without experiencing a drastic decline in efficiency.” BHC was

⁴⁶ See Engberg, H., Indigenization of the Business Sector through the Organized Capital Market, *The Journal of Management Studies* 7 (1975), 6-7 and Uzoaga, W. and Alozienwa, J, Dividend Policy in an Era of Indigenisation, *The Nigerian Journal of Economic and Social Studies*, 16 (1972), 469.

⁴⁷ See Piercy to Wilson, dated April 19, 1972 (PRO FCO 65/ 1221).

⁴⁸ See Hope (BHC) to McMeekin (DTI), Confidential Letter dated May 31, 1972 (PRO BT 241/ 2558).

⁴⁹ See BHC to McMeekin (DTI), confidential letter dated December 21, 1972 (PRO FCO 65/ 1222).

“however assiduous in using its many important Nigerian contacts to plead its case with the immigration authorities.”⁵⁰ The Nigerian government however made it clear that the issue was not negotiable and that the FMG nominees on the boards of the affected banks would be expected to “exercise influence over the increased and accelerated training of Nigerian bank employees.”⁵¹ Although the British government conceded that the move towards Nigerianisation could benefit British businesses since it was “much cheaper to employ local staff than to send out expensive expatriates,” they were concerned that the companies were being pressed to replace their expatriate staff faster than was “compatible with reasonable efficiency”⁵².

The Nigerianisation of labour programme was not however limited to banks. In fact all foreign businesses faced similar pressures. The insistence of the Nigerian government, through the Expatriate Quota Allocation Board, on the Nigerianisation of labour may have been influenced by the fact that some foreign companies routinely used expatriate staff to undertake non technical services. A case in point was that of ICI Limited, “an important UK interest” in Nigeria which was involved in the trading of chemical and pharmaceutical products from its parent company in the United Kingdom. Although the company had the potentials of being a manufacturing company, it preferred to remain a trading company and did little to train Nigerians. This was to the displeasure of the Nigerian Government.⁵³

Had the Government guaranteed against capital expropriation for such a company and only insisted on the indigenisation of labour, with a clear timetable and appropriate sanctions for non compliance, it is unlikely that the above situation would have occurred. This is because a multinational company that has host country guarantee that its capital will not be expropriated in a highly profitable market like Nigeria would have found it difficult to risk sanctions by sabotaging the labour indigenisation policy of its host government. Under such a scenario, sharp business practices like “fronting” would have been greatly reduced. Furthermore, the plundering of the capital of foreign businesses which commenced once the

⁵⁰ See Roberts to Hall, Confidential Foreign Office internal memo dated December 19, 1972 (PRO FO 65/ 1222).

⁵¹ See File Notes by Hope dated July 26, 1972 (PRO BT 241/ 2558). See also East (BHC) to Wilson (FCO), Brief dated November 18, 1972 (PRO FO 65/ 1222).

⁵² See FCO internal memo by John Wilson dated November 10, 1972 (PRO FO 65/1222).

⁵³ See Hall (BHC) to McMeekin (DTI), Letter dated September 5, 1972 (PRO FO 65/ 1222).

Government indigenisation intentions became known would have also been reduced considerably. Perhaps more important, their highly profitable economic interests in Nigeria would have enticed such businesses to ensure that their local managers received the best possible training. This would have ensured a more effective transfer of skills to locals. Given the fact that management and labour skills were major constraints to indigenous economic development at the time, it would only have been a question of time before well run indigenous enterprises emerged.

It was therefore not surprising that the forced indigenisation of capital was not very successful in achieving the important goal of skills transfer to locals. There was no incentive for this to happen. Rather, in order to make “fronting” more efficient, the new local majority shareholders were skilfully selected by the owners of the foreign businesses, based mainly on their docility or corruption.⁵⁴ This certainly did not augur well for skills transfer. Ironically, as will be seen in the next section, the NEPD was also not very successful in transferring even the capital of foreign businesses to Nigerians. Arguably because of internal corruption and external pressure, the March 31, 1974 deadline for its full implementation came and passed without any pronouncement by the Government. This remained so until July 29 1975 when General Gowon was overthrown in a coup d’état.

The 1975 Change of Government and the Indigenisation Process

The 1975 change of government in Nigeria provided an excellent opportunity for groups unhappy with the implementation of the indigenisation exercise to demand a review of the entire process. Concerns ranged from extent of compliance to the dominance of the emergent local elites in the share ownership of indigenized companies and loopholes for circumventing the Decree altogether by foreigners. The result of these complaints was that on November 17, 1975, the federal government set up the Industrial Enterprises Panel headed by Wole Adeosun to examine the entire indigenisation exercise.⁵⁵ The Adeosun Panel subsequently submitted its Report in 1976.

⁵⁴ See Hoogvelt, *Indigenisation and Foreign Capital*, 62-65

⁵⁵ For the detailed terms of reference of the Panel see Federal Republic of Nigeria, *Federal Military Government Views*, 3.

The Adeosun Report concluded that “the achievement of the scheme as implemented to date fell short of expectation.” With respect to compliance, for instance, the Report documented that as at June 30, 1975, only 314 businesses out of the 950 businesses affected by the Decree had complied with its provisions. This figure, which excluded businesses exempted from the provisions of the Decree, represented 33 percent compliance. The Report also reported that many of the businesses granted exemptions under the Decree secured such exemptions through questionable means which included: fronting, naturalisations and excessive amendments of Decree for flimsy reasons. The report further blamed the failure of the programme on the weak understaffed administrative machinery that was put in place for its implementation.⁵⁶ In order to plug the above loopholes, the report contained a draft of a new NEPD to replace the 1972 NEPD.

As with the 1972 Indigenisation Decree, the government held extensive consultations with the various big businesses before it published the White Paper on the report. Specifically, the government made it clear to the big foreign companies that the prime targets of the government in proposing the new decree were “the Lebanese and Indian businessmen.” In fact, “Permanent Secretaries had been instructed to discuss it with the larger firms and in particular, to get their views on the feasibility of the proposals.”⁵⁷

After the publication of the White Paper, some British businesses had difficulties interpreting the provisions of the draft indigenisation decree it contained. One murky area was the issue of dividend payments. Specifically, it was not clear whether the 30 percent limitations placed on dividend payments related to pre tax profits or paid up capital. UAC subsequently attempted to issue an interim dividend which was equivalent to 50 percent of its paid up capital. The Government promptly criticised this and demanded that it be withdrawn. This clearly indicated that the 30% dividend restraint was supposed to be as a proportion of paid up capital not pre-tax profits.⁵⁸ Concerned by this development, the British Government counselled that should such restrictive dividend policy continue, “firms (particularly those

⁵⁶ Federal Republic of Nigeria, *Federal Military Government views*, 4. See also Biersteker, T, Indigenization in Nigeria: Rationalization or Denationalization? In Zartman, I (ed), *The Political Economy of Nigeria*, (New York, 1983) pp.189.

⁵⁷ See Johnson to Spenser, Restricted Internal Memorandum dated July 9, 197 (PRO BT 241/2559) and See Spencer (BHC) to Roberts (FCO), Confidential Telex dated August 10, 1976 (PRO BT 241/ 2559)

⁵⁸ See Faulkner (BHC) to Formstone (DTI), Letter dated July 15, 1976 (PRO BT 241/ 2559).

like contractors with small equity capital in relation to turnover and profits) will need to look very carefully at whether there is any point in expanding their operations here” or moving such to other competing jurisdictions like the Gulf. It further asserted that British firms “may [need to] develop other methods of getting their money out of the country.”⁵⁹

Under the decree, which was eventually published on January 12 1977, Nigerians were to participate compulsorily in the ownership of all companies. Schedule 1 companies were exclusively preserved for Nigerians. They were also to have at least 60 percent and 40 percent equity interests respectively in schedule 2 and schedule 3 companies. Examples of schedule 2 companies included: plantation agriculture, boat building, banking and insurance. Examples of schedule 3 companies included: manufacturing of engines and turbines, agricultural machinery and electrical appliances. The Decree, which gave most businesses up to December 31, 1978 to comply with its provisions, took into consideration some of the concerns of the foreign businesses. For instance, multinationals whose business operations straddled more than one schedule, were allowed to continue all their operations if Nigerians owned at least 60 percent of the consolidated company, their annual turnover was not less than N25,000,000 and the business of the body corporate was being carried on in not less than 10 States in the Federation.⁶⁰

The above provision was no doubt the outcome of negotiations with UAC which, with a turnover of £600m and profit after tax of £50m, was the principal UK trading concern in Nigeria at the time.⁶¹ In fact, this “concession was so obviously aimed at the UAC(N) that it became known as ‘the UAC article’.”⁶² This may also explain why the federal government did not accept the recommendations of the Adeosun Panel that: all “cases of regrouping, particularly those of the U.A.C. of Nigeria Limited, BEWAC, Leventis and John Holt groups etc. should be reviewed.”⁶³

⁵⁹ See Williams (BHC) to FCO, Confidential Telex dated July 9, 1976 (PRO BT 241/ 2559).

⁶⁰ See Section 7 (1) of the NEPD 1977.

⁶¹ See Formstone to Secretary of State for Trade, Internal Board of Trade memorandum dated August 12, 1976 (PRO BT 241/ 2559).

⁶² Fieldhouse, D, *Merchant Capital and Economic Decolonisation: The United Africa Company 1929-1987*, (Oxford, 1994), 665.

⁶³ See Federal Republic of Nigeria, *Federal Military Government's Views*, 7.

Foreign businesses however did not win concessions on every front. Despite the negotiations and fine-tuning of successive drafts of the decree, the Nigerian government refused to budge on some issues. It was believed, for example, that the 60 percent participation level by Nigerians in the enlarged list of Schedule 2 activities represented “a more radical degree of indigenisation than some local businessmen expected”.⁶⁴ UAC, for instance, which was unhappy with this, subsequently met with the Secretary of States for Trade to raise its concerns.⁶⁵ Around the same time, an official delegation from the West African Committee also met the Chief of Staff, Supreme Headquarters, Brigadier Yar’Adua to express their concerns about the proposed decree. The delegation pointed out that the Third National Development Plan (Chapter 2, Paragraph 29) made explicit that it was the intention of government to consolidate and not to advance compulsory ownership indigenisation in the Plan period which went up to 1980. By its decision to increase indigenous participation and wrest control of most businesses from the expatriates the “comfort given to overseas interest by this assurance had been undermined.”⁶⁶ It was in the midst of all these complaints that the Federal Commissioner for External Affairs, Brigadier Joseph Garba summoned diplomats and warned them to desist from sabotaging the indigenisation exercise.⁶⁷

One of the enterprises slated for a minimum 60 percent participation by Nigerians (Schedule 2) was banking. Even before the 1977 NEPD Decree was promulgated, the government had already made explicit its intention for this sector. On 29 June, 1976, for instance, the Government announced its decision to “take over 60% of the shares of all banking institutions in the country.” This was defended on the grounds that because the Government wanted banks to play a prominent role in the indigenisation exercise, it was necessary for it to share in the “risk that is involved in banks expanding operations in the non traditional sectors of banking activities”.⁶⁸

⁶⁴ See Williams to FCO, Confidential Telegram dated July 12, 1976 (PRO BT 241/ 2559). See also Johnson to Spenser, Restricted Internal Memorandum dated July 9, 1976 (PRO BT 241/2559).

⁶⁵ See Secretary of State for Trade Office Minute Number 999 dated July 19, 1976 (PRO BT 24/ 2559).

⁶⁶ See BHC Notes for the Records by Williams dated September 1, 1976 (PRO BT 241/ 2559).

⁶⁷ See Nigerian Chronicle Newspaper, July 26, 1976.

⁶⁸ See Statement by the Federal Commissioner of Finance, Mr. A E Ekuinam to the Chief Executives of Banking Institutions on Aspects of Federal Government Banking Policy dated June 29, 1976 (BT 241/ 2559).

The government subsequently set up a panel chaired by Ime Ebong to negotiate with the concerned banks. On this occasion the government was not as generous as in the past on the issue of transfer price. In fact, Ime Ebong “was obviously working to strict guidelines with very little discretion.” In the case of UBA, for instance, the negotiations for the transfer price were like “bargaining in an eastern bazaar, both sides moving 2 Kobo at a time.” Barclays got “considerably less than a fair price for their shares”. They were particularly disappointed because the price for the first 40 percent taken over by the government had been “quite reasonable.” Another issue raised by Barclays during the talks was the fact that it might be forced to change its name after losing control, as it may no longer be in a position to guarantee standards. The panel reacted strongly to this suggestion and the matter was downplayed.⁶⁹

Compared with the NEPD 1972, the NEPD 1977 recorded a much higher compliance rate.⁷⁰ This was arguably because most of the loopholes contained in the NEPD 1972 had been blocked. With limited room for manoeuvre, foreign appetite for Nigerian investments increasingly waned. Even in industries where foreigners were still allowed to participate, they were reluctant to invest since control was not guaranteed. Unfortunately, indigenes lacked both the capital and technical know how to undertake such ventures at the time. Given the forced nationalisation of capital, there was little incentive for the expatriate owners of such businesses to help develop indigenous labour. This may explain why the December 31, 1978 deadline for compliance with the provisions of the decree passed unceremoniously.

The above position was further complicated by the declining economic fortunes of the Nigerian government which was directly linked to the dwindling oil revenues at the time. The civilian government of Shehu Shagari, which at inception in 1979 made it explicit that it inherited an empty treasury, was clearly not in a strong position to advance the case for indigenisation. To the contrary, the government tried to encourage foreign participation even in areas reserved under the NEPD 1977 for Nigerians. In 1981, for instance, it transferred

⁶⁹ See BHC file notes by Williams dated August 20, 1976 (PRO BT 241/ 2559). Barclays Bank eventually changed its name to Union Bank of Nigeria Ltd in 1979.

⁷⁰ See Ndongko and Abraham, *The Problems and Prospects of Implementing Nigeria's Indigenization Policy*, 67-86; Diali, S, Encouraging Response to Indigenization Decree, *Nigeria Trade Journal* 26 (1979), 19-20 and Ejiofor, *The Limitations of Indigenization Decree*, 36;

agricultural plantations, fertiliser production and the manufacturing of cement and metal containers from Schedule 2 to Schedule 3 of the NEPD 1977.⁷¹ Continued deterioration in the economy of the country led the later government of General Babangida to adopt the Structural Adjustment Programme (SAP) in 1986. The SAP era saw the conversion of the 1977 Indigenization Decree into a much more liberal industrial policy in 1989. Under the new policy, foreign investors were allowed to own up to 100% equity in new businesses in the country. Such investors were also allowed equity participation in the sum of twenty million naira and above in the cases of the 40 businesses hitherto exclusively reserved for Nigerians.⁷² Arguably because the Government was still smarting from its indigenisation policy failure, it did not have the courage to insist on labour indigenisation for the new foreign capital it hoped to attract. No clear and definite mechanism was therefore put in place for this to occur in the future. This brought to an end the bold attempt by the Nigerian state to take control of its economy.

Conclusion

This paper attempted to document the dialogue between the British government, British businesses and the Nigerian government during the indigenisation era and how this impacted on the indigenisation process. It shows how the British Government overtly and covertly interceded on behalf of British businesses in its bid to create a more conducive environment for their operations during the indigenization period. Given the exigencies of the time, the British Government also counselled British companies to take short term positions and seek quick returns on any investments made. Some foreign businesses also developed various mechanisms for circumventing the NEPD like “fronting.” Corruption helped ensure that such foreign companies had willing Nigerian accomplices that aided their sharp practices. All these could not have augured well for skills transfer to locals. This paper argues that this bold attempt to indigenise labour and capital together was a major policy error. Had the Government only insisted on the Indigenisation of labour, the future returns on foreign capital already invested, which was “traditionally high” in the Nigerian environment at the time, would have created reasonable incentive for foreign businesses to respond positively to such

⁷¹ See Onwuka, *A Political Economy of the Control of Transnational Corporations*, 80.

⁷² *Ibid*, 84

requirement. Perhaps more important, such a policy would have helped in the rapid transfer of important management and technical skills to Nigerians.