Folder Title:	Nigeria - President Barber Conable Country Files - Correspondence
Folder ID:	1779827
Series:	Country files
Dates:	02/27/1984 - 06/21/1991
Subfonds:	Records of President Barber B. Conable
Fonds:	Records of the Office of the President
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NIGERIA

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THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

AK
~~SG~~
~~BAC~~

DATE: June 21, 1991

TO: Mr. Moeen A. Qureshi, OPNSVP

THROUGH: Mr. Edward V.K. Jaycox, AFRVP

FROM: Edwin Lim, AF4DR

EXTENSION: 34859

SUBJECT: NIGERIA & GUINEA BISSAU: Overdue Service Payments

NIGERIA

1. With regard to Nigeria, we did not send the telex of pre-suspension which was due on June 15. Instead we asked the Resident Mission (RMN) to convey the message personally on Friday, June 14. The RMN confirmed by telex on Monday, June 17 that all overdue payments due April 15 have been paid.

2. Since then we have received information that payments for two loans (out of six) have been received and we are following up on the others.

3. Nigeria continues to be a frequent offender in late service payments and the problems will become worse with the new policy. In the past, instead of a warning telex from Washington, which will likely be lost in the chaos of the Ministry of Finance, we normally asked the Resident Representative to convey the warning personally to the Ministry of Finance and that has usually led to payments within a few days. On several occasions, I have said to Minister Alhaji that this "brinkmanship" practice was unacceptable, but while the Minister always agreed, he seemed incapable of doing anything about it. We have done a study on the Nigerian bureaucratic procedures and it appears that under the present system, a minimum of 58 days is required between the date of receipt of the billing statement from the World Bank and the date the Central Bank is authorized to make payment. A major change in the procedures will be necessary if Nigeria is to conform to the new Bank policy.

4. I have asked Tariq Husain to raise this issue directly with the Ministry before the end of June. I shall do so myself during my next visit to Lagos. Meanwhile, close attention by the Resident Mission remains, in my view, the most effective way of dealing with the problem.

GUINEA BISSAU

5. Guinea Bissau had one loan due on April 15, 1991 totalling US$86,120.87 which was 66 days overdue today. The Guinea Bissau authorities informed us yesterday that they had authorized payments through Citibank and Credito Predial Portugues with a value date of June 20, 1991. One of these has been confirmed by Cashiers for US$44,401.01 and we are following up with Citibank to confirm receipt of the other for US$50,000.00.

6. If all payments are not received by c.o.b., June 24, 1991, we will send the "pre-suspension telex".

cc: Messrs./Mmes. Wyss, Lallement, Iskander, Swayze, O'Connor, Husain

:bkd
[A:NIG-GUB.OSP]

THE WORLD BANK/IFC/MIGA

OFFICE MEMORANDUM

DATE: September 24, 1990

TO: Files

FROM: Tariq Husain, Resident Representative, Nigeria

TH

EXTENSION: 34869

SUBJECT: Nigeria: Mr. Conable's Meeting with the Nigerian Delegation - September 23, 1990

1. Mr. Conable met the Nigerian delegation on September 23, 1990 at 3:45 p.m. Alhaji Abubakar Alhaji, Minister of Finance and Economic Development, led the delegation and was accompanied by Ambassador Hamzat Ahmadu; Alhaji Abdulkadir Ahmed, Governor of the Central Bank; and Alhaji Ahmadu Abubakar, Director-General of the Ministry of Finance and other Nigerian officials. Messrs. Jaycox, Lim, Sandstrom, Linn, Khanna and Husain were present.

2. Five subjects were raised and/or discussed:

- Windfall income from oil: its size and disposition;
- Policy lending: justification and timing;
- Ajaokuta Steel Works;
- Program implementation issues; and
- Size and composition of Bank's lending program in Nigeria.

3. Windfall income from oil. Mr. Conable introduced this as one of the issues occupying the minds of decision makers in the international community. The price of crude oil has increased significantly and estimates of windfall income are being made. These estimates are coloring the perceptions held by the donor community and managing these perceptions is a central task facing Nigerian decision makers. Since the economic fundamentals have not changed, the best way to approach this subject would be to separate the "windfall income bubble" from the underlying medium-term needs of the economy and to demonstrate that current expenditure and policy decisions are being dictated by the economic fundamentals and not by the bubble. Prudent use of resources in the face of domestic and external pressures would be the critical task. Mr. Conable said that in his view the size of the windfall was unlikely to be significant and he was sure that the Nigerian Government would use their windfall and other resources prudently. Mr. Conable said that he has great confidence in President Ibrahim Babangida, who is a consistent implementor of the ongoing structural adjustment program. Mr. Conable said that Mr. Babangida was Nigeria's greatest asset.

4. Alhaji Abubakar agreed with the analysis outlined by Mr. Conable and said that prudent spending of the windfall, if any, is Government policy. He said that windfall income has, so far, not started to flow in, but he also feels (like Mr. Conable) that the size of the windfall income will not be large. He said that Mr. Camdessus suggested that, as one formula, windfall income may be divided among (a) spending for vulnerable groups; (b) foreign exchange reserves build-up; and (c) creditors. Alhaji said that he would also like to include investment in the oil sector to increase crude oil production capacity as a claimant for windfall income. Mr.

Conable said that the Bank would certainly support additional expenditures for the vulnerable groups and to increase crude oil production capacity. Mr. Jaycox said that the disposition of windfall income is a function of its size; that is, if it is not large, then its disposition may exclude some of the above possible uses.

5. Policy Loan (BFPL). Alhaji Abubakar requested that the Bank process the proposed policy loan as soon as possible. He explained that this was important because a number of other sources of external financing were dependent on the Bank making the loan. Also the loan was an important signal that Nigeria's adjustment program still has the Bank's support. As to the timing, they wanted the loan yesterday but would certainly hope that some disbursement could occur in CY1990. Mr. Conable said that policy lending is generally done when there is a balance of payments gap. Mr. Jaycox explained that there is a gap in 1990. Mr. Conable concluded that it should be possible by the end of this calendar year.

6. Ajaokuta Steel Works. Mr. Conable said he understood that an agreement had been reached on this issue. Alhaji Abubakar agreed, saying that he has had extensive discussions with the Department. Mr. Conable said that the Ajaokuta Steel Works required damage control given the political imperatives. He said that it was certainly not likely to be a moneymaker, and he would like to hold Ajaokuta within the framework already agreed.

7. Implementation issues. Mr. Conable said that he hoped that major improvements would be possible on improving disbursements and project processing times. Alhaji Abubakar asked that Mr. Conable give him three months. Mr. Conable said that we have no choice, but that this is an issue that he had raised with President Babangida during his visit in 1987, and that Mr. Jaycox had also raised it in 1988. Mr. Conable noted that the President had established a Cabinet Sub-committee (Special Presidential Task Force) to review this subject and that specific recommendations exist. Alhaji Abubakar said that the solution is likely to be Shakespearean: "Desperate disease can only be cured by desperate procedures, otherwise it persists".

8. Size and composition of Bank's lending program. Alhaji Abubakar said that Nigeria can absorb a US$1 billion annual lending program. He hoped the Bank could maintain this though its composition may have to be reviewed.

Cleared w/ & cc: Mr. Lim

cc: Mr. Conable
Mr. Qureshi
Mr. Jaycox
Mr. Sandstrom
Mr. Khanna
Mrs. Okonjo-Iweala
Mr. Wai
Mr. Iskander
Mr. Swayze
Mr. Warner
Mr. Klein

THusain:MH

THE WORLD BANK/IFC/MIGA

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Mr. Swayze
Mr. Warner
Mr. Klein

THusain:MH

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

September 20, 1990

His Excellency
General Ibrahim B. Babangida
President
Commander-in-Chief
Armed Forces of Nigeria
State House
Lagos, Nigeria

Dear Mr. President:

I greatly appreciate receiving your letter, which your Ambassador delivered to me earlier this week, concerning the proposed Budgetary and Financial Policy Loan (BFPL) and the related discussions on the Ajaokuta Steel Project.

At the outset, I wish to confirm continued strong World Bank support to your country. Even though the recent surge in oil prices would indicate, at least in the near term, substantial increases in oil export earnings, Nigeria's per capita income is still not expected to exceed $350. In addition, your debt burden is very large and the country has enormous social and economic needs. The World Bank will continue to provide a very substantial level of assistance, and we will also continue to support your efforts to reduce and reschedule debt and to mobilize other external resources. It is, therefore, important that we are in a position to reassure our Board and the international financial community that the additional financing that we are seeking will be spent wisely.

I agree that the steel sector could play an important role in Nigeria's economic development. Unfortunately, there are many international examples where steel has not been produced economically, and the operations of these mills have been a recurrent drain on a country's budget. More important, the inefficient and high cost mills have hampered the development of industries dependent on steel inputs, and have, in fact, significantly slowed down the industrial growth of the country.

With regard to Ajaokuta, there have been extensive discussions between Mr. Lim, the Director responsible for the Bank's program in Nigeria, and your Government since you wrote your letter. I understand that the Government has decided to explore technical options to restructure the project to improve its economic viability, and to limit expenditures to the minimum amount possible until additional options can be reviewed. In the meantime, the Government has decided not to sign any new contracts on the steel mill and related investments in order not to preempt the outcome of the studies. With these understandings, Ajaokuta should not be an obstacle in the further processing of the proposed Policy Loan.

Because Nigeria has to make a large investment in social and physical infrastructure, I am sure you would agree on the importance, particularly with capital intensive projects, to take care in defining project priorities and to pursue only projects with relatively high rates of economic return. Private equity participation could subject a project to the test of the market place and ensure that it operates at high capacity.

I was pleased to hear from you, and I very much look forward to my discussions with your representatives at the Annual Meetings.

Yours sincerely,

Barber Conable

Barber B. Conable
President

AK
88

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/08/27 DUE DATE : 90/09/21
LOG NUMBER : 900918003 FROM : General Babangida
SUBJECT : President, Nigeria: req. further support to secure the BFPL for Nigeria's Ajaokuta Steel Project.
OFFICE ASSIGNED TO FOR ACTION : Mr. M. Qureshi (E-1241)

ACTION:

________	APPROVED
________	PLEASE HANDLE
________	FOR YOUR INFORMATION
________	FOR YOUR REVIEW AND RECOMMENDATION
________	FOR THE FILES
________	PLEASE DISCUSS WITH ________
✓	PLEASE PREPARE RESPONSE FOR BBC's SIGNATURE
________	AS WE DISCUSSED
________	RETURN TO ________

COMMENTS :Note: delivered by hand to BBC by Nigeria's Ambassador to US 9/17

URGENT

State House
Lagos
Nigeria

27August, 1990

Mr. Barber Conable
President,
The World Bank,
Washington D.C.
U.S.A

My Dear Barber

1. May I start by expressing my deep gratitude and appreciation for the support and understanding which Nigeria has continued to enjoy from the World Bank group under your distinguished leadership. I am indeed grateful to the World Bank, and to you personally, for the cordial relationship that has been existing between Nigeria and the Bank, and I sincerely hope that the trend will continue.

2. You are, no doubt, aware of the difficulties currently encountered in finalising discussions on the Budgetary and Financial Policy Loan (BFPL) for Nigeria. The main "stumbling block" seems to be, the Ajaokuta Steel Project. The Nigerian Government had, on the insistence of the World Bank, signed a Memorandum of Understanding (MOU) with the Bank in September, 1989 to the effect that further expenditure on the project should be limited to a ceiling of US$ 45 million per annum. It has been extremely difficult for the Government to stay within the said expenditure ceiling because of the special circumstances of the Ajaokuta Steel Project which are explained hereunder.

3. I do not intend to go into the checkered history of the Ajaokuta Steel Project and the various efforts of successive governments in Nigeria to make Ajaokuta a reality. As at now, so much resources have been put into Ajaokuta Steel Project that it would be politically inexpedient to contemplate abandoning the project. So far, over US$ 4 billion has been expended on the project and it has attained an overall completion stage of approximately 86%. Indeed, a number of units including the Workshop facilities and 4 Rolling Mills have already been completed; but because of the integrated nature of the project, these facilities cannot be put into effective use until phase 1 of the project is completed. This is why the concern of my Government for now is to get phase 1 of the project completed as early as possible, and hopefully by early 1992. The feasibility studies in respect of the Flat Steel will also continue to be pursued with the support of the World Bank.

4. Secondly, all the equipment required for completing the project have already been supplied, and they have been lying idle at the project site for quite some time. Definitely, further delay in installing the equipment on account of non-completion of this phase of the project will lead to their deterioration, waste of scarce resources and eventual escalating of project cost. Furthermore, the contractors, including the German and French civil-works contractors on

the project, are getting impatient with us as we continue to delay the completion of the project, moreso as they are being owed substantial sums of money for work already done.

5. It may well be that the special circumstances of the Ajaokuta Steel Project had not been adequately explained to the Bank, and hence I decided to send you this personal note. I trust that with the information supplied in the preceding paragraphs, you will be in a better position to appreciate our concern and provide us greater support to secure the Budgetary and Financial Policy Loan which, as I understand, is being delayed by the difficulties in agreeing on the level of expenditure in the steel sector. I hope that you will now be able to give appropriate instructions for our two sides to agree on a level of expenditure ceilings for future works which would enable us complete the phase 1 of the project on schedule. I wish, once again, to thank you personally, and through you the World Bank, for the understanding extended to my country in her effort to revitalise the economy. We are happy that the efforts have already started to yield some positive results, and we therefore, hope that our friends, including the World Bank, will support us to the end.

Yours Sincerely

Ibrahim Babangida

General Ibrahim B Babangida
President
Commander-In-Chief
Armed Forces of Nigeria

NIGERIA: Update on Annual Meeting Brief

1. The new Minister of Budget and Planning, Mr. Chu Okongwu, will not attend the Annual Meetings.

2. Negotiations for the Budgetary and Financial Policy Loan (BFPL) are proceeding satisfactorily. The status of the primary objectives of the loan are

- Maintenance and consolidation of the Structural Adjustment Program: Issues have centered on trade policy and appear largely resolved. We are waiting for final confirmation that government will eliminate several of the outstanding import bans in 1991 and commit to study proposals for the removal of further bans in 1992. Agreement has been reached to reduce substantially the import tariff ceiling.

- Public Expenditure Program: Steel issue has been resolved, as covered in your reply letter to President Babangida.

- Taxation -- to neutralize the impact of taxes on private investment and savings: No outstanding issues.

- Financial Sector -- to ensure adequate incentives for private savings and efficient private investment: No outstanding issues.

- Public Sector Reform and Privatization: No outstanding issues in the area where the Government has made major strides.

3. BFPL should be ready for presentation to the Board in late November - early December, following on the heels of an SDR 319 million IMF Standby which is planned to go to the Fund Board for a 15-month program commencing in November.

4. An informal Donors Meeting is now scheduled for late October in London. The Formal Consultative Group is expected to meet in March/April 1991. We propose to shift the past CG concentration on balance of payments support to mobilizing financial support for Nigeria's public investment program.

c:amb.sup
9/19/90

1990 ANNUAL MEETING BRIEF 1/

Name of Country: Nigeria | Date: September 14, 1990

Meeting with: Minister of Finance and Economic Development,
Alhaji Abubakar Alhaji
Minister of Budget and Planning, Chu Okongwu
Governor of the Central Bank of Nigeria, Alhaji Abdulkadir Ahmed

Population: 113 million (1989) | Estimated Growth Rate: 3.1% (1980-88)
GNP per capita: US$250 (1989)

		(US$ million)
Total Commitments to date: (6/30/90)		5,716.5
of which:		
Bank	79 operations	5,455.7*
IDA	4 operations	260.8*
Total Undisbursed:		2,192.1
Lending Program:	FY91-92	2,163.5

		(US$ million)
FY90	Commitments:	653.1
	Disbursements:	488.9
	Amortization:	220.1

* Including 43 loans and 2 credits fully disbursed.

Summary Data	Average 1985-89 (Estimated) (%)	1990 (Projected) 2/ (%)
GDP growth	3.2	3.7
Export growth (Constant $)	5.2	3.2
Import growth	-11.3	14.6
Current Account Deficit % GDP	-1.4	-3.8
Gross Debt Service Ratio	23.6	31.4
Annual Inflation Rate	20.8	20.0

Aid Group Meeting: formal
Last Meeting: November 1989
IMF Status as of September 1990:
Proposed Standby of SDR 319 million (a 15-month program) scheduled for Board November 1990.
SPA Eligibility: No

Background

The Government of Nigeria has sustained its commitment to the process of structural reform and to maintaining ties with the international financial communities. At the same time, plans are underway for transition to a civilian government in 1992. A major concern that emerged in recent weeks is the impact of changes in oil prices on the economy and its effect on debt rescheduling with the London and Paris Clubs.

Issues Likely to be Raised by Delegation

(1) Status of the proposed Budgetary and Financial Policy Loan (BFPL)

Issues to be Raised by Bank Management

(1) Impact of changes in oil prices
(2) Development of investment strategy
(3) Project implementation

Attachments

(1) Lending program FY90-94
(2) Biographical information
(3) Capital Subscription Status

1/ A supplemental brief will be issued just prior to the meeting to reflect more recent developments.

2/ Does not reflect impact of recent Mideast crisis.

Background

President Babangida, who came to power in the summer of 1985, has been a strong leader and the primary advocate of the Structural Adjustment Program (SAP). He is adhering to his commitment to transfer power to a civilian government. State elections are now scheduled for December 1991 and presidential and national assembly elections for 1992. In the meantime, much remains to be done. The present government considers it essential to achieve the following prior to the inauguration of the civilian government: (a) major reforms in the banking and financial sector, and in that context, reduction of public external debt, now estimated at US$32 billion, to a manageable level; (b) privatization and commercialization of public enterprises; and (c) completion of the Ajaokuta steel plant.

Issues Likely to be Raised by the Delegation

1. Status of the Budgetary and Financial Policy Loan (BFPL). Negotiations are currently in progress. An update will be provided in the supplemental brief to be prepared prior to the Annual Meetings.

Issues to be Raised by Bank Management

1. The Impact of Changes in Oil Prices. The increase in oil prices due to recent events in the Persian Gulf is likely to bring additional revenues to Nigeria. The prospects for substantial increases in revenues have raised many questions in the donor community about how these revenues will be used, and the subsequent question: whether consultative group financing is now needed. It will be important for the government to formulate contingency plans to avoid drastic fluctuations of the exchange rate and to make optimal use of expected additional revenues, which are subject to volatility for an uncertain period of time. We believe priority for targeting such revenues should include: rehabilitation of the oil sector; maintenance and rehabilitation of infrastructure; social sectors; cleaning up the banking system; freeing the foreign exchange market. Equally important, is to avoid expenditures on large capital intensive projects that are not subjected to market tests.

2. Development of Investment Strategy. In view of the expected increase in oil revenues for Nigeria, the international financial community is likely to be more cautious in supporting current efforts towards debt rescheduling and appeals for concessional aid, and it may be difficult to convene a meeting of the consultative aid group before the end of the year. The consultative aid group meeting should be reoriented from balance of payments assistance to support for specific investments in the government's overall development program. In preparation for such a meeting the government should prepare a comprehensive strategy for its investment program, with guidance on opportunities for international financing. The Bank could assist the government in developing such a strategy.

3. Project Implementation. Nigeria has one of the poorest Bank processing and implementation performance records world wide. In line with recommendations of the Special Presidential Task Force on Project Implementation, the Multilateral Institutions Department in the Federal Ministry of Finance and Economic Development, which is responsible for

coordinating World Bank operations in Nigeria, is being strengthened with additional staff. We should stress the urgency of showing results. The Bank's ability to continue to transfer substantial resources to Nigeria, as well as Nigeria's ability to attract support from the international financial community, depends on significant improvements in project implementation. If the current measures being undertaken are not having a significant impact on reducing delays and accelerating disbursements, we are prepared to assist the government in a high level review of the difficulties being encountered (eg. in the area of procurement) in order to define further reform measures that could be taken.

NIGERIA - FIVE-YEAR LENDING PROGRAM FY90-94

(US$ million)

FY90 (actual)	IBRD	IDA	FY91	IBRD	IDA	FY92	IBRD	IDA	FY93	IBRD	IDA	FY94	IBRD	IDA
National Seed	14.0	0.0	Adj Ln (BFPL)	500.0	0.0	▪ Adj Ln (Fert)	190.0	60.0	▪ Adj Ln (Env)**	270.0	80.0	▪ Adj Ln (Fin Sec)	175.0	0.0
Tree Crops	106.0	0.0	Public Ent	100.0	0.0	Ag (Fadama)	75.0	0.0	Agr Devt Fund I	120.0	0.0	▪ Adj Ln (Pop)	0.0	175.0
Educ Univ Devt	0.0	120.0	Agric Research	0.0	65.0	Nat Ag Tech	50.0	0.0	Forestry III	100.0	0.0	▪ Livestock Mang	75.0	0.0
Nat Ess Drugs	68.1	0.0	Health Sys Fund	70.0	0.0	▪ Primary Educ	0.0	120.0	Health (PHN IV)	0.0	100.0	Educ (Tec/Sec)	100.0	0.0
Oyo Urban	50.0	0.0	Nat Population	0.0	78.5	Roads (State)	130.0	0.0	▪ Lagos Infras	140.0	0.0	Power IX	175.0	0.0
Power Reh/Main	70.0	0.0	Water Rehab	223.5	36.5	Power VIII	150.0	0.0	▪ Rur Inf (Roads)	100.0	0.0	Highway Sec II	250.0	0.0
Telecoms	225.0	0.0	Oso Condensate	150.0	0.0	M-State Water	165.0	0.0	▪ Railways	150.0	0.0	▪ Rural Inf (Watr)	100.0	50.0
Total	533.1	120.0	Total	1043.5	180.0	Total	760.0	180.0	Total	880.0	180.0	Total	875.0	225.0
Total IBRD/IDA		653.1	Total IBRD/IDA		1223.5	Total IBRD/IDA		940.0	Total IBRD/IDA		1060.0	Total IBRD/IDA		1100.0
No. of Operations		7	No. of Operations		7	No. of Operations		7	No. of Operations		7	No. of Operations		7
Reserve Program			Reserve Program			Reserve Program			Reserve Program			Reserve Program		
None			None			Export Pro/TA		100.0	M-State Water II		250.0	Educ/Health(IEC)		75.0
						Nat Urb Transp		150.0	Public Ent II		200.0	IDF II		100.0
									Tax Admin		15.0			

	No. of Operations		Amount in US$ million						Percentage Shares					
			FY90-92			FY90-94			FY90-92			FY90-94		
	FY90-92	FY90-94	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total
TOTAL	21	35	2336.6	480.0	2816.6	4091.6	885.0	4976.6	83.0%	17.0%	100.0%	82.2%	17.8%	100.0%

Sectoral Composition of Lending Program

	FY90-92	FY90-94	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total	IBRD	IDA	Total
Macroeconomic Policy	1	3	500.0	0.0	500.0	945.0	80.0	1025.0	21.4%	0.0%	17.8%	23.1%	9.0%	20.6%
Agriculture & Rural Devt	6	9	435.0	125.0	560.0	730.0	125.0	855.0	18.6%	26.0%	19.9%	17.8%	14.1%	17.2%
Population & Human Resources	5	8	138.1	318.5	456.6	238.1	593.5	831.6	5.9%	66.4%	16.2%	5.8%	67.1%	16.7%
Industry/Energy (Hydrocarbons)	2	2	250.0	0.0	250.0	250.0	0.0	250.0	10.7%	0.0%	8.9%	6.1%	0.0%	5.0%
Infrastructure	7	13	1013.5	36.5	1050.0	1928.5	86.5	2015.0	43.4%	7.6%	37.3%	47.1%	9.8%	40.5%
Of which:														
Urban/Water Supply	3	5	438.5	36.5	475.0	678.5	86.5	765.0	18.8%	7.6%	16.9%	16.6%	9.8%	15.4%
Transportation	1	4	130.0	0.0	130.0	630.0	0.0	630.0	5.6%	0.0%	4.6%	15.4%	0.0%	12.7%
Power	2	3	220.0	0.0	220.0	395.0	0.0	395.0	9.4%	0.0%	7.8%	9.7%	0.0%	7.9%
Telecommunications	1	1	225.0	0.0	225.0	225.0	0.0	225.0	9.6%	0.0%	8.0%	5.5%	0.0%	4.5%

▪ Standby project ** Hybrid project

23-Aug-90

BIOGRAPHICAL INFORMATION

Alhaji Abubakar Alhaji
Honorable Minister of Finance and Economic Development, Nigeria

Alhaji Abubakar Alhaji was appointed Minister of State in June 1988, to be in charge of budget and planning, and to act as a special advisor to the President. In January 1990 he was made a full Minister, and in August was appointed to his current position, Minister of Finance and Economic Development.

Alhaji Abubakar is a career civil servant and served as Permanent Secretary of the Federal Ministry of Trade (1975-78), the Federal Ministry of Industries (1978-79), the Federal Ministry of Finance (1979-84) and the Federal Ministry of National Planning (1984-88). He is from a prominent northern Nigerian family and is related to the previous Head of State, General Buhari.

Alhaji Abubakar has been very closely associated with and supportive of the Bank since the early 1970s. He was elected Executive Director of MIGA in June (representing Cote d'Ivoire, Ghana, Lesotho, Madagascar, Malawi, Senegal, Togo, Zambia, as well as Nigeria). He led the Nigerian delegation in the London Club negotiations in August 1988 and in the Paris Club negotiations in March 1989. He has taken the lead in the recent policy discussions with the Bank and the IMF.

Dr. S. P. Okongwu
Minister of Budget and Planning, Nigeria
Executive Director, MIGA

Dr. Okongwu was appointed Minister of Budget and Planning in August 1990, in the most recent series of senior official shake-ups. For the last six months he has been Minister of Cabinet Affairs. Previously, he served for four years as Minister of Finance, but toward the latter part of his tenure some of his responsibilities were transferred to Alhaji Abubakar Alhaji, who had become Minister of Budget and Planning.

Prior to 1985, Dr. Okongwu was head of Multivar Systems, a consulting firm which provided advisory services in the areas of quantitative analysis of agricultural and industrial policy, a position which he had had since 1975. Prior to that, he was Controller of Planning and Permanent Secretary of the Ministry of Economic Development and Reconstruction in the East-Central State.

Dr. Okongwu was also a lecturer at the Economic Development Institute at the University of Nigeria, Enugu Campus in Anambra State, and was Associate Professor of Economics at the State University of New York at Albany. Dr. Okongwu received a Ph.D. from Harvard University in 1965.

Alhaji Abdulkadir Ahmed
Governor, Central Bank of Nigeria

Alhaji Ahmed has served as Governor of Nigeria's Central Bank since May 1982 and prior to that as Deputy Governor from 1977. A Hausa Muslim from northern Nigeria, Alhaji Ahmed graduated from Barewa College in Zaria (Kaduna State) in 1959. He attended the University of Ife and later studied in England where he obtained a diploma in commercial accounting. He is an associate member of the Association of Certified Accountants. Alhaji Ahmed had worked for the New Nigerian Development Company, Ltd., and served for two years as Commissioner for Finance and Economic Development in Bauchi, his home state.

As Governor of the Central Bank, Alhaji Ahmed has represented the Government in international financial negotiations. He plays a key role in the recent discussions with the Paris Club and London Club.

IBRD CAPITAL SUBSCRIPTION STATUS - BY COUNTRY

(AS OF JULY 31, 1990)

RESOLUTION		SHARES ALLOCATED					AMOUNTS TO BE PAID IN FOR UNSUBSCRIBED SHARES		NATIONAL CURRENCY UNRELEASED FOR SHARES SUBSCRIBED
		TOTAL	SUBSCRIBED		UNSUBSCRIBED		PAYABLE IN US $ A/	PAYABLE IN LOCAL CURRENCY	
NO.	ADOPTED		NO.	$ MILLION	NO.	$ MILLION	($ THOUS.)	($ THOUS.)	$ MIL EQ A/
NIGERIA									
145	60/09/27	667	667	80.46	0	.00	.00	.00	
218	65/04/30	400	400	48.25	0	.00	.00	.00	
258	70/07/31	85	85	10.25	0	.00	.00	.00	
314	77/02/09	1789	1789	215.82	0	.00	.00	.00	
346	80/01/04	2753	2753	332.11	0	.00	.00	.00	
347	80/01/04	250	250	30.16	0	.00	.00	.00	
395	84/08/30	822	822	99.16	0	.00	.00	.00	
424	88/02/03	235	235	28.35	0	.00	.00	.00	
424A	88/02/03	101	101	12.18	0	.00	.00	.00	
425	88/04/27	5553	0	.00	5553	669.89	2,009.66	18,086.93	
TOTAL		12655	7102	856.75	5553	669.89	2,009.66	18,086.93	52.6

A/ AS OF JUNE 30, 1990. DOES NOT INCLUDE TRANSLATION ADJUSTMENT.

1990 ANNUAL MEETINGS

Briefing Paper - Nigeria

Population:	110 million (1988)
GNP Per Capita:	US$290 (1988)
IFC Portfolio:	US$37.2 million (6 companies)

I. Economic Background

Nigeria continues to face serious economic difficulties. Owing to its heavy dependence on crude petroleum production (30% of GDP and 90% of total exports), the weak world oil market of the past 7 years has adversely affected economic activity. GNP per capita has dropped steadily from its peak of US$1,000 in 1981 to the end-1988 level of US$290. At the same time, the country's external debts rose from US$4.2 billion in 1980 to US$32.5 billion by end-1988. The overriding economic problem is a severe foreign exchange shortage which has caused widespread industrial capacity under-utilization in an economy with a highly import-dependent industrial structure. New investments have also declined drastically and unemployment has risen rapidly.

Since 1986, the Government has implemented far reaching policies aimed at stabilizing and restructuring the economy. Measures instituted include: (a) trade liberalization, (b) rationalization of the exchange rate regime, (c) rationalization of public expenditures, (d) privatization of enterprises, (e) selective investment in production-supporting rural infrastructure, and (f) promotion of non-petroleum exports.

Early results of this broad reform program have been encouraging. Following the devaluation of the Naira, domestic currency prices for exports rose, and there is now a more economically-rational allocation of foreign exchange across competing uses. The trade liberalization policy has greatly rationalized the incentive framework. Output, investment, and employment in the export sector have picked up. Producers in all sectors are increasingly seeking ways to economize on imported inputs and to source their inputs locally. The shift in relative prices is also changing consumer patterns. Nevertheless, the magnitude of the adjustment required is such that only modest increases in per capita income have been achieved in the short term.

In the longer term, sustainable growth will depend heavily on increasing the level of investment. In this regard, the key elements will be continued macroeconomic stabilization, and further improvements in the climate for private sector growth. Its achievement would also depend on a stable world oil market and continuation of the current Bank and Fund supported adjustment program by the civilian government due to take over from the military in 1992.

II. IFC's Strategy

The Private Sector

Nigeria has historically been far more open to the private sector than most countries in Africa, except for a period of preoccupation with "indigenization" in the mid 1970s. Under the ongoing structural adjustment program, the private sector is expected to become the engine of growth, through sustained investment in resource based activities.

Nigeria represents a unique opportunity and a challenge for demonstrating that the private sector can indeed be an engine of growth in Africa. The country has a vast market for most products, a relatively well established private enterprise culture, a dynamic entrepreneurial class and a rapidly developing and diversified financial system. Nevertheless, the response of the private sector to the opportunities created by the SAP has been below expectations. There has been a virtual stop in the inflow of foreign direct investment (especially from Europe), and insignificant new investment by domestic entrepreneurs.

Many factors have contributed to this weak private sector response to structural adjustment. The most important constraints are endemic and cannot be resolved in the short term through macroeconomic management. Top of this list are:

a) infrastructural bottlenecks - transport, utilities and telecommunications facilities are grossly inadequate to support an efficient and dynamic private manufacturing sector,

b) bureaucracy - in spite of efforts at liberalizing the trade and exchange rate regimes, the private sector is still hindered by numerous controls at both the state and federal levels.

More recently, the continuing severe shortage of foreign exchange, rapidly rising domestic prices and depreciating naira have further contributed to an increasingly cautious attitude among private investors. This situation is exacerbated by the uncertainty about future economic policy directions which would be pursued by the in-coming civilian administration.

IFC's Objectives

Given the economic importance of Nigeria in Africa, and its relatively active private sector, it is necessary that IFC pursue an aggressive and broad-based strategy, emphasizing all available IFC product lines. In this regard, in spite of the constraints noted above, our strategy is to:

a) Increase the volume of our direct investments in medium to large scale projects. Our promotional efforts in this area are focussed on:

i) domestic resource based, export projects in the hydrocarbon and agro-allied sectors; and

ii) rehabilitation/expansion of non-export oriented, blue-chip companies.

b) expand our financing of smaller enterprises through the AEF as well as credit lines routed through selected local banks;

c) seek out opportunities for stand-alone financial advisory work, especially in the context of the Government's privatization program; and

d) assist in further strengthening and diversifying the financial sector.

Specific Constraints to the IFC Operations

In pursuing the above objectives, there are specific constraints, in addition to the difficulties in the general environment, which tend to hinder IFC's success. These are:

a) Difficulty in arranging foreign exchange co-financing for non-export, medium/large projects which are not of national stature.

b) Resistance to exchange rate risk. Because of doubts about the sustainability of the exchange rate and the more open foreign currency allocation system, a number of companies with sensible, expansion and/or modernization projects, are unwilling to borrow in foreign currency.

c) Inability of local entrepreneurs to contribute adequate equity; and

d) Limited resources to pay for stand-alone advisory services in foreign currency.

These problems have in one way or the other hampered efforts to structure investments and have contributed to a high cancellation rate for previously approved projects.

III. Projects under consideration

Oso Condensate: A major export project of national importance, on which IFC has provided leadership over the past two years in structuring and raising financing. The total IFC investment will be US$150 million consisting of an A-loan of about US$60-75 million and a B-loan totalling US$75-90 million. The project is at the documentation stage, with Board approval targeted for January, 1991. The Government and the project sponsors (NNPC and Mobil) are likely to ask for speedier processing, but given the complexity of the financing, January would appear to be the earliest approval date. This will be IFC'S first B-loan and variable interest rate financing in Nigeria. IFC and IBRD have worked closely on this project in which the Bank plans to provide a loan of US$150 million to NNPC. IFC and IBRD are also planning a joint presentation to the Board next January.

Afprint: Rehabilitation (and modernization) of the Company's aged spinning and finishing equipment. An IFC investment of US$7 million is envisaged. Appraisal is scheduled for October.

AEF Projects: Three AEF projects are under processing for a total IFC investment of US$2-1 million in loans. These are: (i) Agro-Technical Services: A loan investment of US$1.0 million is proposed for this project to produce semi-candied tropical fruits and nut mixtures for Europe. (ii) Stark Industries Ltd.: a project to manufacture and export processed lumber components for which a loan of US$347,000 is under consideration and (iii) Vincent Steel Ltd.: a steel and iron pipe project for a loan of US$750,000.

NAMBL: A joint CMD/Africa II project. Credit Line of US$10 million through a merchant bank to finance medium scale projects. Recently approved under streamlined procedure.

Other Prospects

LNG: A major and strategic, US$2.5 billion project to liquefy 4.5 million tonnes per annum of Nigeria's abundant natural gas reserves for export to Europe and the US. IFC has been appointed by the project company, Nigeria LNG Ltd. (NLNG), to undertake a comprehensive independent appraisal of the project for a fee of US$1.2 million. A work program for the appraisal was agreed with the company in July which envisages completion of the appraisal in March 1991. Ultimately, IFC is also likely to consider this project for a substantial investment of up to US$100 million for its own account.

Cadbury: Expansion of its food activities to process sorghum and cocoa for domestic consumption and export. Awaiting specific proposal from company.

Leventis Fructose: A US$40 million project, sponsored by an existing blue chip company, to produce 30,000 mty of fructose (sugar for industrial use) from locally grown maize, and 20,000 mty of cane sugar. Awaiting feasibility study from the company and its technical partners.

National Fertilizer Company of Nigeria (NAFCON): A possible advisory assignment involving advice on financial structuring of an expansion investment for the largest fertilizer manufacturer in Nigeria. Initial approach was made by M.W.Kellogg of USA, technical partner and minority shareholder in the existing company. NAFCON is majority government owned, but the sponsors are considering substantially increasing private sector ownership. If this can be achieved, IFC may consider an investment of up to US$30 million in the project.

Nalin Plantations: Project to expand an existing palm oil plantation, rehabilitate a palm oil mill and establish a saw mill at a total cost of about US$3.5 million. Preliminary discussions are underway with the sponsors.

IV. Portfolio

The outstanding portfolio as of June 30, 1990 totalled US$37.2 million equivalent; consisting of US$35.3 million in loans and US$1.9 million in equity investments. The portfolio is substantially healthy, however, administrative delays at the Ministry of Finance and the Central Bank continue to cause arrearages in our books.

IFC'S EXISTING INVESTMENTS
As of June 30, 1990 (In US$ Million)

A. Portfolio

Name of Project	Loans		Equity		Total
	Disb'd	Undisb'd	Disb'd	Undisb'd	
Afcott	-	4.50	-	-	4.50
Arewa Textile	-	-	0.44	-	0.44
Dunlop	9.20	3.30	-	-	12.50
IHL	9.13	-	1.46	-	10.59
NTM	2.86	-	-	-	2.86
Tiger Battery	4.76	1.55	-	-	4.76
Total	25.95	9.35	-	-	37.20

B. Outstanding Approvals

Name of Project	Loan	Equity	Total	Remarks
Arewa Textile	5.88	0.12	6.00	Pending completion of co-financing arrangement.
Afrose	0.68	0.13	0.81	AEF project. Awaiting completion of local co-financing.
NAMBL	10.00	-	10.00	Awaiting signature.

V. Issues to be raised with the Delegation

1. Arrearages: Over the past one year, there has been a significant improvement in the usually slow rate of government approvals (and allocation of foreign exchange cover) for debt service payments. The Ministry of Finance also reconsidered its earlier decision to turn down applications to remit penalty charges owed to IFC, and all such outstanding charges have now been cleared. Nonetheless, there remains room for improvement in the approval process. Presently applications for past due payments totalling US$5.4 million are awaiting various stages of processing/approval at the Central Bank and the Ministry of Finance. We may want to solicit the authorities

continued assistance to expedite the approval process. IFC has raised this issue at every previous opportunity and we should keep the authorities focussed on the problem as this appears to be the only way to ensure remittance of debt service funds on a consistent basis.

2. Oso: There are two issues relating to the NNPC financing that require follow-up by the Minister of Finance. First is to request the Japan Export Import Bank to drop their request for a government guarantee for their proposed loan to NNPC; and, second is to seek the consent of the London Club for the granting of security to IBRD. These issues are expected also to be raised by IBRD in its meeting with the delegation.

VI. Issues likely to be raised by Delegation

1. Investment Volume: The delegation may complain that IFC's total investment in the country remains low at US$37 million in spite of a 20% increase over the past 12 months. We can respond by indicating that IFC continues to intensify efforts to increase its operations, but that the economic situation has caused sponsors to scale back their investment plans and, in some cases, drop projects (about US$90 million between 1987 and 1989) that had been approved by IFC or were at an advanced stage of processing. In any case, if the Oso project is concluded this fiscal year, as IFC expects it to be, the portfolio size would increase substantially. IFC's other special efforts include the AEF for which a full staff is now in place and active in the country.

2. Publicity: The delegation may inquire about progress in completing a televised promotion program for IFC which they suggested during last year's meeting. We should respond that our public relations staff have completed the material with Nigerian Television Authority staff and that we are working together to line up corporate sponsors for the air time.

3. Specific projects of interest to Government: In addition to the proposed second fertilizer plant (NAFCON II), a number of projects of national importance were brought by the Minister of Finance to the attention of Messrs. Parmar and Alizai during their recent visit to Nigeria. Alhaji indicated that the Government would like to see IFC take an interest in the development of the following industrial sectors/projects:

   (a) Aluminium smelting project,
   (b) increasing domestic sugar production capability, and
   (c) establishing service facilities for the country's large but aging stock of tractors and other heavy, commercial vehicles.

The Minister specifically indicated that he would like to discuss the Aluminium smelting project at some length during his visit to Washington later this year.

a) Aluminium Smelting: The project consists of constructing facilities to process about 180,000 mty of imported alumina ore for both domestic and export markets, at the total cost of about US$1.4 billion. The World Bank has reviewed the project and has concluded that it is only marginally viable with an ERR of 10-12%. The primary reason for this is the project's high capital cost of approximately US$7,700 per tonne of annual production, as compared to the international average cost of US$4,000 - 4,750 per tonne. Equally importantly, from IFC's point of view, there is insufficient private sector equity participation and leadership in the project as presently proposed. If the issue is raised, we may respond by emphasizing the need to restructure the project to allow for substantially increased private ownership in order to qualify for IFC's consideration.

b) Sugar: Despite the Government's substantial investments in three integrated sugar projects with sufficient, combined nominal capacity to satisfy the bulk of domestic demand, most of Nigeria's sugar needs continue to be met through imports. The Minister would like to see the trend reversed and requested IFC's assistance in that regard. IFC's active participation in this industry had hitherto been hindered by the public sector domination of existing projects. IFC would, in principle, be interested in supporting private sector efforts to promote sugar projects in Nigeria. The Investment Department is presently having preliminary discussions on a project to produce a total of 50,000 mty of sugar locally.

c) Facilities to Service Tractors: The Minister's idea was that IFC assist in bringing together potential sponsors and provide financing for the establishment of a large scale maintenance facility. On this issue we may indicate IFC's interest in exploring the prospect and inform the delegation that the IFC resident office in Lagos has begun assembling basic data on the local demand for such a facility.

VI. Status of Capital Increase

Nigeria is current, having paid 80% of its allotted increase of US$6,658,000.

VII. Biographical Sketches

Brief biographies of the key delegation members are attached.

4710G

BIOGRAPHICAL INFORMATION

Alhaji Akubakar Alhaji
Minister of Finance and Economic Development

Alhaji Alhaji was appointed Minister of Finance and Economic Development in August 1990. Prior to this, he was Nigeria's minister of Budget and Planning and acted as special advisor to the President. He led the Nigerian delegation in the London Club negotiations in August 1988 and in the Paris Club negotiations in March 1989. He has taken the lead in the recent policy discussions with the Bank and the IMF.

Alhaji Abubakar served as Permanent Secretary, Federal Ministry of National Planning from October 1984, after having been Permanent Secretary at the Ministry of Finance for five years. He is a career civil servant with previous assignments as Permanent Secretary at the Ministries of Trade (1975-78) and Industries (1978-79).

Alhaji Abubakar has been very closely associated with and supportive of the World Bank Group since the early 1970s. He was elected Executive Director of MIGA in June 1989 (representing Cote d'Ivoire, Ghana, Lesotho, Madagascar, Malawi, Senegal, Togo, Zambia, as well as Nigeria).

Dr. Chu S. P. Okongwu
Minister of Budget and Planning

Dr. Okongwu was appointed Minister of Budget and Planning in August 1990, after having previously served as Minister of State in the Cabinet Office, Minister of Finance and Economic Development and Minister of National Planning; his first ministerial appointment soon after the Babangida Government took over power in August 1985.

Prior to 1985, Dr. Okongwu was head of Multivar Systems, a consulting firm which provided advisory services in the areas of quantitative analysis of agricultural and industrial policy, a position which he had held since 1975. Prior to that, he was Controller of Planning and Permanent Secretary of the Ministry of Economic Development and Reconstruction in the East-Central State.

Dr. Okongwu was also a lecturer at the Economic Development Institute at the University of Nigeria, Enugu Campus in Anambra State, and was Associate Professor of Economics at the State University of New York at Albany. Dr. Okongwu received a Ph.D. from Harvard University in 1965.

Alhaji Abdulkadir Ahmed
Governor, Central Bank of Nigeria

Alhaji Ahmed has served as Governor of Nigeria's Central Bank since May 1982. During this period he has represented the Government in numerous international financial negotiations. He plays a key role in the crucial negotiations with the London and Paris clubs of creditors.

After graduating from Barewa College, Zaria in 1959, Alhaji Ahmed worked for the New Nigerian Development Company Limited. He also attended the University of Ife and later studied in England where he earned a diploma in commercial accounting. He served for two years as commissioner for Finance and Economic Development in his home state, Bauchi. Before heading the Central Bank, he served as its Deputy Governor from 1977 to 1982.

Alhaji Ahmed is a Hausa from northern Nigeria and a Muslim. He is married, with four children. He is an associate member of the Association of Certified Accountants.

Alhaji Ahmadu Abubakar
Director General, Federal Ministry of Finance and Economic Development

A career civil servant, with over 25 years working experience at both the state and federal government levels. Has been in the Ministry of Finance and Economic Development since September 1988; first as Director of Home Finance and currently as Director-General.

MIGA - ANNUAL MEETINGS BRIEFS

The following issues related to MIGA, which you may wish to raise in your meetings with delegations. In summary:

(a) Non-member countries would be encouraged to sign and/or ratify the MIGA Convention;

(b) Some countries would be asked to complete their subscription payments promptly; and

(c) Other countries would be asked to give favorable considerations to facilitate MIGA operations.

Nigeria

Needs to pay local currency portion of subscription equivalent to $228,302. MIGA has four applications for coverage in Nigeria, of which one is in an advanced stage, but cannot issue guarantee before completion of subscription payments.

Admin. Tribunal
file

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

January 2, 1990

R.H. Judge Charles D. Onyeama
1 Church Road
P.O. Box 602
Enugu, NIGERIA

Dear Judge Onyeama:

This is to inform you that on the occasion of the recent appointment of judges to the World Bank Administrative Tribunal, the Executive Directors of the Bank have taken the decision, effective December 15, 1989 to rotate the membership of the Tribunal. Accordingly, your successor has been asked to undertake his duties as of that date.

On behalf of the Bank, I wish to take this opportunity to thank you for the distinguished service you have rendered during your tenure as a member of the Tribunal.

Sincerely,

Barber B. Conable

Cf - Nigeria

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 90/01/04 DUE DATE : 00/00/00
LOG NUMBER : 900104014 FROM : deMerode/MAQ
SUBJECT : Briefing: NIGERIA and USEXIM: Lunch with John Macomber, January 5, 1990
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
_____ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :Orig: JVolk (following File)
cc: MHAUG

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

Mr. Conable
While inviting Macomber was triggered by the request from the US Ambassador in Nigeria, I feel that this should be a "get to know you" lunch and not merely focussed on Nigeria –
MAQ.
1/4

DATE: January 4, 1990

TO: Mr. Barber B. Conable, President, EXC
THROUGH: Mr. Moeen Qureshi, SVPO
FROM: Janet de Merode, Acting Director, AF4

EXTENSION: 34885

SUBJECT: NIGERIA and US EXIM - Lunch with John Macomber, January 5, 1990

1. Oso Project. The Bank and IFC are preparing a project to help develop a gas condensate field (Oso). The total cost of the project is estimated at US$1,096 million, with the IBRD and IFC proposing to contribute US$150 and US$75 million respectively. We are supporting Nigeria's efforts to raise financial support from the US EXIM Bank (US$280 - 310 million). EXIM's board is scheduled to review its participation in the project on Thursday, January 4, the day before your luncheon. In addition to providing financing, we would hope that the US EXIM would provide leadership in supporting assistance being sought for the project from the Japanese (EXIM) and the French (COFACE) totalling an estimated additional US$200 - 250 million.

2. Proposed Exemption from Paris Club Rescheduling. Since the formal discussions on the Oso project began in September 1988, the ECAs, Japan Export Import Bank and the UKECGD in particular, have been insisting that their participation in the Oso project would be conditional upon their loans being exempt from future Paris Club reschedulings for Nigeria. We have been opposed to this since it could set a precedent for other highly creditworthy projects in Nigeria, and more importantly, open the door for a similar stance in other highly indebted countries; this, in turn, would deprive them of an important source of debt relief.

3. The US EXIM Bank has been up front in also opposing any suggestions of relief from future Paris Club exemptions, partly under pressure from the US Treasury. They have also offered to persuade the other ECAs to withdraw their requests. You may wish to commend Mr. Macomber for US EXIM's stand on this important issue.

4. Future Support. More generally, we hope the US EXIM will continue to support Nigeria's investment program. For example, in the budget speech the government has mentioned several major projects for which it will be seeking international assistance: the development of liquified natural gas, petrochemicals, and fertilizer. These and other projects would appear to be strong candidates for US investment,

although we hope that the US, as well as the other credit agencies, will continue to work with the Bank to help determine investment priorities and to ensure adequate rates of economic return. We would also encourage US equity participation and joint management arrangements as US EXIM considers future project financing.

Attachment

cc and cleared with: Mr. Edward V.K. Jaycox, AFRVP

The Private Investment Climate in Nigeria

Policies and Prospects

Janardan P. Singh

AF4IE

January 30, 1989

Draft

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Annex 2 List of Public Enterprises to be Privatized or Commercialized.................................

Summary

The purpose of this paper is to assess the climate for private investment in Nigeria and to recommend policies that would facilitate such investment in the economy. Continued policy reforms are critical instruments to reverse the economic downturn in Nigeria that occurred in the 1980s and which was characterized by the economy's inability to maintain its level of investment. During that time, public sector investment fell as a consequence of declining oil revenues, and private investment fell under the combined impact of import bans, regulated financial markets, and an ambiguous set of signals from the government on its proclivity toward encouraging private investment.

Resurrecting private investment is a prerequisite for placing Nigeria on the path to economic growth. Government policy, in turn, can be a major catalyst for stimulating private investment. The premise of this paper is that changes in the government's policies pertaining to business activity can have a substantial impact on measurable indicators such an non-oil export performance and hence, on growth and capacity utilization. Current policies governing foreign exchange, trade, investment, taxation, financial sector regulations, privatization and infrastructure development are discussed and analyzed for the strengths and weaknesses they bring to bear upon the private investment climate.

The effect of recent reforms is brought to light in brief analyses of agriculture subsectors, in particular fertilizer supply, food processing, and poultry industries. Likewise, analysis of the manufacturing sector highlights the impact of reforms to date and the continued reforms required

to catalyze the sector. Particular attention is paid to small and medium-sized enterprises which are perceived as the engines of economic growth.

Recommendations are made for policies which would catalyze private domestic and foreign investors to provide the basis for reinvigorating the Nigerian economy. Recommendations made include the following:

Trade Liberalization

- streamline access to exporters' foreign exchange domiciliary accounts

- remove remaining import bans

- fully implement existing policies and proposals, including the duty drawback scheme and export promotion funds

Regulation of Business Activities

- eliminate duplicative processes in obtaining business permits and make expatriate quotas less stringent

Tax Incentives for Investors

- examine the efficacy of tax incentives, particularly incentives for capital allowances for its effects on the use of labor vis a vis capital; and the desirability of tax incentives for research and development

Privatization and Commercialization of Parastatals

- privatize and commercialize parastatals, with particular emphasis on the efficient and effective provision of infrastructure

Access to Credit

- alleviate the market imperfections that inhibit access to credit, especially among small and medium sized enterprises and the rural sector

Development of the Capital Market

- remove barriers to the development of the capital market, such as the SEC's determining of pricing of shares, and requirements that pension funds invest a certain portion of their funds in government securities; develop new investment instruments, of which debt conversion funds are representative.

Human Resource Development

- emphasize the vital role of vocational and technical education in conjunction with the government's current thrust in primary education.

Overall Investment Climate

- promulgate policies that are consistent and transparent, and which maintain the government's credibility among investors regarding its commitment to facilitating private investment.

Recent changes in the 1989 budget reflect the continuation of broad policies toward privatization and deregulation. Some provisions, however, appear to represent a retrograde step, such as the expansion of the scope of the excess profits tax to include all companies, and the increase in growth in credit to the government, in conjunction with a decrease in growth targets on credit to the private sector. At issue is the efficacy of their substance, as well as the apparent lack of consistency in government policy, as Nigeria attempts to develop an attractive investment climate. These and other existing and proposed policies are examined for their effects on private investors, and recommendations are made accordingly.

I. Introduction: Public and Private Investment in the Nigerian Economy

The oil boom in Nigeria served as the basis for tremendous increases in public spending which supported an ambitious public investment program in infrastructure. Transportation facilities, especially roads and ports, grew significantly along with expanded educational opportunities, whereby the primary school enrollment ratio doubled from 35 percent in the early 1970s to 70 percent. The result of the spiralling increase in public spending was that by 1980 public investment accounted for one half of total investment and absorbed 15 percent of GDP. Yet many public projects were undertaken without requisite analysis of their long-term financial viability and the efficiency with which such projects were implemented.

Table I-1 shows the relative contributions of public and private sector investment to overall investment during the period 1982 though 1988, and includes projections through 1992:

Table I-1

Public and Private Investment in Nigeria: 1982-1992

	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92
Gross Investment /GDP	29	23	13	16	14	17	15	13	13	14	15
Public Investment /GDP	20	17	10	11	11	14	10	8	8	8	9
Private Investment /GDP	8		3	4	3	2	4	5	5	6	6
Public Investment /Total	72	74	78	80	79	80	73	67	63	61	60

Source: Aide-Memoire for Nigeria PER, 1988

Table I-1 shows the very significant role played by the public sector in investment. In fact, until 1988, private investment/GDP was declining faster than public investment/GDP.

The effect of the massive public sector spending program was to increase wage and price inflation in the non-traded goods sectors. Yet while input prices were rising, export prices were limited by an exchange rate policy which allowed the currency to rise with rising oil revenues. Hence, the intersection of these two forces - higher production costs and higher export prices - contributed to an erosion in export performance, particularly in the agricultural sector. In fact, non-oil exports virtually disappeared and the economy was dependent on the uncertain and volatile oil market.

The growth in the non-agricultural sector was largely accounted for by the public sector investment in capital intensive industries and to significant levels of protection accorded to some industries. Meanwhile, agriculture declined in absolute terms, at a rate of about -0.4 percent. The significant rise in wages, particularly in the construction sector, encouraged migration to the cities. The agricultural sector suffered from a lack of institutional structure for credit, research, and extension services. The response to the diminished vitality of the economy was the implementation of an import protection regime based on licensing and quotas used to insulate industries from foreign competition.

Table I-1 also shows, in fact, that 1988 is a watershed year, insofar as private investment is anticipated to increase as a percentage of GDP, as compared to the continuing decline projected for public investment. This trend is consistent with the goals of the structural adjustment program which is to transfer the investment burden for many of the public sector activities to the private sector. The public sector will limit its direct investment, so as to encourage private sector investment participation. In agriculture and manufacturing, as well as other sectors, the public sector will increasingly assume a role of supplying infrastructure and providing economic incentives rather than performing a role of directly investing in the economy. The government is especially trying to attract investments that bring their own foreign exchange, such as foreign equity investment. Also, investments that are labor intensive are of particular interest given the rapid growth in the labor force.

Successful economic recovery in Nigeria from the decline in oil prices therefore requires two major thrusts. The first is the drawing domestic and foreign private investment to serve as fuel for the economy that will generate long-term growth. The second is the utilization of current productive capacity which necessitates an inflow of private capital to rehabilitate and upgrade existing facilities. Both of these strategies require a restructuring of the incentives that dictate the climate in which business enterprises must operate. Reliance on the private sector to serve as the engine of economic growth is critical, given the absence of sufficient public sector revenues to undertake the rebuilding and rehabilitation of Nigeria's economy.

Recognition of the need for additional private investment has been articulated in the highest government levels. In 1986, representatives from the Central Bank of Nigeria, the Securities and Exchange Commission, the Nigerian Stock Exchange and three other government departments developed a proposal to attract new foreign capital. The government's optimism is reflected in the balance of payment projection through 1990 which assumes that non-oil exports will more than double from $400 million in 1987 to about $1 billion by the end of 1990. In light of the significant depreciation of the naira, it is evident that export volume will need to grow substantially.

The current investment climate is viewed, however, by private investors as somewhat uncertain, given what has been perceived as a sense of ambivalence on the part of government despite policy statements that seek to encourage private investment. The source of concern lies in the apparent inconsistencies with which policies are administered and the frequency with which they are changed. Hence, the optimism rendered by overall commitments by government to increase private investment is somewhat tempered by the content and implementation of the reforms.

Clearly, Nigeria has taken some bold and foresighted steps to catalyze private investment. Yet many barriers remain, such as a lack of basic infrastructure, uncertainties in policies pertaining to investment, and the inconsistent application of sometimes conflicting policies. Some of these concerns can be resolved in the short-term. Other needed steps, such as the build-up of telecommunications, transportation, electrical and water supply infrastructure, will require a medium and long-term response. It is unlikely that marginal and incremental changes in the business climate will be sufficient motivation to spur private investment. Hence, the consistent implementation of existing policies, the establishment of new bold policy measures, and a predictable regulatory climate are requisites for confidence-building among private investors.

Section II of this report highlights some of Nigeria's reforms to date, including a) foreign exchange policies; b) trade liberalization; c) deregulation of business activities; d) tax incentives; and e) liberalization of the financial markets. Each of these policies is discussed in the context of the climate prior and subsequent to the implementation of reforms. Analysis of the implications of the changes and remaining barriers to reform are discussed where applicable. Recommendations are made in cases where further policy changes would facilitate the drawing of private investment.

Section III examines the impact of reforms to date on certain subsectors of the economy and recommends policies which would facilitate the continuation of the preliminary and optimistic signals emanating from renewed performance to date in some of these subsectors. In the agricultural sector, fertilizer supply, agro-industries, and poultry industries are examined for the effects of the reforms on private investment. In the manufacturing sector, the impact of reforms on small and medium-sized enterprises (SMEs) is scrutinized.

Section IV highlights the privatization initiatives that are to be undertaken by the government and recommends additional action that is required to build up the vital infrastructure subsectors. Section V summarizes the findings and makes overall recommendations for continued reform that augments the role of private investment in the Nigerian economy.

II. Private Sector Investment: Government Policies and Regulations

Given preliminary signs of new growth opportunities reflected in companies' emerging interest in increasing their export potential and investment, many businesses will need to restructure their operations to improve their competitive posture. Government policy can have a significant impact on the breadth, depth, and strength of Nigeria's economic recovery by providing a context in which private investors can tone and flex their economic muscle. Many hinderances to enterprise development have been eliminated, with one of the most important being foreign exchange controls. Liberalization of the financial markets also has represented a major step forward with the deregulation of interest rates and the elimination of many credit allocation restrictions. Nonetheless, many barriers remain which inhibit private sector development. They include import restrictions, lethargic implementation of export promotion activities, intervention in expatriate hiring, and non-existent or unreliable infrastructure. Other intangible factors, such as investors' perception of government commitment toward liberalization, are especially critical factors. These remaining obstacles and uncertainties highlight the need for government to continue steadfastly in its efforts to implement proposed changes as expeditiously as possible to ensure its credibility among foreign and domestic private investors.

A. Foreign Exchange Policies

Background: In the 1970s, accelerated inflation and the appreciation of the naira led to a decline in the competitiveness of domestic economic activity in the industrial and agricultural sectors. With the rapid deterioration in Nigeria's balance of payment that occurred beginning in 1981, quantitative controls were introduced on imports and on the allocation of foreign exchange. Domestic producers that depended heavily upon imports for production inputs were unable to acquire needed goods and, hence, the economic decline escalated further.

Policy Changes

The most important component of the structural adjustment program was a market-determined exchange rate. A second-tier foreign exchange market (SFEM) was established in September 1986 and in July 1987, the SFEM and the official or first tier rates were merged. Foreign exchange transactions occurred at a market-determined rate. With the advent of the foreign exchange auction, the naira depreciated by 67 percent which provided strong incentive to non-petroleum exports and an increased reliance on domestic rather than imported goods.

During 1987 the CBN took steps to prevent an excessive devaluation of the naira and to alow more bidders access to foreign exchange. Exchange rates fluctuated over a fairly broad range due to frequent changes in the amount of foreign exchange offered for sale by the CBN. Since July 1987, consistency in the auction rules and the experience on the part of bidding banks has yielded greater stability in the exchange rates. In early 1988, the government directed state-owned enterprises to purchase their foreign exchange from the regular banking channels rather than through the CBN. The purpose of this step is to yield greater rationalization of spending programs in the public sector. For 1988 the government budgeted $3.9 billion for the foreign exchange market auctions, 77 percent more than the $2.2 billion sold in 1987. The 1989 budget, however, stipulates that $3.2 billion in foreign exchagne will be available for domestic use. The apparent decrease in foreign exchange availability could put a damper on private investors' access to foreign exchange.

While the FEM has increased access to foreign exchange, the depreciation of the naira has made imports more expensive. At the same time, exports and import-competing industries are made more profitable. Early observations indicate that some non-oil exports have increased with the advent of their adjustment program and some products that had been previously smuggled are now being exported through official channels. Moreover, foreign exchange is reaching the industrial raw materials and capital goods sectors in particular, which absorb over 70 percent of auction funds.

In response to the continued depreciation of the exchange rate, caused largely by interbank transactions, or the autonomous market, the government announced in its 1989 budget the integration of teh autonomous rate and the foreign exchange market rate. Also, foreign exchange sales will occur daily. As a further step to curb continued depreciation and black market transactions, the government will authorize the establishment of bureaux de change operated by the private sector.

Recommendations

While the availability of foreign exchange has been greatly extended to allow producers access to spare parts and raw materials. the current process of obtaining foreign exchange through the commercial banks has been somewhat lengthly, in part because of the relatively complicated process that smaller companies in particular must engage in to bid for foreign exchange. For example, companies must deposit naira in the amount of their foreign exchange bids before the bidding actually takes place. Companies do not receive interest on the deposited amount. As a result, working capital can be inaccessible and subject to no interest earnings for more than one month. Some smaller companies have also noted that the allocation of foreign exchange is not always on the basis of the highest bid. Hence, some small companies are required to use the unofficial market to obtain foreign exchange. Therefore, the procedures for obtaining foreign exchange should be streamlined, particularly to assist small and medium-sized firms to alleviate the long lag times required to obtain foreign exchange. The establishment of bureaux de change by private entrepreneurs could offer opportunities for competition in foreign exchange transactions, and thereby make the transaction process more responsive to investors needs and to small companies, in particular. Hence, the implementation of this policy should proceed without delay.

B. Trade Liberalization

Background

In Nigeria, prior to the SAP, all imports and exports were subject to prior licensing or prohibitions. The imposition of quantitative import controls, and the issuance of import licenses virtually put a halt to or vastly decelerated economic activity in numerous subsectors. Meanwhile, in January 1986, a 30 percent increase in import surcharges was introduced that was applied to all imports.

Policy Changes

1. Removal of Import Controls Subsequent to the launching of the market-based foreign exchange system, the import licensing system was abolished and the majority of import bans were eliminated. Indeed, with the allocation of foreign exchange being left in large measure to the marketplace, one of the main rationales for relying on quantitative import restrictions is rendered obsolete.

Several issues underlie the changes made regarding import bans and duties. Since the structural adjustment program, 15 categories of goods have been banned, which represents a significant reduction in the number of categories as compared to the period prior to the September 1986 structural adjustment program. Many of the goods that were subsequently allowed to be imported, however, were of relatively slight economic importance, such as floor mops and toothpicks, or were unlikely to have been imported at all, such as gravel and sand.

The 1989 budget removes import prohibitions on cigarettes and jewelery and precious metals, and replaces them with 200% import duties. Annex 1 includes the list of banned goods. Waivers from import prohibitions are to become more stringent and granted only in exceptional cases.

The efficacy of the remaining import bans is questionable. Smuggling of some goods is reported to be widespread, so much so that this issue was addressed in the 1989 budget speech by the Minister of Budget and Planning. For example, prior to the ban on cigarettes, smuggling accounted for an estimated 50 to 80 percent of the cigarettes sold in the Nigerian market. It is also reported that rice, which is banned, is being exported from Thailand to Benin and is being illegally transported into Nigeria. (2) In addition to the efficacy considerations, the efficiency goals of the structural adjustment program are impeded by import bans, which precludes the steady production of goods whose supply of domestic inputs is uncertain or whose costs are subject to fluctuation.

Recommendations The import bans and tariff levels, along with the foreign exchange market, are the most important factors that affect the manufacturing and agricultural sectors. Import bans have caused significant under-utilization of capacity. For example, in the survey of Nigerian senior company executives, a bakery experienced a tremendous drop in capacity utilization from 100 to 6 percent. Also, import bans implicitly support inefficient industries and the production of goods whose quality may not meet the requirements of buyers. In the case of cotton, unless tariffs on imported cotton are reduced, local production will remain inefficient and of relatively poor quality which would encourage imports in any event. Hence, the most desirable way to reduce reliance on imports is for domestic production to be of superior quality and to be produced with higher productivity. Satisfying the quality and price requirements of the domestic market would be a useful precursor and test for products entering the export market. As an executive of an agro-rpocessing trading company noted, the company's strategy is to increase the quality of its product for the domestic market to avoid obtaining a negative reputation in the international market.

Import bans should be eliminated and replaced with tariffs. The rationale for the substitution policy is that import bans are a much more serious departure from a market-based system than tariffs. Under tariffs, the market determines how much will be imported at a given price, whereas under import bans, the government determines what is to be imported. Moreover, in the context of import bans, any exemptions granted are likely to be done so in the context of political rather than economic considerations. Tariffs can provide some measure of protection while at the same time making the product available in the market. Thus, prohibitions should be dismantled as readily as possible.

2. Restructuring of Tariffs

With the advent of the new foreign exchange rate market, the 30 percent import surcharge on goods was abolished and revisions in the import duty and excise schedules resulted in reductions in trade-weighted tariff rates from 33 to 25 percent. With the advent of the Harmonized System of tariff nomenclature which was adopted in January 1988, the new trade policy climate consists of more certainty for producers and consumers. Duty rates will be specifed for each import classification and will be applicable for 7 years, although peripheral changes are expected as refinements are made in tariff reviews. The thrust of the new system is the gradual movement to a tariff structure that distributes incentives more evenly among items and which eliminates the heretofore arbitrary nature of import protection. The average new tariff level of 28 percent is lower than the average rate of 33 percent in the pre-reform period, which was also characterized by import licensing. The Tariff Review Board, established in August 1988, has develped a framework for monitoring the effectiveness of current tariff measures and will conduct ongoing review of tariffs and address tariff complaints.

Recommendations

Prior to the current reforms, manufacturers were protected by import restrictions and were concerned primarily with obtaining more import licenses to make a profit. Now, the exchange rate, the tariff schedule, and internal efficiency are the factors that determine the competitiveness and profitability of Nigerian firms. To strengthen the market basis upon which profitability and competitiveness is now founded, there is a need to gradually but steadfastly reduce the levels of protection granted to domestic producers of goods competing with imports. In this manner, the government will send signals to domestic producers that cannot successfully compete with imports that it cannot continue to subsidize industries that remain viable only by virtue of protection. Whereas transition costs in the form of unemployment in protected industries are inevitable, the undue postponement of continued trade liberalization also stymies the potential benefits from increased employment resulting from a stronger competitive posture afforded by the greater flexibility and reliance on the market. In addition, protection should be accorded at reasonable levels so as not to offer incentive for entities to invest in those sectors which are profitable solely because of protection. Of primary importance, is that the process affords predictable tariff rates to ensure investors a stable climate in which the private sector can make investment and production decisions. The transition to market forces rather than import prohibitions or high tariffs is, by necessity, a gradual one. A realistic assessment would suggest that complete reliance on such disciplines is unlikely in the short and medium term. Nonetheless, additional reforms implemented at a judicious pace should be guided by these general precepts.

3. Export Promotion

Background Through the mid 1970s Nigeria enjoyed relatively balanced exports, with agricultural commodities and agro-related products accounting for about 40 percent of total exports. With the advent of oil revenue increases and the strong appreciation of the real exchange rate, production of non-oil exports became unprofitable and virtually disappeared. In 1986 petroleum and cocoa accounted for all but 0.5 percent of total exports.

The decline in non-oil exports was in large part due to the appreciation of the naira in conjunction with accelerated inflation, The escalated customs tariff structure which gave higher protection to finished goods, the extensive quantitative controls on imports since 1982, and the increase in real wages together diminished the competitiveness of Nigeria's agricultural and industrial sectors and yielded a strong anti-export bias.

Nigeria's export trade is dominated by Western Europe which, in 1985, imported almost two-thirds of its total exports. France, Italy, the Netherlands, West Germany and Spain were the main importers of Nigerian oil while the U.S. alone acounted for about 19 percent of the total exports. For total trade flows including imports and exports, the U.S. was Nigeria's top trading partner, accounting for 16.5 percent of the total in 1985. France followed closely with about 14 percent and Italy with more than 12 percent. Britain's share was 9.5 percent and Brazil has 5 percent.

Despite the virtual disappearance of non-oil exports, Nigeria retains substantial export potential. Given Nigeria's comparative advantage which it enjoyed in the agricultural sector prior to the overshadowing role played by oil exports, the country's ample supplies of natural gas and cultivable land and varying climatic conditions could enable the country to increase exports of agricultural and agro-based products in the medium term. In the longer-term, Nigeria could also become an exporter of manufactured goods. Specifically, export potential could likely consist of agricultural products that contributed a large share of exports prior to the oil boom such as cocoa, rubber, and palm oil; agro-based products; wood and timber products; and manufactured goods such as plastics, and nail and wire products.

A major goal of Nigeria's export promotion policies is to legitimize the substantial cross-border flows of goods into ECOWAS states. Thus far, a more realistic exchange rate is, in fact, diverting some trade into established channels. But in fact, the export market in neighboring countries is limited since ECOWAS states are in short supply of foreign exchange. Moreover, very few industrialists perceive themselves as serious competitors with East Asian exporters, even in neighboring countries.

Based on a statement by Nigeria's Minister of State for Planning and Budgeting in January 1989, there is some indication that non-oil exports are emerging; non-traditional exports such as canned fruits, crafts, food items, textiles, and beer have been exported in recent months. Among traditional exports, there is evidence of increased production of cocoa, rubber, palm kernals, and sheanuts. One large trading company is exploring the prospects of exporting China clay to Europe. A furniture producer is establishing barter contracts with the U.K.; a fishing company has started to export 20 tons of prawns per month to the U.S. and the U.K. and is using foreign exchange earnings to redeem the foreign exchange denominated debt.

Policy Changes

a. Exchange Rate Policy

The most constructive incentive to exporters has been the establishment of a market-based exchange rate whereby non-oil exporters will have unrestricted access to foreign exchange for payments of their export receipts and for purchasing imports.

b. Foreign Exchange Earnings

Non-oil exporters have been allowed since January 1, 1987 to retain 100 percent of their foreign exchange earnings. These earnings, however, must be lodged in a domiciliary foreign exchange account and can be used to pay for imports of raw materials, spare parts and equipment used in the production of exports, to service exporters' agents abroad, and for travelling from Nigeria. In practice, however, exports are retaining only low levels of funds in the domiciliary accounts since they have concerns regarding the operational aspects of the domiciliary accounts. (3) Exporters have found that banks delay remittance of export proceeds. Moreover, exporters are paying double since they are charged by local banks for receiving money on their behalf and by foreign banks for repatriating the money to Nigeria. Exporters also appear displeased with having to document their use of the funds in the accounts.

c. Removal of Export Restrictions

In January 1986, the government announced a comprehensive package of export incentives and promotion measures which have been implemented to various degrees. To encourage non-oil exports, the government has abolished all export prohibitions and export licensing requirements and simplified export procedures. Exports have been exempted from excise taxes since they are largely redundant given Nigeria's small share of world markets for the goods on which they are levied.

The January 1989 budget, however, increased duties on beer and stout, spirits and wines, and cigarettes from 30 to 40 percent.

d. Export Duty Drawback

To encourage non-oil export development, a duty drawback and suspension scheme (DDS) is being established. The rationale for a DDS is that Nigerian exporters still bear the burden of a wide range of duties on imported inputs which raises exporters' production costs. The DDS will offset customs tariffs and excise duties on exporter's tradeable inputs. In this way producers can import raw materials and intermediate items needed for production of export goods free of import duties and indirect taxes. Initially, the DDS will be based on individual drawback, and duty suspension for eligible exporters, including mainly larger firms and well-established corporate entities. The export drawback/suspension scheme will be revised in accord with experience under the established operations. Duty rebate rates will be calculated based on input coefficient schedules (ICS) for export products which will avoid over or under rebating. Actual rebates will be computed based on officially sanctioned figures, including ICS, input tariffs, and unit input prices.

The system has yet to be fully implemented, however. Under the current status of the duty drawback scheme, rebate applications are taking up to a year to process and so far, only 10 companies have benefitted from the scheme. As of yet, no rebate payment mechanisms have been established. Moreover, the duty drawback process is being duplicated by the Customs and Excise Department, which yields inconsistencies and further delays. For example, Volkswagen of Nigeria in February 1987 sought duty-drawbacks from its export of its products, but as of August 1988, the duty drawback has yet to be rendered. (4) Hence, the company cannot decrease the price of its exports by the amount of the duty drawback, and therefore its competitive position is diminished, particularly vis a vis Brazil which offers export incentives.

Preparations for efficient implementation are underway, however, whereby the process would be decentralized by the use of banks which would handle all routine DDS refund applications. The Customs and Excise Department will be responsible only for the physical inspection of the imports identified for export production, and for exports. The DDS banks will compute the rebate amounts and will file periodic reports giving details of their DDS transactions. To prevent abuse of the scheme, banks must meet certain requirements to be involved in DDS transactions. It has been estimated that the establishment of the new system for DDS processing should be in place by March 1989.

Recommendation The duty drawback scheme is critical for the successful implementation of the new trade regime and the vigorous promotion of exports. Without an efficient customs duty and excise duty drawback system that provides timely refunds of import duties, Nigerian exporters would be at a competitive disadvantage in exporting a wide range of goods that necessitate tradeable inputs. The full-fledged operation of the scheme should therefore proceed as expeditiously as possible.

e. Abolition of Agricultural Commodity Boards

The Agricultural Commodity Boards in Nigeria were characterized by inefficiency of operations and a depressing effect on farm exports and farm production. According to a study of marketing boards in Africa, "Nigerian marketing boards have been used to serve various interests and purposes, hardly any of which have benefitted the producers." The centralization of responsibility in the marketing boards for marketing farm production and overseeing potentially substantial export earnings, created gross inefficiencies and substantial losses in farmers' income and precluded the disciplines of the market from dictating export potential and prices.

The abolition of the agricultural commodity boards in September 1986 eliminated their monopoly marketing power over exports and price setting. This step represents a major movement forward that allows entry to private sector traders. In accordance with the SAP, the private sector will bear primary responsibility for the marketing of commodities in conjunction with state governments and the agricultural development projects funded by the World Bank. The government has sought to provide information to farmers on commodity prices to avoid excessive profit taking by middlemen. Also, loan guarantees and crop insurance programs are either being established or strengthened. Recent reports suggest that current system that relies on the private sector and federal and state quality inspection services appears to be in place and progressing. Exports are reported to be increasing, in part because of the exchange rate adjustments, as well as the elimination of the marketing boards.

f. Rediscounting of Short-term Bills for Exporters

A rediscounting policy has been established, which is important to ensure first-time exporters access to working capital financing. The CBN was to prepare and issue guidelines for a rediscounting scheme in accord with the Trade Policy and Export Development Loan. Thus far, this provision has been rarely used.

g. Export Financing

An Export Credit Guarantee and Insurance Program is to be established under the CBN to offer credit guarantees to assist first-time exporters in particular to help them have access to working capital financing. Also, additional assistance will be rendered to promote export trading companies which have better knowledge of external markets and which will serve as export traders for the small and medium-sized producers of agricultural, agro-processed, and manufactured goods.

h. Institutional Support For Export Promotion

The Export Development Fund will be used to provide financial assistance to private exporting companies to cover a portion of their initial expenses to market their products overseas. It has been reported that these developments have yet to have a significant impact on export promotion. The Export Expansion Grant Fund is to provide cash inducements for exporters who have exported at least N50,000 worthy of semi-manufactured or manufactured goods. Both of these entities have yet to be operational.

Under the Trade Policy and Export Development Loan (TPED), the Nigerian Export Promotion Council was reconstituted into an autonomous entity with participation by the private sector and enhanced export promotion capacity. As the apex institution responsible for overseeing all export promotion activities, its primary functions are to assist private exporters by providing a) trade and market information services; b) export marketing and promotion assistance including trade fairs; c) training for private sector personnel in export marketing and market development; and d) reviews of freight services and packaging issues. Hence, its purpose is to perform a facilitating and referral function for the benefit of exporters and to advise government on trade policy. Some observers of Nigerian export activity suggest that the NEPC has been relatively ineffective in promoting exports, however, in part because it is ultimately responsible to the Ministry of Trade and is therefore entangled with bureaucratic rigidities.

i. Export Credit

Export credit cover will play a critical role in enabling Nigeria to rebuild its import capacity. Following the rescheduling agreement reached with Nigeria's Paris Club creditors and an IMF agreement, export credit agencies will be in a position to resume cover of exports to Nigeria in the latter half of 1987.

Britain's Export Credit Guarantee Department announced in 1987 a 200 million pound medium-term line of credit to assist small and medium-sized businesses, and is looking at ways of extending short-term cover. (5) This represents a restoration following suspension of cover in 1984 precipitated by the decline in oil revenues and the resulting build up of trade arrears. The line of credit would support the export of capital goods and equipment for reinvigorating industry and agriculture. U.K. exports to Nigeria, its most important market in black Africa, were worth 566 million pounds in 1987, which represents a substantial drop from nearly $1 billion pounds. The trading relationship between Britain and Nigeria is marked by British companies claiming an additional $2-$3 billion on top of promissory notes worth about $3 billion in partial payment for uninsured trade arrears. The relationship has been somewhat tarnished by the Nigerian government announcing that it was unable to meet the terms on which the promissary notes were issued. It appears, however, that the British government is reluctant to have this dispute block the resumption of normal trade cover.

Although government policy can promote exports, there is a compelling need to redress the weaknesses in marketing expertise, particularly pertaining to markets in the U.S. and Europe. The development of industrial investment and competence without requisite experience in the marketing of goods and services abroad, are insufficient measures to allow enterprises to take advantage of the incentives offered. Also, the lack of adequate transportation facilities makes it more costly and difficult to bring agricultural products to port for export. Moreover, roads to transport products to neighboring countries are either non-existent or insufficient. Hence, while the need for incentives for export promotion is evident, the absence of the basic requirements of marketing expertise and transportation infrastructure will render such incentives only partially effective. A discussion of the role of infrastructure in facilitating a constructive private investment climate is discussed in Section IV.

C. Investment Regulation, Deregulation and Incentives

Background

Deregulation offers foreign and domestic entities greater flexibility to respond to market forces. Moreover, it reduces the incentive and need for businesses to lobby for licenses or designations for tax preferences. Deeregulation in Nigeria is taking several forms including stipulations for foreign ownership of companies in Nigeria. In addition, Nigeria is relaxing price controls, a process which adversely affects those firms that have benefitted from them, but which allows many other firms to benefit from recouping higher profits from sales. Other regulatory barriers remain, however, including requirements for business permits, and expatriate quotas, Whereas the requirements themselves require potential private investors to bear some cost for compliance, particular concern arises in the manner in which decisions are made to grant permits or to set quotas. These requirements raise the cost of entry into a particular producer market, and they intervene in management decisions pertaining to the location of an enterprise and the employees who can be hired. The inevitable consequence of these requirements is that private investors are forced into operating at the outset under sub-optimal economic and financial conditions.

Policy Changes

1. Foreign Ownership

The government has revised the statutes and regulations pertaining to foreign investment that would send positive signals to potential investors. The 1977 Nigerian Enterprises Promotion Act limits foreign ownership in Nigerian companies based on categorization of companies into three schedules and effectively prevent free entry into any sector and preclude 100 percent foreign ownership of any company in Nigeria. Schedule I identifies 40 areas of activity which must be 100 percent owned by Nigerians. They include small scale retail trade, transportation, news media, garment manufacturing, rice milling, poultry farming, and low tech manufacturing establishments.

Schedule II identifies 57 areas in which Nigerians must have a minimum of 60 percent ownership. These areas include medium technology manufacturing, construction, banking, canning, iron and steel, beer brewering and bottling, soft drinks, air transportation and shipping. Schedule III identifies 39 industries in which Nigerians must have a minimum of 40 percent ownership. The industries include high tech manufacturing, data processing, construction, distilling, storage and warehousing.

The Industrial Policy Statement issued by the government in November 1988 allows foreign interests to own up to 80 percent of Schedule III enterprises. Moreover, companies with majority Nigerian equity ownership are regarded now as Nigerian companies and can invest in Schedule II enterprises.

Most recently, the government abolished the 40 percent ceiling on foreign holdings which allows foreign investors to acquire 100 percent ownership in Nigerian companies. Several sectors, however, have been excluded from this provision, including banking, insurance, petroleum prospecting and miniming in which the 40 percent ceiling remains. It is likely that this change will encourage creditors to avail themselves of the debt conversion process discussed below which, to date, has been inhibited by the restrictions that prevented potential participants from obtaining effective control of the enterprise in w which they invest. This policy change opens up foreign investment opportunities in major manufacturing sectors such as automobile manufacturing, computers and petrochemicals.

One of the anamolies stemming from the foreign ownership provisions is that given that all Schedule II and II companies are designated as alien companies, a Schedule II or III company cannot take over or acquire another like-classified company. At a time when some Nigerian companies may be facing the threat of foreclosure, such measures prevent other companies from participating in acquisition or merger deals. <u>Policies regarding acquisitions and mergers must be re-examined and relaxed in view of the current technical constraints that inhibit investment in ailing companies.</u>

The government is, however, in the process of changing the definition of a Nigerian enterprise to simple majority Nigerian ownership, which will encourage some investment in joint ventures. But other barriers need to be eliminated as well.

2. Investment Incentives

a. Debt Conversion To provide new ways for investors to bring foreign exchange into Nigeria and to simultaneously reduce the nation's overall debt, a debt conversion scheme has been introduced. Nigerian and foreign investors will be able to finance equity investments with local currency acquired as consideration for retiring of Nigerian foreign exchange liabilities. Given the recent privatization initiatives, it is possible that they could be integrated into the debt capitalization program. One potential way is to designate Nigerian enterprises as investment opportunities. Alternatively, incentives could be provided which could spur venture capital investments for the small and medium-sized enterprises which are anticipated to fuel economic growth.

Investment opportunities could be enhanced with the establishment of portfolio investments, based on a model of country mutual funds comparable to those established in the emerging southeast Asian countries. Shares could be traded domestically and internationally which would broaden the scope for attracting overseas capital.

The success of debt conversion endeavors is contingent upon the government's regulations pertaining to the repatriation of dividends and capital gains such that investors will not bear the same burden of remittance difficulties that they have already experienced in serving the debt. Also, regulations and practices that restrict pricing, allocation, and listing of equity shares may need to be altered since potential investors will be concerned with the valuation of their equity securities. Price setting of shares by the Securities and Exchange Commission, for example, has proven to be a deterrent to the listing of public shares. For the debt conversion program to be successful, regulations and practices pertaining to issuance of shares therefore need to be eliminated. Also, privatization activities need to proceed since a key to the success of debt conversions is access to privatized entities. The absorptive capacity of the equity markets is limited, and privatization would expand the scope of investment possibilities.

Thus far, applications for the right to bid on the debt conversion program auction have amounted to more than US$ 1 billion, with most applications totaling US $7-10 million for investments in tourism, manufacturing, agriculture, and agro-processing. At the first auction on November 30, 1988, there were eight successful bids.

b. Removal of Price Controls

Prior to the structural adjustment program, ex-factory prices had to be justified for all manufactured goods and for twenty designated products, ex-factory prices were tightly controlled. The effect of such controls was to shift profits from producers to traders and to reduce government revenues by lowering the tax base. The government recognized that the abolition of ex-factory price controls was necessary to assist producers to operate profitably. Hence, in September 1986, ex-factory price controls on manufactured goods were eliminated.

3. Business Regulations

a. Business Permits

Foreign investors must obtain a business permit as a condition of doing business in Nigeria. The purpose of the permit is to provide some control over the types of foreign businesses that are established. The major concern with this requirement is that the application process is wrought with bureaucratic delays and the can take as long as several months, even with sustained presssure for the application to be approved. Morever, there are no clear criteria for approving the applications and the outcome of the process is often unknown.

Recommendations: Given the firms that apply for a business permit must eventually have to contact most agencies on the panel, there appears to be substantial duplication of effort. Hence, in lieu of an approval process for a business permit, companies could simply register their intent to conduct business.

b. Expatriate Quotas

Foreign firms must receive approval from the Ministry of Internal Affairs to employ foreigners. This process controls the number of aliens in Nigeria to prevent too many foreigners from taking jobs that Nigerians could take. The time periods allowed for those employed under the quotas is limited to two or three years, although the chief executive officer of the foreign firm can be employed permanently. The Federal Ministry of Internal Affairs publishes a list of jobs for which only Nigerians can be employed. These positions include financial, sales and administrative staff, certain categories of textile workers, and designated medical personnel in urban areas. By limiting the number of expatriates not only addresses unemployment concerns, it also limits the amount of foreign exchange that is repatriated.

The regulations are not infrequently undermined by companies that either request more positions than they actually need, or request certain positions which are more likely to be approved and then have the employee work in a different position. With the advent of the market-based foreign exchange system, however, foreign companies in Nigeria must now pay higher local salaries to enable their employees to remit the same amount of foreign exchange as prior to the change in exchange rate policy. Hence, the foreign exhcange policies have had more of an impact on companies' decision to hire expatriates than the expatriate quota regulations. In fact, according to a survey of Nigerian companies conducted in early 1988, the number of expatriates employed by the companies dropped by 16 percent from the previous year. (6) Recommendations Whereas the impact of the new foreign exchange market has rendered the quota system a less compelling requirement, the system could be simplified and made less restrictive. (7) For example, the quota system should not dictate the positions for which foreigners can be hired. Alternatively, firms could be given overall quotas and be allowed to fill their positions with the employee of their choice. Also, the length of time than an employee can be employed should not be limited since significant loss of investment in human capital could result.

c. Location of Business Establishments

Until recently, both domestic and foreign businesses in Nigeria had to apply to the Ministry of Industries for approval of the location chosen for their plants. This requirement was based on an administrative rather than overconcentration of industries in a given geographical region. In the event of disapproval, businesses had to identify a second choice, although a second-best solution may not have been the most optimal from an efficiency and cost standpoint. The regulation had not been enforced in recent years, and the 1989 budget reiterated the elimination of the requirement.

Recommendations While the removal of this requirement is a step forward in making the process of investment less burdensome, one of the optimal and efficient ways of encouraging growth in certain geographical areas is to offer incentives for companies to locate in economically disadvantaged areas. The government's proposal to give tax and other concessions to businesses that locate in economically disadvantaged areas is discussed below in the section on tax incentives.

d. Loan Approval

In companies where a foreign investor is the majority shareholder, the companies must receive approval from the Ministry of Finance if they choose to borrow funds locally. The approval process is cumbersome and subject to considerable delay. The basis for such requirements is not evident, as the criteria for approval are not designated. Given that the costs of this measure in terms of deterring foreign private inestment are likely to exceed the benefits, the requirement should be eliminated.

e. Technology Transfer

The government regulates the transfer of technology to Nigeria and establishes limits made by Nigerian companies for technology. Two main concerns are associated with the process; a) it can take up to three years for a company to obtain approval; b) the government sets unrealistically low payment levels which has precluded some companies from obtaining the technology and assistance they require. Generally, the government has been reluctant to approve new agreements that involve the payment of technology and management fees. Thus, such fees are allowed only in particular cases, such as when manufacturing companies need the benefits of the transfer of high technology. The government can continue to oversee technology transfer agreements, but it <u>should curtail its involvement in determining the price of technology, although the government could remain as an advisor to companies on payment levels</u>.

f. <u>Use of Local Human Resources</u>

For investors to obtain approval status from the Federal Ministry of Finance, "services" rendered in conjunction with a business venture in Nigeria may be considered part of the capital contribution of a foreign investor. These services may include feasibility studies, data processing, and engineering studies. Acording to non-statutory government policy statements in 1984 and 1985, only Nigerians are permitted to conduct market surveys and other studies for which fees are paid. The main rationale for this measure is the scarcity of foreign exchange to pay fees to non-Nigerians. Also, emphasis is placed on using local human resources. Nonetheless, such restrictions preclude potential foreign investors from using the manpower resources they deem appropriate. <u>The stringency of such requirements should be lessened</u>.

4. <u>Institutional Support</u>

An Industrial Development Coordinating Committee (IDCC) has been proposed which would serve as a "one stop shopping center" that will consolidate foreign investment regulations pertaining to business permits and expatriate quotas. The IDCC's enabling decree requires that it approves or rejects investment projects within 30 days of a submission of an application. Until recently, the process of securing approval for investment in Nigeria was uncoordinated and confusing, at best. The regulatory functions pertaining to ownership, expatriate quotas, and technology transfer, were performed by various ministries. The fragmentation of the regulatory process has made the approval process extraordinarily complicated, particularly for new businessess. Moreover, various decrees and guidelines issued by the individual agencies can sometimes conflict. The Manufacturers Association of Nigeria, banks, private consulting agencies, and Chambers of Commerce have provided some assistance to investors, but the lack of coordination and consistency remains.

As proposed, the IDCC would provide initial approval for investment applications, administer industrial incentives, and oversee industrial policy. It will be composed of representatives of all the ministries with auspices over foreign investment. It will have the authority to override decisions made by individual ministries and agencies and cut through bureaucratic delays. While the IDCC has been assigned the authority to perform these functions, however, in actuality, the individual ministries and agencies will likely be reluctant to surrender their current decision-making authority. Also, the Civil Service Commission appears unwilling to designate the staffing positions necessary for it to execute its responsibilities.

An alternative function could be proposed for IDCC which would consist of serving as an investment facilitating and promotional body. Indeed, these functions would be more suitable primarily because of the need for such a body. Moreover, if recommendations are implemented which would eliminate a number of the regulations the IDCC is expected to enforce, then its proposed functions would be rendered obsolete.

D. Tax Incentives

1. Income Tax Provisions

The January 1987 budget incorporated a tax incentive for businesses whereby tax free dividends were granted for 3 years on capital imported between 1987 and 1992 and an increase in capital allowances. For companies engaged in the production or processing of agricultural goods, petrochemicals or liquefied natural gas, the tax free period is extended to 5 years. Also, the corporate tax rate was reduced from 45 percent to 40 percent. The 1987 budget lowered the withholding tax on dividends from 15% to 10%. The personal income tax was reduced from 70 percent to 55 percent, which offers the potential for increased private savings. Also, the 50 percent limit on the proportion of profit that can be declared as dividends was removed. In the 1989 budget, however, the government announced a retrograde step whereby the excess profits tax of 10 percent, which was applicable to banks, has been increased to 15 percent, and its scope has been increased to include all companies.

These provisions, however, appear to cause distortions in the incentive system since they favor different assets and hence, different activities are taxed at different rates. The system is reportly biased in favor of investment in buildings at the expense of investmtent in equipment and transportation assets. To the extent that tax codes offer accelerated depreciation and other concessions that lower the price of capital relative to the price of labor, they ignore Nigeria's comparative advantage which consists of abundant unskilled labor and scarce capital resources.

Recommendation The most desirable tax policy would be neutral in its effect among the different business sectors and would keep the tax on marginal investment low. Incentives that encourage investment in the industrial sector do so often at the expense of agricultural production and agro-businesses. Moreover, many industries that have become profitable as a consequence of skewed incentives can only remain profitable as long as the incentives remain in place. Hence, misplaced incentives can not only fuel inefficient industries; they also serve as a drain on Nigeria's scarce resources. Aside from these concerns, there is a dearth of evidence identifying the impact of the tax system and its administration on the investment climate. Revenue loss must be considered in light of these factors, as well as the opportunity cost of using funds for tax incentives vis a vis investments in badly needed telecommunications, transportation, and electricity infrastructure.

2. Pioneer Industries

Pioneer industries are those industries that perform a function which is not already performed in Nigeria, or which is conducted on a scale that is insufficient to meet the economic requirements of Nigeria. Pioneer industries may also be those industries for which there are likely prospects of future development. Also, if the government perceives that it is in the public interest to do so, it can classify an industry as a pioneer industry. Such industries benefit from a 3-5 year tax holiday.

The actual benefits accorded to a given firm depend upon the profitability achieved in the first few years of operations, which is generally lower than in subsequent years. Moreover, real pioneer industries are often difficult to identify. It may be the case that markets already have been developed by importers and hence, pioneer industries may incur relatively little risk in establishing themselves in such a niche.

The criteria for designation of pioneer status are vague, which contributes to uncertainty and large discretion in its applicability. Also, the reported ease of tax evasion limits the effective benefits accruing to a prospective firm. While the tax benefits accorded to pioneer industries could potentially be significant, only 48 cases since 1958 have been granted pioneer status. The most recent approval was granted in December 1985. About 100 applications are received annually. Besides the relatively few applications that are approved, company executives report that they generally do not apply for pioneer status since the process is cumbersome and time consuming. Hence, in practice, the incentive effects of pioneer status are greatly circumscribed. <u>The efficacy of pioneer status should be reviewed and the continuation of the granting of such status should be based on an assessment of its costs and benefits</u>.

3. Incentives for Location of Businesses

The 1988 Industrial Policy Statement notes that entrepreneurs who invest in economically disadvantaged local areas can benefit from income tax and other concessions. Target areas for investment are determined by the level of industrial production in gross and per capita basis, available social and economic infrastructure, and the level of labor market development. These concessions include the following:

- seven year income tax concessions under the pioneer status scheme

- special concessions by relevant state governments
- additional 5 percent over and above the initial capital depreciation allowance under the Company Income Tax Act

Initiatives such as these are far superior to policies that restrict the location of private enterprise. For example, the November 1988 Industrial Policy statement calls for the promotion of export free zones which have the potential to spur export activities. As of yet, the specifics of program design and planning have not been designated. The design of such incentives needs to recognize that their potential for affecting the choice of business location will be determined by other factors such as the available infrastruture, i.e. road acccess, electricity, proximity to ports, telecommunications, the skill level of the labor force, and transportation for workers to and from their place of work. Also, the management of export free zones is a critical issue among senior company executives who have responded warily to a government-managed scheme. <u>It is recommended that the management of export free zones by undertaken by the private sector</u>. Also, areas designated as economically disadvantaged should offer some inherent economic advantage to potential investors other than the incentives themselves. For example, the government could encourage the establishment of a public-private partnership to finance vocational education which would benefit both the residents of designated areas and respond to companies' needs for skilled workers.

4. Efficacy of Tax Incentives

The most obvious cost of preferential tax treatment is the foregone government revenue. Whether the benefits accruing from tax holidays are commensurate with the cost is often difficult to calculate. Another consideration is that tax preferences for capital could influence the degree of capital investment and could encourage short-term investments whose purpose is to reap short-term profits without focusing on long-term investment subsequent to the termination of the tax holiday period. Some countries have limited the potential loss of revenues by establishing ceilings on tax concessions. Senegal, for example, allows tax credits up to a specific amount. Guatemala and the Philippines suspend exemptions if annual earnings are in excess of 20 and 30 percent of invested capital.

The efficacy of tax incentives can be examined from the perspective of SMEs. The engine of economic growth in Africa generally is small businesses. Yet tax incentives have generally not been efficacious instruments to spur the growth of such firms. Capital allowances and accelerated depreciation provisions are irrelevant to those small businesses engaged in manufacture of simple consumer goods, since they minimize the use of scarce resources such as capital. Moreover, the level of profitability would be such that tax holidays would yield fairly insignificant financial benefit to small, fledgling enterprises. On the other hand, large firms are more likely to benefit from tax holidays. Small and medium sized-enterprises, however, are in need of access to credit on affordable terms, which is the most frequently cited deterrent to successful entrepreneurship.

The efficacy of the deductions for research and development activities that are offered through the tax code is an example of a provision whose incentive effects are likely to be very limited. Indeed, other factors, such as overall financial capacity and the skill level of human resources are the overall compelling factors that would dictate a company's participation in research and development. A review of existing tax incentives could be conducted to determine if the tax incentives offered achieve the desired behavior.

Aside from the efficacy and efficiency considerations regarding tax incentives, of particular importance is the perception among investors of the degree to which tax incentives actually induce investment. According to the survey mentioned above of Nigerian company executives, 95 percent of them identified tax incentives as playing a subordinate role in enticing investment, as compared to other government policies affecting private investment. The provision of reliable infrastructure was rated as much more important than tax incentives. Also, consistency in policies and their application was also rated as much more critical to establishing a desirable business climate. Thus, any analysis of the efficacy and efficiency aspects of tax incentives should bear in mind investors' view of their efficacy.

E. Liberalization of Financial Markets

Background

Prior to the structural adjustment program, the government intervened extensively in the financial sector by directly controlling interest rates, setting credit expansion ceilings, and by establishing credit guidelines to channel cheap credit to priority sectors. While lending to priority sectors may have been viewed as necessary for the achievement of development objectives, it meant that profitable lending to non-priority sectors was circumscribed. The result was that banks were prevented from exercising their discretion in assessing risk, pricing loans, allocating credit. Competition among banks was reduced and non-performing loans threatened the availability of adequate access to credit by profitable sectors. Banks' incentive to make loans to higher risk sectors such as agriculture and small business and to make available long-term financing was limited.

Policy Changes

In January 1987 under the structural adjustment program, the Central Bank of Nigeria began to liberalize the regulated interest rate policy and allowed all types of financial institutions to charge interest on the basis of market conditions for savings and lending rates. It also eliminated the number of sectors for which credit allocations were designated. The removal of these requirements offers banks the flexibility to provide loans to small and medium size businesses which are being held as the basis for Nigeria's economic recovery. In this way, one of the major stumbling blocks to economic growth in developing countries, which is the lack of access to affordable credit by small and medium sized businesses, was eliminated. While many of the larger and more established enterprises borrow from the formal financial sector, smaller entities have often been required to resort to the informal lending market where interest rates are much higher. This trend in lending among banks is the consequence of bank's interest in lending to companies on the basis of existing assets, which small companies lack, rather than on projected income flows. Hence, many small companies were required to obtain very costly credit in the informal market.

Interest rate ceilings exacerbated the lack of access to credit since lenders were unable to raise interest rates to borrowers on the basis of risk. Although the interest rates offered by banks to small entrepreneurs would be higher than that for large firms, the level would likely be lower than that in the informal market. Artificially low interest rates also served as a deterrent to savings and thereby reduced the supply of loanable funds. Hence, elimination of interest rate ceilings and credit allocation requirements has provided for greater access to credit by small businesses and may prove to be more valuable than the establishment of credit and development institutions which provide subsidized loans. Moreover, the removal of interest rate ceilings allows banks to determine the cost of the additional risk they bear by lending to small firms, and to reflect this cost in their lending rates. The elimination of interest rate ceilings also opens up the potential for the availability of long-term financing, the absence of which has been a stumbling block for small and medium-sized businesses to obtain long-term borrowing.

In the 1989 budget the following changes were made in credit policy targets:

	1988	1989
Growth in credit to the government	2.5%	8.3%
Growth in credit to private sector	13.3%	10.7%

This trend raises potential concern insofar as the government would be absorbing a higher level of growth in credit, with the potential to crowd out private investors in the credit market. This measure appears inconsistent with the thrust to encourage private sector expansion, and the necessary corollary of expanding rather than limiting credit opportunities.

1. Rural Credit

The absence of rural financial intermediation has also served as a hinderance to the availability of credit in the agricultural sector. The lack of sufficient credit retards private investment and agricultural growth. Several factors are resonsible for the absence of sufficient credit in the sector. Before the deregulation of interest rates, the rates that could be charged to the agricultural sector were too low to compensate lenders sufficiently. Second, before the structural adjustment program, the overvalued Nigerian currency hurt agricultural exports and profitability, thereby making loanas to the sector risky. High default rates on agricultural loans were also attributed to the perception among some farmers that government-sponored programs offered grants rather than loans. Although the currency has been devalued and interest rates deregulated, the sector is still lacking sufficient levels of credit.

The Bank is currently addressing some of the needs in the sector by proposing to include a rural finance project in its FY 1989 lending program. The project is likely to consist of assistance for developing a financial intermediation infrastructure for the rural sector with emphasis on assisting rural womens' savings groups, cooperative financing agencies and micro-enterprises, and developing mutual credit guarantee systems. Programs have also been proposed which would reduce the transactions costs of borrowing and lending in the rural sector.

Beginning in 1977, the Central Bank of Nigeria required commercial banks to establish branches in rural areas. As a result of this requirement, the number of bank branches has increased by 529 branches, which amounts to 35.7 percent of the number of total commercial bank branches. Rural areas are now characterized by increased financial intermediation, but the mode of assignment of rural branches to banks, however, has not minimized commercial banks' costs for extending services. The Central Bank determines the location of commercial bank branches, which leads in some cases to suboptimal decision making from the banks' perspective. Moreover, 45 percent of deposits at a given branch must be loaned from that branch. The disadvantage of these requirements is that they impose higher transaction costs which deter optimal rural lending opportunities.

Greater cost-effectiveness in the application of these requirements could be achieved by allowing commercial banks to choose rural branch sites according to designated criteria. Also, rural branch operations could be made more cost-effective if banks could pay other banks to fulfill their requirements for maintining a rural branch.

2. Capital Market

The shortage of investment funds is a barrier to private investment in Nigeria. While this barrier is a reflection of Nigeria's income level and the subsistence forms of economic activity, it also reflects government policies that have interfered with the development of financial intermediation. The Nigerian Stock Exchange and equity markets, for example, are still in their infancy and existing policies are inhibiting their development.

The Securities and Exchange Commission (SEC) determines the prices at which securities are sold. While this function is not defined in the SEC Act of 1979, it has arisen in response to a perceived concern for the protection of purchasers who may not have the expertise to assess appropriate share prices. This share price setting function has constrained would-be issuers of shares since the price set may be below the share price that is determined optimal by the issuer. The elimination of this de facto practice would abolish the strong disincentive to raising equity funds. This practice is partly responsible for the fact that of the over 100,000 limited companies in Nigeria of which only 75 percent are thought to be in active operation, there are less than 100 companies quoted on the stock market.

The tax rate for small companies was reduced under the 1988 budget, but the definition of small-scale companies limits the number of companies that can benefit from the reduction. Redefinition of small businesses would reduce the tax burden on companies and increase capital formation. Also, interest on debt financing is tax deductible and, hence, debt financing is preferred over equity and bond financing. Provisions that eliminate the bias would yield incentive for equity financing. Also, the government's 1988 budget now requires that all entities - regardless of their tax-exempt status - must pay withholding tax on the income of invested funds.

Provisions affecting pension funds have a detrimental effect on their activity in the equity market. Pension funds are discouraged from investment in the capital market under the Trustee Investment Act which prohibits them from investing in certain companies. For example, they can invest only in those securities listed on the Stock Exchange, and in those securities whose issuing company has a paid up share capital of N1 million. Moreover, trustees are required to invest at least 67 percent of their funds in government securities. These and other requirements result in pension funds being underinvested in the equity sector and therefore restrict the flow of trust fund balances into the capital market to finance investment in the economy.

Institutional investors are discriminated against vis a vis individual investors. When shares are issued, preference is usually given to small investors that apply for 100 to 1,000 shares before the remaining shares are allocated to institutional investors. This provision affects insurance companies, for example, which are unable to purchase all the equity securities they are required to hold on the stock market.

Individual investors are also subject to limitations in their participation in the capital market. Under current law, an individual Nigerian investor can purchase shares in any one company up to a maximum of only 5 percent or N 50,000, unless the investor is the owner or manager. Also, geographical distances from the three Stock Exchange floors present a physical barrier to a vibrant capital market. For example, some shareholders would need to travel hudnreds of miles to sell or purchase shares in the absence of reliable telecommunications or post.

Recommendations: Each of these provisions and barriers contributes toward the stifling of the capital market, and their repeal or redressing should be considered as a means to enable firms to invest in productive activities that will generate the growth that Nigeria needs.

While the main impediments to lending to small and medium sized firms in the manufacturing sector have been eliminated, a number of market imperfections remain which discriminate against smaller firms. These include a lack of information about small firms' financial status, their lack of sufficient collateral, and the higher transactions costs involved in lending to smaller firms. The process of lending to small and medium sized companies could be facilitated with the establishment of a credit information system which would identify those companies whose finanical status is in jeopardy. Also, the legal system needs to be strengthened to enable creditors to be able to collect on bad loans. The development of non-governmental mutual credit guarantee schemes would also serve to assist small companies.

The Bank's small and medium enterprise development project incorporates a number of features that will assist firms in having access to credit that can be used to spur their development. For example, a pilot scheme will provide access to institutional credit for investment in fixed assets and for working capital for small businesses that cannot borrow from the banking system. Also, an equipment leasing component will be included in the project which will provide long-term financing to companies that are under-capitalized and which lack sufficient collateral to qualify for financing from the banking system.

F. Human Resource Development

Nigerian has an abundance of labor and its comparative advantage lies in the development of those sectors that can avail themselves of such capacity. A critical need exists, however, for the labor force to have the requisite skills to engage productively in economic activity. A major priority of the 1989 budget is slated to be primary education. There is, however, a concomitant need for training or retraining of workers in those sectors that hold promise for Nigeria's economic growth. Specific needs include a) technical expertise in finance and accounting, production and distribution, and marketing of goods and services; b) well-trained managers and bank staff, particularly in rural areas who can assess credit risks. In conjunction with the primary education thrust, vocational, technical and business school training institutes are important adjuncts to the formal education system.

III. Impact Of Reforms on Nigerian Private Sector

A. Agriculture

The successfull regeneration of the Nigerian economy is critically intertwined with private investment and the development of the agricultural sector. In pursuance of this objective, the government adopted several policies specific to the agricultural sector, in addition to those implemented economy-wide, as part of the structural adjustment program. The agricultural policies adopted included the abolition of the commodity marketing boards, and the removal of ceilings on interest rates on rural loans. The Government seeks to attain its growth objectives also through changes in the administration of agricultural policy, specifically by decentralizing responsibility for administration and allowing states to assume a greater role. Following a period of significant decline in the allocation of resources for agriculture, the Government also intends to reform public expenditures in this sector.

Based on these sector-specific and economy-wide redirections in policy, the World Bank's economic report estimates that agriculture production will grow about 4 percent during the period 1988 to 1982, and at an even higher rate for exports. Thus far, policies implemented under the structural adjustment program have yielded a positive impact on cash crops but the effect on food crops has yet to be determined. In fact, post-reform prices for groundnuts, cocoa, and coffee have been 100-200 percent above the 1986-87 recommended prices.

Examination of several sub-sectors - fertilizer supply, agro-industries, and poultry production - provides examples of the impact of the recent reforms on production and efficiency and identify additional steps that must be undertaken to encourage private investment. (8) Of particular note is the severe impact of import bans on agro-processing and poultry industries.

1. Fertilizer Supply

Between 1981 and 1985 the government spent N 1 billion on fertilizer subsidies. The government's purpose is to improve farm incomes with increased production as a means to stem the tide of rural-urban migration. The cost-effectiveness of the large subsidy is, however, questionable. There is no apparent indication that agricultural growth is positively correlated with fertilizer use. Moreover, farmers' use of fertilizers has not been in accord with soil conditions. Inefficient distribution systems result in delivery of fertilizer for application at sub-optimal times during the planting season.

One of the more significant flaws in the fertilizer subsidies is the assumption that subsidies are the main determinant of farmers' profitability. Other factors such as agricultural price policies, extension services, rural infrastructure and marketing capacity, and export potential contribute to the profitability of the agricultural sector. The fertilizer subsidy is subject to some dysfunctions. At its current level, the supply of has been insufficient to meet the demand, in part because the government limited the quantities that could be imported. Moreover, despite a significant subsidy, productivity and incentives are inadequate to achieve the desired objectives.

The government's 1989 budget acknowledged the "abuse which yielded undeserved financial benefit to middlemen instead of farmers." It calls for increases in the subsidized price of fertilizer from N10 to N15 and N8.5 to N12 for the different types of fertilizer. These steps are discussed as interim measures until the government develops appropriate mechanisms to replace subssidies on agricultural inputs with subsidies on agricultural outputs. The government also designated the responsibility for the distribution of fertilizers to the Agricultural Development Projects and the Agicultural Service Centers, and made it illegal for fertilizers to be sold or stored by anyone other than farmers. The disadvantage of this approach is that it appears to maintain the centralized nature of the distribution process, which is one major factor that accounts for the level of abuse in the distribution system. A more constrictive response would be the continued phasing out of the subsidy in conjunction with a decentralized distribution system developed in the private sector.

The privatization of fertilizer supply would encourage greater efficiency and a more timely supply of inputs. Yet a number of criteria must be met before the private sector can become involved in input supply. Legal obstacles must be removed which prevent the private distribution of inputs, and the government must pursue stable economic policies to send consistent signals to potential investors.

2. Agro-Industries

Agro-industries have been characterized by unsatisfactory performance in the last two decades because of poor performance in the agricultural sector. For example, in the 1967-68 season, Nigeria produced 1.2 million tons of groundnuts, of which 300,000 tons satisfied the demand of local millers, while between 1975 and 1983, there was insufficient groundnut production for export and to meet the demands of local processors. In fact, Nigeria imported groundnuts from Senegal, The Gambia, and other countries during this period. Likewise, Nigerian textile and flour mills have depended on imports in recent years. Plant capacity utilization in flour milling was reported to be 4 percent and livestock feed 25 percent in 1987. Overall, capacity utilization of processing companies averaged 40% in the fourth quarter of 1987. This compares with an average of 15 percent prior to the structural adjustment program.

Reforms are needed, however, which remove import bans since such policies have discouraged investment in certain areas of food processing that could otherwise prove to be profitable. Malt and barley have been banned which has caused processors to incur additional costs in restructuring their plants to accommodate alternative raw materials like sorghum. Also, tariffs on inputs for production have increased for 47 of the inputs used in the food processing industry. A ban on the importation of wheat has yielded a gap between demand which is estimated to be about 3 million tons per year, but with domestic production yielding less than 200,000 tons per year. Hence, flour milling processors have had to convert their processing plants to handle maize and sorghum. Likewise, the ban on maize imports has hurt livestock feed processors and, in turn, has been partly responsible for the collapse of the poultry industry. Meanwhile, the ban on the importation of vegetable oils has made the processsing of palm oil very profitable and offers opportunities for investors, although the profitability can be attributed to the protection afforded the industry, rather than its efficiency and competitiveness.

3. Poultry Industry

From the 1950s to the 1970s the poultry industry in Nigeria developed and expanded to the point that egg consumption had increased substantially and the importation of eggs stopped without legislation. The relative success of the poultry industry was due to the role of the private sector being involved in the development. The role of the public sector was limited to providing input supplies, extension and veterinary support services, and removing obstacles to the functioning of the private market. The banning of imports with the advent of the oil price drop involved a number of inputs for the poultry industry including maize, wheat, fish meal, and chicks. As a result, the private sector hatcheries that had emerged throughout the country and which depended on imported parent stock suffered adverse financial consequences. The reinvigoration of the poultry industry is possible with the removal of remaining import bans and the encouragement of the private sector in developing vaccines, perhaps through the poultry producers' associations.

Recommendations

The government's role in the agricultural sector should be to support private investors by removing obstacles such as import bans and other trade restrictions that inhibit such investment. Tariffs rather than import bans would be more desirable since bans introduce distortions that maintain inefficiencies in domestic production. Moreover, bans have restricted production when domestic supply of inputs is scarce. These policies have sent negative signals to potential private investors.

The government's constructive role could consist of direct supporting activities, including catalytic functions for private investment by making investments in rural water supply, irrigation, and roads and transport. A second area appropriate for government intervention is in building up the capacity of agricultural research and extension services. A critical need is for reform and expansion of the rural credit system. The issue is discussed in the context of liberalization of financial markets in Section II. Also, private investment could be furthered with the implementation of the new land rights law which, in conjunction with farm compensation, would help free idle acreage for economic activity. To alleviate wide-ranging price fluctuations and achieve price stability, the government could facilitate private sector responsibility for farm storage since insufficient storage close to production centers contributes to instability.

B. Manufacturing Sector

Between 1973 and 1982, the manufacturing sector grew rapidly, at about 12 percent per annum, as compared with a growth of 3.7 percent per year in overall GDP. Manufacturing therefore took an increasing share of GDP, rising from 4 percent in 1987 to a high of 10.3 percent in 1982. This growth was attributed, in part, to the indigenization decrees in the early 1970s which led to divestitures of foreign equity holdings. Public sector investment in manufacturing exceeded the level of private investment, especially in intermediate and capital goods industries, including iron and steel, pulp and paper, cement, vehicle assembly, sugar and petroleum refining. The level of public resource commitment could not be sustained indefinitely with the collapse of oil prices. More importantly, the efficiency losses associated with large public sector investment in Nigeria and trade restrictions, at the expense of private sector investment, were not insignificant.

The introduction of the market-based foreign exchange market and related trade policies changed the economic environment considerably for manufacturing as well as agricultural concerns. Companies are in the process of restructuring their operations, and emphasis on marketing strategies and exports is taking hold. In some sectors, weaknesses in domestic demand is encouraging an export thrust. Exports of beer by Inlac have notably increased, and companies such as Nichemtex are exporting to the United States and other African countries. While these and other export market activities are still in their infancy, they indicate a resurgence of interest in manufacturing exports. Preliminary estimates indicate the advent of a recovery in manufacturing in 1987.

These initial steps to revive Nigerian exports are complemented by companies' preparations for near-term investments. A survey of Nigerian executives in 33 companies conducted by the World Bank indicates that as a result of policy changes regarding private investment, companies are anticipating their renewed investment in the Nigerian economy. As compared to the period March 1987 when the surveyed companies had a "wait and see" attitude toward investment planning, in March 1988, two-thirds of the 33 companies surveyed reported that they were developing investment plans. The total amount of investment anticipated during the next three years from these companies is N1.2 billion, with an expected increase of more than 6,000 jobs. Table III-1 identifies some of the investment proposals of these companies, most of which have high levels of capacity utilization. The investments are planned in areas of the country's comparative advantage and are agro-related.

Table III-1

Major Invesments Planned by Companies Surveyed in March 1988 by the World Bank

Firm	Proposed Project	Investment Amount (N million)	Jobs
Afprint	edible oil factory	36	200
Cadbury	sorghum processing plant	35	>100
Dunlop	radial tire factory	140	>100
John Holt	fishing, fish and chicken processing; packaging installations	10	>200
Inlacs	tomato and aluminum processing, tin and plastic film factory	25	>200
Lever Bros.	palm kernal oil mill, tea plantation	70	direct: 2000 indirect: 2000
North Brew.	new brewery line	50	
Peugeot	new machinery	50	
UAC	building rehabilitation	50	50
UTC	additional hectares wheat/maize	10	>20
WAPCO	extension of cement factor	600	>500
Raleigh	bicycles, chrome plate factory	25	
Vegetable Oils	fractionate palm oil	20	50
Atlantic textiles	new line	16	
Express fisheries	new trailers, fish processing	22	110

Source: Survey of 33 Manufacturing Companies, April, 1988.

In addition to the increase in proposed private investments, new developments in marketing strategies and emphasis on quality reflect the changed investment climate that bases successful performance on competition rather than the ability to obtain an import license or foreign exchange. Some companies are allowing their customers to purchase on credit which will accentuate the marketing possibilities for increased production. Atlantic Textiles plans to focus increasingly on the quality rather than the quantity of its output. Other companies like Cadbury are diversifying into new product lines in response to consumer demand. Raleigh will introduce a motorized bicycle to fill a market niche, with a production target of 10,000 in 1988. While these company initiatives reflect anecdotal evidence of the emergence of market-oriented activities, they suggest some visible responses to the market-oriented climate that is beginning to develop in Nigeria.

1. Small and Medium-Sized Enterprises

One of the main avenues of economic growth that the government recognizes it must encourage is the development of small and medium-sized enterprises (SMEs). SMEs account for about 70 percent of manufacturing employment and 10-15 percent of manufacturing output. Most of the new investments in the near-term are expected to be made by smaller, domestic resource-based enterprises. Unlike large organizations, SMEs employ a higher proportion of labor, have less foreign exchange requirements, and utilize domestic raw materials. They are located in regions throughout the country and can thus stimulate economic activity in areas other than the main industrial centers. SMEs generally have smaller investment requirements and can be more flexible.

The Bank is supporting a comprehensive program to facilitate the growth of SMEs by removing some of the impediments for lending to SMEs. The purpose of the project is to not only ease the transition of protected industries to become viable competitors, but also to help banks overcome their reluctance to lend to small enterprises. This issue is critical, as noted in the survey of senior company executives in Nigerian companies which found very viable firms, including furniture and vegetable oil producers and a fishing company unable to secure new loans. Banks want to lend on the basis of assets rather than anticipated cash flows, and hence, these small businesses are not eligible for loans from banks. They must resort to the informal market. The Bank project also seeks to alleviate the lack of sufficient term resources and working capital. The project would involve the commercial and merchant banks in providing long-term financing to small and medium-sized enterprises to increase the scope and competitiveness of credit delivery. The line of credit component will help finance through the banking system fixed investment, working capital, and consultancy services for SMEs. The pilot restructuring component will help designated SMEs with good prospects for long-term financial viability refinance existing debt.

IV. Privatization and Commercialization of Public Enterprises

The public sector in Nigeria has become significantly overextended with more than 100 commercially-oriented enterprises at the federal level. Indeed, the industrial sector has been dominated by large and often poorly designed state enteprises which grew up in response to an overvalued exchange rate and inappropriate tariff structures. As part of the structural adjustment program, the government is seeking to extricate itself from such activities. The rationale for such a thrust lies in the recognition that the state sector is too big and that many of the functions being performed by the public sector could more efficiently be performed in the private sector.

Government investment in the public sector is estimated at N 23 billion with N 8 billion of equity and N 15 billion of loans, and an additional N 12 billion in 1985 issued in the form of government grants. The government's rate of return on investment is estimated at no more than 2 percent below its cost of capital. It is further estimated that about 40 percent of the federal government's non-salary recurrent spending and 30 percent of its capital investment is allocated to subsidize ailing public enterprises. Hence, privatization will end government involvement in endeavors that are peripheral to the purposes of government and which detract financial and human resources from those activities that are critical functions of government, such as development of basic infrastructure.

Indeed, the government's policy should be to shift a substantial share of its public resources away from direct ivnestment in industries toward increasing funds to improve the infrastructure that ultimately improves productivity. One of the major impediments to a lack of industrial growth and a suitable private investment climate is the total absence or reliability of publicly-provided infrastructure. As indicated earlier, a survey of Nigerian company executives indicated that 30 percent of those surveyed viewed inadequate infrastructure as the major hinderance to private investment. In many instances, the cost of poorly-provided infrastructure is borne by companies which themselves provide their own infrastructure that is necessary to meet their production requirements. Private investment has been undertaken in a number of areas: a) electricity generation; b) water supply; c) transportation d) telecommunications; and e) waste disposal. While manufacturers perceive that the benefits of provision of infrastructure exceed the costs, there are significant economic efficiency concerns that arise from this type of private investment. While firms may make sizeable investments, they essentially supplement and, in some cases, duplicate, publicly-available services. The efficiency of privately provided infrastructure is inevitably compromised by the fact of economies of scale inherent in the provision of infrastructure since the average cost of service diminishes with the increase in the quantity produced. Hence, the private provision of infrastructure, particularly by small firms, loses the benefits of economies of scale, and is therefore highly inefficient. Increased production costs associated with manufacturers' need to provide for their own infrastructure yields stiffer competition with their import or export competitors and serves as a disincentive to private investment. Smaller firms, which cannot afford the investment in infrastructure, bear the costs of poor service in the form of foregone output and revenues. Hence, the government would serve the interests of private investors by directing its limit public revenues into the development of infrastructure that eventually relieves the private sector of its additional cost incurred in autogeneration and other activities that substitute for the lack of required public services.

Policy Changes

The government is planning to undertake a two-pronged strategy involving both privatization and commercialization of 96 companies that will be categorized into five groups. The first group includes all commercial and merchant banks, breweries and flour mills whose entire public stake will be sold to private investors. The second group of public enterprises include Nigeria Airways in which the government will reduce its equity and withdraw subsidies, thereby requiring the firm to draw capital from the private capital market. The third group includes public enterprises such as the National Insurance Corporations and the Nigerian National Petroleum Corporation which will continue to be publicly owned but which will be commercialized. The enterprise will be allowed to raise its own capital and operate on business lines. Partial commercialization will be applied to the fourth group consisting of federal railways, radio, television, and housing authorities, whereby government financial support will be contingent upon appropriate accounting records being provided. The fifth group will consist of social service organizations and will continue to be maintained as public entities. Annex 2 provides a list of enterprises identified in the November 1988 Industrial Policy statement, which will be fully or partially privatized or commercialized.

The government has requested World Bank assistance in implementing the privatization and commercialization process. Considerable practical difficulties will mark the transition period. Many of the state-owned companies lack accurate annual accounts, are debt-laden, and ridden with poor managerial performance, and those which are to be privatized will have to compete with other companies for capital. It is estimated that about N8 billion in equity alone will be required for the privatization initiatives to occur, which is far beyond the capacity of the domestic capital market. Among the public sector entities, however, the smaller ventures such as breweries and the milling entities, would require smaller capital outlays, but larger investments will be required in the debt-ridden transport and communications sectors.

Also, the search for potential buyers will be protracted, until those entities to be privatized are operated on commercial lines. Commercialization and restructuring would therefore need to proceed privatization. Moreover, regional difficulties exist whereby the east and northern parts of the country are concerned that Lagos-based commercial interests will buy national assets at a very low price. Moreover, while bankers are generally supportive of the privatization initiative, they are cautious in recognizing that such a strategy could become a mechanism for increasing public sector borrowing by channeling it through entities owned by the public sector.

The process of privatization has been initiated by the government by putting shares of viable state enterprises on the market. In Janaury 1989 the government announced that its 7.8m shares in the Nigerian Flour Mills and 20 percent of its shares in the African Petroleum Company will be offered for sale. Policy guidelines have been issued which will reduce government involvement in the operational aspects of state-owned enterprises.

1. Electricity

In the electrical power sector, there is only one geographical area in the country which has a competing private electrical company. Aside from this anomoly, regulations prohibit the entry of private companies to provide service. Also, firms which produce electricity for their own consumption cannot sell their surplus to other users. Some initial steps have been taken in conjunction with the structural adjustment program whereby the Nigerian Electric Power Authority, which is responsible for supplying power to the entire country, began subcontracting certain parts of its maintenance operations to a Japanese firm. Further subcontracting to the private sector would increase the efficiency of operations. Also, entry of private firms into the market for electricity provision would serve to engender competition between the public and private sectors and enhance performance of service provision.

2. Telecommunications

The Nigerian Telephone Company suffers from significant operational problems to the point that service provision is either non-existent or of poor quality. The pricing system is inefficient and rates are too low to cover expenses. The billing and collection system is ineffective, as government agencies, which are the most intensive users of services, do not pay their bills. The costs of inadequate service is reflected in higher transportation costs.

Just as in the electric power sector, some initial steps toward privatization and decentralization initiatives have been made in telecommunications. Two foreign firms, Siemans and ITT, have signed maintenance contracts with the Nigerian Telephone Company. Also, the government has recently allowed a private courier service, DHL, to operate within Nigeria. Although DHL charges higher fees than the Nigerian Postal Service, there has been significant demand for such services. These initiatives that allow private firms to enter heretofore regulated markets indicate the viability of the private sector and the potential its involvement holds for making the climate more conducive for commercial activity.

3. Transportation

a. Airlines Nigerian Airways is the state-owned airline that is plagued by inefficiencies that characterize monopoly firms. Delays and frequent cancellation of flights exacerbate the deficit-laden company. Recently, however, private companies have instituted air transport services that are beginning to seriously challenge Nigerian Airways dominance. The continued opening of air transportation to competition will provide a necessary and constructive component to Nigeria's attempt to attract foreign as well as domestic investors. A positive step has been taken in Nigerian Airways, along with Nigerian Railways, to increase tariffs substantially and severely streamline staffing.

b. Bus Transportation The public bus transportation system in Nigeria's major cities are also rife with inefficiencies, overcrowding, and delays. Prospects for private provision of transportation services would complement some initial efforts that companies have made to establish their own transport system for their employees. Private sector competition along side public bus transportation is likely to spur efficiencies and responsiveness to consumer demand for service along additional routes and competitive prices.

Recommendations

Engender Competition Privatization of the provision of publicly-provided services can lead to increased productive and allocative efficiency in the performance of certain functions by virtue of the absence of political interference in daily operations. Privatized entities' reliance on the capital market rather than government funding will require financial disciplines attendant with raising funds in the private sector. While some efficiency gains may result from privatization along, however, more substantial efficiencies could be gained by the introduction of competing firms that eliminate the monopoly position of the privatized entity. In fact, privatization by itself is insufficient to assure a competitive climate. Hence, regulation to prevent anti-competitive practices would be required to assure that designated efficiency objectives are attained.

Establish Realistic Timetable Given that the absorptive capacity of the capital market is limited, there is a need to sequence privatization activities whereby no mroe than 4 or 5 parastatals are privatized in a given year. This estimate is based on the normal requirements of the Nigerian capital market which range between N600-7000 million per year. An additional capacity of N200 million per year for new issues is also required. The sequencing of the process would be a useful test of the public's interest in the shares.

Develop Alternative Financial Instruments The viability of alternative financial instruments to attract investors, such as mutual or trust funds could be explored. Debt-equity swaps and venture capital pool are possible instruments that could be employed to spur the privatization efforts.

Expand Regulatory Capacity While the mechanics of the issuance of new shares are critical concerns, also important is the regulatory apparatus that governs the capital market. The two principal regulators of the capital markets are the Nigerian Stock Exchange and the Nigerian Securities and Exchange Commission. It is likely that the current capacity of the regulatory system would be severely strained, and hence, expansion of capacity would be required.

Where commercialization is the stated objective for certain parastatals, there is a need to:

- establish cost recovery targets and commercial pricing policies
- improve the maintenance of existing facilities
- promote the utilization of existing capacity
- sever the link between civil service pay scales
- establish sound budget and accounting procedures
- decentralize the management of operations

Role of the Bank

The Bank is currently preparing for a project that would support the rehabilitation of the electric power sector, and discussions are underway for a project which which would take similar rehabilitative steps in the telecommunications sector. Bank-suported studies are also underway of several transport parastatals, and the Gas TA project has rendered assistance to the NNPC. The Bank could continue its discussion with the government on the details and modalities of privatization and commercialization. A sector adjustment loan for the financial restructuring of designated parastatals, which would help government in funding the recapitalization and restructuring of parastatals, could be considered. The Bank could also offer technical assistance related to financial restructuring and mergers and the internationalization of new securities.

V. Summary and Recommendations

Nigeria has come a long way in revamping some of the underlying structures in the economy. The market-based exchange rate policy, which lies at the heart of the structural adjustment program, has been in force and its effects are already being observed in the resurgence of exports in some sectors. The elimination of the import licensing scheme and many import prohibitions are consistent with the alteration in the foreign exchange market. The agricultural commodity boards were eliminated which opens the way for the entry of private traders. Ex-factory price controls have been eliminated. In the financial sector, liberalization has taken several forms: a) the deregulation of interest rates and b) the elimination of many credit allocation requirements. Emphasis is being given to small and medium sized firms which are expected to be one of the main engines moving economy recovery along. Privatization and commercialization initiatives are beginning to emerge, albeit at a very early stage.

The implementation of these changes represents a significant step forward in restructuring the Nigerian economy. Yet additional steps must be undertaken to allow the market forces that have been unleashed to take root in the economy.

Provide Consistency in Policies and Regulations

One of the most prominent concerns among potential investors in Nigeria is the absence of consistency and clarity in the statutes and regulations governing foreign investment and the manner of their implementation. Frequent changes in policy effectively preclude necessary investment, managerial, and operational planning. Also, inconsistencies in policies when two ministries or agencies have auspices over a particular business transaction. For example, the NOIP and the Ministry of Finance both assert control over the approval of payments for royalties and technical fees. The NEPB and the SEC have varying views about the extent to which mergers and acquisitions are allowed by foreign businessess. Other inconsistencies arise when decree are issued that are at variance with existing decrees. These inconsistencies yield oblique policy signals that render opportunities for political considerations in the application of statues or regulations. The uneven application of such regulations is an especially burdensome deterrent to private investment. Delays are also considerable. According to a World Bank report,

> Apart from the sheer frustration and waste of resources (by the applicant as well as the Government), the long delays can have a major impact on project cost, can require agreements to be renegotiated (e.g. on technology transfer), and at times causes projects to be abandoned. Morever, the controls frequently do not achieve what they are designed to as they are by-passed and their application is influenced through other means.

<u>Implement Already Existing Policy Changes</u>

Nigerian business executives have indicated that rather than government issuing new policy changes, it should implement those policies already proposed. The <u>duty drawback scheme</u>, which has yet to be fully implemented, is a case in point. The <u>rediscoutning of short-term bills</u> for exporters has yet to be made operational. <u>Export promotion funds</u> have been proposed but have yet to be implemented.

<u>Ease Investors' Access to Foreign Exchange</u>

While the mechanisms for more efficient allocation are in place, the process of obtaining foreign exchange needs to be made more efficient. The government's most recent steps to create bureaux de change and daily auction have the potential to facilitate the process. Also, the functioning of the domiciliary foreign exchange accounts used by non-oil exporters needs to be improved. Banks' delays of remittance of export proceeds should be eliminated. The effects of exporters' double payment for charges stemming from services rendered by domestic and foreign banks could be reviewed.

Deregulate Business Activities

A second barrier to private investment is the regulatory apparatus governing foreign firms. According to a World Bank report that was based on interviews with private investors in Nigeria, restrictions that are imposed on the investment and operations of the business are cumbersome and wrought with delays. Regulations pertaining to business permits could be simplified and made less restrictive. The expatriate quota system should not dictate the positions for which foreigners can be hired. Alternatively, firms could be given overall quotas and be allowed to fill their positions with the employee of their choice. Also, the length of time that an employee can be employed should not be limited since significant loss of investment in human capital could result.

The proposed development of the IDCC as a "one-stop shopping center" for private investors, which is anticipated to alleviate delays and inconsistencies in the processing of applications, is a very constructive one. Yet the actual implementation of such an entity and its ability to fulfill its proposed mandate is viewed with some skepticism by some

Nigerian company executives. The civil service, for example, appears unwilling to designate the staffing positions necessary for the IDCC to executive its responsibilities. The government needs to proceed with the implementation of the IDCC to assure its credibility and commitment to making the regulatory environment more satisfactory to private investors.

Provide Efficacious Financial Incentives

Another concern mentioned by private investors is the lack of meaningful financial incentives for private investors. It has been suggested that despite the relatively moderate tax burden on businesses, the government offers few tax advantages. The tax holidays for pioneer firms and the exemptions from tax on dividends are rarely granted or the benefits are not significant. The expanded scope of the excess profits tax to include all companies could further skepticism among private investors. This provision needs to be examined in light of government's policy to offer investment incentives to private investors. Given the lack of sufficient incentives and apparent anomolies in existing incentives, it has been suggested by Nigerian company executives that they would prefer to see more deregulation rather than the offering of financial incentives, since financial incentives without deregulation can greatly circumscribe activities of private investors and make investment much more costly.

Examine the Efficacy of Existing Tax Incentives

The efficacy of the deductions for research and development activites is likely to be very limited since many factors other than financial determine the degree of resources devoted to R & D, such as skill level and comparative advantage. The revenue losses should be examined in relation to the outcomes of research and development activities that have been subsidized. Also, the desirability of capital allowances should be examined to determine their efficacy, particularly in the context of a country whose comparative advantage includes a plentiful supply of labor. Alternative incentives that acknowledge Nigeria's comparative advantage in labor could include allowance for vocational and technical training for employees.

Allow for the Private Managment of Export Free Zones

It is recommended that the management of export free zones be undertaken by the private sector rather than the states, as proposed in the 1988 Industrial Policy Statement. This recommendation arises in response to company executives who have expressed skepticism of government management of export free zones, as well as the potential for greater effficiency with private sector management.

Remove Remaining Import Bans

Remaining prohibitions on imports should be removed to ensure the importation of production inputs. The import prohibitions have been very detrimental to the building-up of domestic industries, such as agro-processing and poultry. Bans on the importation of goods are inconsistent with the intention of the SAP to increase the productive efficiency of domestic industries. The lack of price and quality competition from imports erodes domestic producers' ability to compete in export markets and to reap the benefits of export earnings. The prohibitions on imports should be replaced by a rational system of tariffs.

Privatize and Commercialize Para-Statals

The major barrier for private investors in Nigeria is the absence of reliable public services, such as electricity, telecommunications and transportation. In response to the inefficiency in government provision and the substial drain on public expenditures, the government has proposed to privatize or commercialize 96 parastatals. Also, it announced its intent to issues shares in Nigerian Flour Mills and African Petroleum. In addition to these noteworthy measures, the government should allow the private sector to invest in those sectors, such as electricity, whose entry has to date been limited. Also, following the example set in Nigerian Airways and Nigerian Railways, tariffs should be increased gradually and staff levels streamlined.

The privatization and commercialization of public enterprises must be performed in conjunction with the development of competition among private firms in the provision of public services. While privatization is a sufficient condition for efficiency, competition is a necessary condition. Hence, both developments are required to meet the needs of private investors that rely on efficiently provided services. The issuance of shares in the capital market should be sequenced and paced given that the absorptive capacity of the capital markets is limited. Privatization should be vigorously pursued also because it can serve as an instrument to facilitate the potential for debt conversion programs which the government has begun to institute, and which have proceeded at a modest level. The success of debt conversion programs is contingent upon regulations pertaining to repatriation of dividends and capital gains.

Ensure Access to Credit by Private Investors

The liberalization of financial markets has offered greater opportunities for firms' access to credit, but market imperfections that remain need to be removed to enable small firms to have access to credit for investment and working capital. The process of lending, for example, could be facilitated with the establishment of a credit information system which would identify those companies whose financial status is in jeopardy. The legal system could be strengthened to allow creditors to collect on bad loans.

In the 1989 budget, the government altered credit policy targets whereby the government would be allowed a higher level of growth in credit while the private sector is being allowed a lower level of growth in credit, as compared to the prior year. The potential therefore exits for the government to crowd out private investors in the credit market. The efficacy of this provision should be carefully examined.

Remove Statutory and Defacto Barriers to Capital Market Development

The share price-setting function performed by the SEC constrains would-be issuers of shares since the price set may be below the share price determined optimal by the issuer. The elimination of this de facto practice would abolish a strong disincentive to raising equity funds. Also, institutional investors are discrimianted against vis a vis individual investors, since when shares are issued, preference is usually given to small investors before remaining shares are allocated to institutional investors.

Provisions affecting pension funds which have a detrimental effect on their activity in the equity market could be reconsidered and redressed. For example, they are prohibited from investing in companies that are not listed on the stock exchange, and they are required to invest at least 67 percent of their funds in government securities. These provisions <u>restrict the flow of fund balances into the capital market to finance investment in the economy.</u>

In Nigeria, as in many countries, there is a growing recognition of the need to release market forces to enable private investors to reinvigorate the national economies. The process is by necessity a gradual one. Yet governments must remain steadfast in their commitment to the development of their economies consistent with the reform measures taken thus far under the structural adjustment program. Any signals that indicate a waivering on the part of the government's commitment can send investors' plans into hiding and jeopardize progress made thus far. The prospects for Nigeria's growth are bright, given its natural and human resource base. The harnessing and mobilization of these resources with minimal intervention is critical to the country's success in getting back on the path of economic growth and raising the standard of living and prospects for its citizens.

Footnotes

1. Reform of the Nigerian System of Import Prohibitions, Technical Discussion Paper No. I.

2. J.M. Ovuorie, The Daily Times, October 18, 1988, p. 22.

3. The President, August 14, 1988, p. 6

4. Ibid., p. 6.

5. The Financial Times, July 29, 1987.

6. "Survey of 33 Manufacturing Enterprises," April 29, 1988, p. 9.

7. "The Climate for For Private Investment in Nigeria," Technical Discussion Paper No. III., June 1987.

8. See Papers by Nigerian Experts on Agricultural Subsectors, Fertilizer Supply, Agro-Industries/Food Processing, Poultry Industries.

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Annex 1

Import Prohibitions As of Janaury 1989

1. live or dead poultry, exclusind grand-parent and foundation stocks for research and multiplication; eggs in the shell
2. vegetables, including tomato puree and paste
3. processed wood
4. fruits, fresh or preserved; fruit juices
5. textile fabrics
6. domestic articles made of plastic, including babies' feeding bottles
7. Evian and similar waters, soft drinks and beverages
8. rice and rice products
9. maize and maize products
10. wheat and wheat products
11. all sparkling wines
12. vegetable oils
13. aluminum sulphate including alum
14. retreaded and used tyres
15. branched alkyl benzyne, bontonite and barytes

Source: Statement on the 1989 budget by Alhaji Abubakar Alhaji, Minister of State for Planning and Budget

Annex 2

These arrangements as indicated hereunder are embodied in Decree No. 25 of 1988.

Enterprises in which 100% of Equity held by The Federal Military Government shall be Fully Privatised

1. Nigeria Hotels Limited
2. Durbar Hotel Limited
3. Aba Textile Mills
4. Central Water Transportation Company Limited
5. National Cargo Handling Limited
6. Nigerian Dairies Company Limited
7. Nigerian National Fish Company Limited
8. Nigerian Food Company Limited
9. National Grains Production Company Limited
10. National Poultry Production Company Limited
11. National Root Crops Production Company Limited and other such food production companies
12. Nigerian National Shrimps Company Limited
13. New Nigerian Salt Company Limited
14. National Fruit Company Limited
15. National Salt Company Limited, Ijoko
16. Specomill Nigeria Limited
17. South-East Rumanian Wood Industry Limited, Calabar
18. Nigerian-Rumanian Wood Industry Limited, Ondo
19. Nigerian Yeast and Alcohol Company Limited, Bacita
20. Nigerian Film Corporation
21. National Freight Company Limited
22. National Animal Food Company Limited, Port Harcourt
23. Opobo Boat Yard
24. Madara Dairy Company Limited Vom
25. Ore/Irele Oil Palm Company Limited, Ondo
26. Okomu Oil Palm Company Limited, Bendel
27. National Livestock Production Limited
28. Road Construction Company of Nigeria Limited
29. National Film Distribution Company Limited
30. Nigerian Ranches Company Limited, Kaduna
31. Impressit Bakolori Nigeria Limited
32. North Breweries Limited, Kano
33. Nigerian Beverages Production Company Limited
34. West African Distilleries Limited
35. Nigeria Engineering Construction Company Limited
36. Tourist Company of Nigeria Limited (Owners of Federal Palace Hotels)
37. Electricity Meters Company Limited, Zaria
38. American International Insurance Company Limited
39. Guinea Insurance Company Limited
40. Sun Insurance Company Limited
41. United Nigeria Insurance Company Limited
42. United Nigeria Life Insurance Limited
43. Niger Insurance Company Limited
44. Mercury Assurance Company Limited

45. Crusader Insurance Con... ny Limited
46. Royal Exchange Compa... Limited
47. NEM Insurance Company Limited
48. Law Union and Rock Ins... nce Company Limited
49. Prestige Assurance Com... ny Limited
50. British American Insuran... Company Limited
51. West African Insurance P... incial Company Limited
52. Manchok Cattle Ranch
53. Mokwa Cattle Ranch
54. Poultry Production Units ... Jos, Ilorin and Kaduna
55. Kaduna Abattoir and Ka... Cold Meat Market
56. Bauchi Meat Factory and ... ambi Cattle Ranch
57. Minna Pig Farm
58. Kano Abattoir Company L... ited
59. Umuahia Pig Farm
60. Giant Cold Store, Kano
61. Ayip-Eku Oil Palm Compa... Limited
62. Ihechiowu Oil Palm Comp... y Limited
63. Sokoto Integrated Livesto... Company Limited
64. Motor Engineering Servic... Company Limited
65. Flour Mills of Nigeria Limi...
66. Nigerian Yeast Alcohol ... nufacturing Company Limited
67. Nichemtex Industries Limi...

Full Commercialisation

1. Nigerian National Petroleum Corporation.
2. Nigerian Telecommunication Limited (NITEL).
3. Association Ores Mining Company Limited.
4. Nigerian Mining Corporation.
5. Nigerian Coal Corporation.
6. National Insurance Corporation of Nigeria.
7. Nigeria Re-Insurance Corporation.
8. National Properties Limited.
9. Tafawa Balewa Square Management Committee
10. Nigerian Ports Authority.
11. African Re-Insurance Corporation.

Partial Commercialisation

1. Nigerian Railway Corporation.
2. Nigerian Airport Authority.
3. National Electric Power Authority
4. Nigerian Security Printing and Minting Compa... Limited
5. All the River Basins Development Authorities
6. National Provident Fund.
7. Ajaokuta Steel Company Limited.
8. Delta Steel Company Limited.
9. Nigerian Machine Tools Limited.
10. Federal Housing Authority.

11. Kainji Lake National Park.
12. Federal Radio Corporation.
13. Nigerian Television Authority.
14. News Agency of Nigeria.

Enterprises in which Equity held shall be Partially Privatised

Enterprises	Maximum Federal Government Participation as % of Equity after privatisation)
Commercial and Merchant Banks	
Savanah Bank of Nigerian Limited	51.34
Union Bank of Nigerian Limited	51.67
United Bank for Africa Limited	45.76
International Bank for West Africa Limited	50
Allied Bank Of Nigeria Limited	51
Continental Merchant Bank Limited	51
International Merchant Bank Limited	60
Nigeria Arab Bank Limited	60
Nigeria Merchant Bank Limited	60
First Bank of Nigeria Limited	44.8
NAL Merchant Bank Limited	20
Merchant Bank of Africa	5

Agricultural, Co-operative and Development Banks	
Federal Mortgage Bank of Nigeria	70% by the Federal Government and its agencies.
Nigerian Industrial Development Bank Limited	70% by the Federal Government and its agencies.
Nigerian Bank for Commerce and Industry Limited	70%
Federal Savings Bank	70% by the Federal Government and agencies
Oil Marketing Companies	
Unipetrol	40%
National Oil and Chemical Co. Limited	40%
African Petroleum Limited	40%
Steel Rolling Mills	
Jos Steel Rolling Mill	40%
Katsina Steel Rolling Mill	40%
Oshogbo Steel Rolling Mill	40%
Air and Sea Travel Companies	
Nigeria Airways Limited	40%
Nigeria National Shipping Line Limited	40%
Fertilizer Companies	
Nigerian Superhospate Fertilizer Company Limited	40%
National Fertilizer Company Limited	40%

Paper Mills

Nigerian National Paper Manufacturing Company Limited	40%
Nigeria News Print Manufacturing Company Limited	40%
Nigeria Paper Mills Limited	40%
Sugar Companies	
Savannah Sugar Company Limited	40%
Sunti Sugar Company Limited	40%
Lafiaji Sugar Company Limited	40%
Cement Companies	
Ashaka Cement Company Limited	30%
Benue Cement Company Limited	30%
Calabar Cement Company Limited	30%
Cement Company of Northern Nigeria Limited	30%
Nigeria Cement Company Limited, Nkalagu	10%
Motor Vehicles and Truck Assembly Companies	
Anambra Motor Manufacturing Company Limited	35%
Leyland Nigeria Limited	35%
Nigeria Truck Manufacturing Company Limited	35%
Peugeot Automobile of Nigeria Limited	35%
Volkswagen of Nigeria Limited	35%
Steyr Nigeria Limited	35%

Nigeria ① JT ③ ~~MH~~ (07/26)

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/07/26 DUE DATE : 00/00/00
LOG NUMBER : 890726023 FROM : MR. JAYCOX
SUBJECT : THE BANK'S APPROACH TO THE ECA CRITICISMS OF THE BRETTON WOODS INSTITUTIONS, AND STRUCTURAL ADJUSTMENT
OFFICE ASSIGNED TO FOR ACTION : ② MR. B. CONABLE (E-1227)

ACTION:

	APPROVED
✓	PLEASE HANDLE
✓	FOR YOUR INFORMATION
	FOR YOUR REVIEW AND RECOMMENDATION
	FOR THE FILES
	PLEASE DISCUSS WITH ________
	PLEASE PREPARE RESPONSE FOR ________ SIGNATURE
	AS WE DISCUSSED
	RETURN TO ④ CP

COMMENTS :

FORM NO. 709
(8—84)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: July 26, 1989

FROM THE REGIONAL VICE PRESIDENT

NAME	ROOM NO.
Mr. Conable, EXC	

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	COMMENT		PER OUR CONVERSATION
	FOR ACTION		PER YOUR REQUEST
	INFORMATION		PREPARE REPLY
	INITIAL		RECOMMENDATION
	NOTE AND FILE		SIGNATURE

REMARKS:

FROM: E.V.K. Jaycox

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 26, 1989

TO: Mr. Barber Conable

FROM: Edward V.K. Jaycox 7/26

EXTENSION: 34000

SUBJECT: **The Bank's Approach to the ECA Criticisms of the Bretton Woods Institutions, and Structural Adjustment**

1. Mr. Adedeji addressed the OAU Foreign Ministers in Addis Ababa and made strong criticisms of what he calls orthodox structural adjustment. He also campaigned hard for the OAU Heads of States to endorse the ECA Alternative to Adjustment document. I understand that there was no enthusiastic support for the ECA document, and in fact, the leader of the Nigerian delegation, Vice-Admiral A. Aikhomu made the following remarks to the Heads of States:

> "I want to make it clear that the Nigerian Government does not believe that there is an alternative to Structural Adjustment in our economic recovery efforts nor is there an African alternative proposed in AAF-SAP. The central argument of those who claim that there is an alternative or alternative framework to SAP is the need to anticipate and provide for the adverse effects of SAP, especially as they affect the most vulnerable groups in the society. That need to ameliorate the adverse effects of SAP does not, in itself, constitute an alternative to Structural Adjustment Programme. Indeed, Nigeria is already addressing the social consequences of the Structural Adjustment Programme as part of her continued fine-tuning of the programme. Admittedly, structural adjustment imposes a lot of difficulties on the citizens of a country. Notwithstanding the difficulties which countries experience in the structural adjustment process, our peoples must not be given the impression that there are magical alternatives to economic reform which is what SAP represents. To do so gives false hopes to the citizens, defeats the purposes of structural adjustment and undermines government efforts."

2. This does not, however, mean that the issue will fade away. Adedeji has announced that he intends to submit the ECA document for discussion at the Development Committee Meeting, and at the Bank/Fund Governors Caucus meeting during this year's Annual Meetings.

3. Our strategy for handling the ECA issue involves a number of inter-related actions. First, the Bank shall continue to take the high road and will not therefore engage in public response to the ECA criticisms. This is in accordance with our previous position prior to the May 10 meeting and subsequently endorsed by the Joint Statement. Second, the Africa Region will produce, in consultation with PPR an analytical commentary on the ECA document. This piece will be used only internally by the staff. Third, your speech to the African Governors at

the Annual Meetings will solicit the views of the African Governors on the ECA document--where they stand on the policy instruments recommended by the ECA. Fourth, the Country Directors of the Africa Region either directly or through their Resident Representatives will contact the Ministers of Finance/Planning of their respective countries and discuss the Bank position, and also find out their real stand on the ECA document.

4. The Long-Term Perspective Study (LTPS) on Africa will directly address some of the substantive issues that the ECA document has raised. It will also, where appropriate, make references to views of other institutions on the development effort in Africa. I propose that you will sign the Foreword to the LTPS, and its main message will be the need for consensus among donors and Africans on Africa's development challenges and the approaches to tackle them.

5. As you know the Bank is involved in the development process in Africa, while the ECA is more of an observer and commentator. Hence, we must avoid getting dragged into public exchanges with the ECA. We must not, however, remain passive. This means that we have to devise a strategy which diffuses the unnecessary crusade against structural adjustment and the Bretton Woods Institutions, but also enables us to continue to seek cooperation with the ECA and the other UN agencies as well as with the African regional institutions such as the African Development Bank.

cc: Ms. Haug, (o/r)
cc: Messrs. Shakow, Liebenthal

COUNTRY: <u>NIGERIA</u>

DELEGATION:
Mr. Chu S.P. Okungwu, Minister of Finance
Alhaji Abdulkadir Ahmed, Governor, Central Bank
Alhaji Abubakar Alhaji, Minister of State

<u>Friday 9/22 @ 4:00 p.m.</u>

BACKGROUND

- Government commitment to Structural Adjustment Program (SAP) remains firm but implementation continues to be difficult.
- Government tightened financial policies in mid-1988 which led to popular dissatisfaction.
- Recent measures to reduce liquidity are stalling recovery of economy.
- Political process has begun: Gubernatorial elections in 1990, presidential in 1992.
- Second tranche release of Trade & Investment Policy loan has been delayed.

POINTS TO BE MADE TO THE DELEGATION

<u>Keeping the Reform Program on Track</u> is the most important policy issue especially in the face of public unrest and criticism.

- The Bank can help to mobilize sufficient funding to accelerate growth.
- Can offer assistance to help mitigate social costs of adjustment.

<u>Project Implementation</u>: Reaffirm the highest priority of implementing recommendations of Special Presidential Task Force in order to realize discernible improvement in Nigeria's extremely poor implementation record.

- Affects Bank's ability to transfer substantial resources to Nigeria.
- Affect Nigeria's ability to attract concessional aid and international financial support.

<u>Population</u>: Stress the importance Bank attaches to the National Population Project in support of Government's new population policy.

- Solicit support of the economic management team for the initiative.

IF DELEGATION MENTIONS...

<u>Financial Support for the Reform Program</u>, need for a much broader effort and likely flows under IDA-9.

YOU MAY RESPOND that the Bank has already made Nigeria eligible for IDA and is organizing a Consultative Group meeting later this year. Also note:

- Important that the reform program be on track.
- Implementation of lending program must show major improvement.
- Regarding debt relief, Nigeria is a possible candidate for Brady Plan and Bank is studying various options for debt reduction or new money.

<u>Bank Involvement in Public Investment Program</u>

YOU MAY STATE our belief in importance of identifying investment priorities through special studies (which we have offered to finance).

- Need to reach agreement on restructuring plan for the steel subsector (this has delayed release of second tranche of trade and investment policy loan).
- Desirability of greater Bank involvement in the National Petroleum Company's investment program.

FY89 Commitments	: $1,184.60 million	**GDP Growth:** 4.4% (1989); 2.0% (84-88)
Disbursements	: $ 401.47 million	**Lending Program (FY90-91):** $2,056.10 m.
Amortization	: $ 207.65 million	

1989 ANNUAL MEETING BRIEF 1/

Name of Country: Nigeria   Date: September 19, 1989

Meeting with: Minister of State and Special Advisor to the President, Alhaji Abubakar Alhaji
Minister of Finance and Economic Development, Chu S.P. Okongwu
Governor of the Central Bank of Nigeria, Alhaji Abdulkadir Ahmed
Director General, Federal Ministry of Finance and Economic Development, Alhaji Aliyu Mohammed

Population: 103.1 (1986)   Estimated Population Growth Rate: 3.4% (1986)
GNP per capita: US$370 (1987)

	(US$ million)		(US$ million)
Total Commitments to date: (July 30)	5,073.97	FY89 Commitments:	1,184.60
of which:		Disbursements:	401.47
Bank	73 = 4,933.22	Amortization:	207.65
IDA	3 = 140.75*	Commitments from Special Facility:	N.A.
Total Undisbursed:	2,017.19		
Lending Program: FY90-91	1,811.10	Commitments from Special Program Assistance:	N.A.

* Including 2 credits which closed prior to 1980

Summary Data	Average 1984-88 (Estimated) (%)	1989 (Projected) (%)	
GDP growth	2.0	4.4	Aid Group Meeting: Informal
Export growth (Constant $)	0.1	3.0	Meetings: Jan. and Sept. 1989.
Import growth	-20.5	5.4	IMF
Current Account Deficit % GDP	0.8	1.9	Article IV: Board reviewed
Gross Debt Service Ratio	23.5	33.8	stand-by arrangement on
Annual Inflation Rate	15.9	35.0	September 11.

Background: The Government of Nigeria has sustained its commitment to the process of structural reform and to maintaining ties with the international financial communities. This has become increasingly difficult in the face of continued austerity, rising food prices, and public demonstrations in urban areas. Four broad areas of concern emerge: (i) to improve the implementation of the structural adjustment program and to address immediate problems related to inflation; (ii) to increase concessional aid and to take new initiatives to reduce the debt burden; (iii) to pursue public expenditure reform; and (iv) to mitigate some of the distributional effects of adjustment.

Issues Likely to be Raised by Delegation
(1) Financial support for the reform program
(2) Bank involvement in public investment program

Issues to be Raised by Bank Management
(1) Implementation
(2) Population
(3) Environment

Attachments
(1) Lending program
(2) Biographical information
(3) Capital subscription status

1/ A supplemental brief will be issued just prior to the meeting to reflect more recent developments.

BACKGROUND

1. The Government's commitment to the Structural Adjustment Program (SAP) remains firm but the implementation of the program continues to be difficult. Following a period of expansionary policies in the beginning of 1988, the Government took action in mid 1988 to tighten financial policies. These were not sufficient to absorb the liquidity overhang, and inflation accelerated sharply at the beginning of 1989. This added to popular dissatisfaction with the program and contributed to widening the gap between the official and parallel market exchange rates. Recent measures to reduce liquidity have narrowed the gap, but are stalling the recovery of the real economy. Meanwhile, the political process has begun, in the run-up to gubernatorial elections scheduled for 1990 and the presidential election scheduled for 1992. The popularity of the adjustment program must be firmly established if the reforms are to survive the return to civilian rule. This will require the consolidation of the gains made so far under the SAP, with special emphasis on growth with equity.

2. It will also require substantial external support. Nigeria was declared eligible for IDA in December 1988. The first formal Consultative Group meeting is scheduled for November; preliminary meetings were held in January and September. The IMF Board recently concluded its first review of the current stand-by arrangement which runs through next April. A second rescheduling agreement with the Paris Club was negotiated in early March of this year; bilateral agreements have been signed with Germany, France, and Britain. The London Club multi-year rescheduling agreement was signed in April and became effective in June. Nigeria is a prime candidate for debt reduction through buy back of commercial bank debt. Following the CG, we intend, with the Fund, to press the banks for burden sharing, emphasizing that large transfers to the banks cannot continue. President Babangida is visiting the US in January and it would be timely to move ahead with a Brady Plan for Nigeria.

ISSUES LIKELY TO BE RAISED BY THE DELEGATION

1. Financial Support for the Reform Program. The delegation is likely to argue that they see the Bank's support as being an important step in addressing Nigeria's resource needs but that a much broader effort is required if the consolidation of Nigeria's adjustment program is to be adequately funded. They may specifically ask about likely flows under IDA-9. You may wish to respond that the Bank understands the importance of increased support, particularly concessional aid. The Bank has already declared Nigeria eligible for IDA and work is well underway towards convening the first Consultative Group meeting for Nigeria later this year. However, two considerations are very important in this regard. First, in order for these efforts to be successful, the reform program must be soundly on track; and second, implementation of the Bank's lending program must show significant improvement, and this improved performance must also be applied to assistance programs of other donors. In the area of debt relief, you may wish to say that Nigeria is a possible candidate for assistance under the Brady Plan -- assuming that economic performance can be maintained. The Bank is studying various options on how it could assist in a debt reduction scheme and would support Nigeria's efforts to secure additional new money and more relief from the commercial banks.

2. Bank Involvement in Public Investment Program. In the context of the Bank's annual public expenditure reviews, we have been working closely with the government on the country's overall investment program. For selective major public investments, the Bank has offered to assist in financing special studies for use by the government to help work through complex project issues and costing. A major study of Nigeria's steel sector is providing the basis for developing a restructuring plan. Agreement on this plan is the major outstanding condition for the second tranche release of US$250 million from the Trade and Investment Policy Loan approved by the Board in December 1988. The completion of the Ajaokuta Steel Complex as planned would make a large incremental claim on the government's budget, with small if not negative returns to the economy. Over US$3 billion has already been spent on this one million ton steel complex of Russian design and equipment and European works. Nearly US$2 billion will be required for completion including essential railroad and ports infrastructure. An existing one million ton mill on the coast (Delta) is operating well below capacity because it needs working capital and spare parts. Our approach is to minimize expenditures for the Ajaokuta complex and maximize expenditures at Delta. This approach has been broadly accepted by the Nigerians, and we will seek at the annual meetings to complete the discussions. We should assure the delegation that our interest is to promote an efficient and growing steel industry in Nigeria, not to discourage its development; and that we are very encouraged by the enormous progress that has been made in our discussions.

ISSUES TO BE RAISED BY BANK MANAGEMENT

1. Implementation. The most pervasive problem in Nigeria's development program is the difficulties related to implementation: the implementation of the economic reform program and of the Bank's lending program, and the impact this issue has on efforts to mobilize and use support from other donors. With regard to economic management, the government should be applauded for its recent success in macroeconomic management, despite difficult circumstances. However, this effort requires constant attention, and it will be essential to maintain fiscal and monetary stability, to permit market clearing exchange rates and interest rates, to continue to improve the efficiency of public investment with focus on infrastructure and human resources, to continue to improve the regulatory environment for the private sector, and to continue moving towards lower and more uniform tariff protection.

2. In order to help the government develop stronger public support for its reform program, you may wish to offer more concerted Bank assistance to help find ways in the near term to develop programs that will mitigate the social costs of adjustment. We are already assisting through our current projects - for example, by financing essential drugs, job creation through support for small and medium scale enterprises, and a highway sector loan to help reduce transport costs and that will generate over 35,000 full time jobs, in addition to considerable indirect employment. We have also offered to explore other relief efforts, such as improved urban transport and school feeding programs.

3. With regard to the Bank program, Nigeria has one of the poorest processing and implementation performance records in the Bank. You may wish to congratulate them on the measures adopted from the Special Presidential Task Force last year, that provides for a substantial increase in operational staff in the Ministry of Finance that are responsible for the Bank program and new procedures within Government that will help expedite the processing of Bank projects. There is also evidence of stronger

leadership and a greater will to address implementation problems; with government's support we have in the last few months already had several meetings to review the status of performance targets and discuss implementation problems. But we need to reaffirm the absolute high priority that must be given to improve performance, which will take considerable time and continued effort on both sides. The Bank's ability to continue to transfer substantial resources to Nigeria, as well as Nigeria's ability to attract concessional aid and support from the international financial community, will depend on significant improvements in project implementation.

4. At the recent informal donor's meeting in London (September 15), a number of donors expressed serious concern over Nigeria's ability to implement external aid programs. This concern must be fully addressed at the proposed CG meeting in November, in order to assure donors that their assistance will be used within a reasonable time period and used effectively.

5. Population. The rate of growth of population is estimated at 3.4 per cent per annum. Even if Nigeria's near term problems can be weathered, this will pose a threat to the sustainability of growth in per capita incomes over the medium- to long-term. We should congratulate the Government on their recently launched National Population Policy; it is comprehensive and well-balanced. The Bank is preparing a National Population Project to support implementation of the policy. You should stress the importance that the Bank attaches to population. The implementation of the government program must be given the highest priority, including the decisions and preparation actions related to the proposed Bank project. We would urge the government's economic management team to support strongly these efforts, given the very critical long-term economic implications of population.

6. Environment. Finally, we recommend that you point out the close relationship of environmental issues to the population problem, and indicate the great importance for Nigeria to begin to address its environmental problems. We are already working with the Government on several critical environmental sector problems, such as desertification, soil degradation and afforestation. However, we both need to do much more. We would like to start working with the Government to develop a comprehensive environmental program. This effort will need strong Government institutional support. This has not yet been provided or articulated, not at the federal nor at the state level, and you might ask the delegation what the government is planning and whether Bank technical assistance would be helpful.

NIGERIA - PROPOSED LENDING PROGRAM FY90-94
(US$ million)

FY90		FY91		FY92		FY93		FY94	
Adjust Ln (BFPL)	500.0	Adjust Ln (Fert)	250.0	Adjust Ln (Environ)	250.0	Adjust Ln (Fin Sect)	350.0	s Adjust Ln (Pop)	350.0
National Seed	17.0	Agric. research	50.0	h Agric (small irrig.)	75.0	s Agric Devt Fund	60.0	h Forestry III	100.0
Tree crops	106.0	s Health system fund	70.0	h Primary education	100.0	Health (PHN IV)	100.0	Educ (Tech/Second)	100.0
Education univ devt	100.0	s National population	50.0	s Water Rehab	160.0	s Lagos Infrastructure	200.0	Power IX	100.0
Nat essential drugs	68.1	Roads (State)	130.0	Multi-state water /a	165.0	s Rural Inf (Roads)	100.0	Telecoms II	100.0
Power Maintenance	70.0	s Telecommunication	200.0	s Power VIII	100.0	s Railways	150.0	Highway Sector II	250.0
Oyo urban	50.0	s Oso condensate	150.0	National Ext	50.0	Livestock Serv	75.0	Rural Inf (Water)	100.0
Total	911.1	Total	900.0	Total	900.0	Total	1035.0	Total	1100.0
No. of projects	7	No. of projects	7	No. of projects	7	No. of projects	7	No. of projects	7
		RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM	
		Ind training fund	10.0	Exp. Promotion TA	100.0	Multi-state water II	250.0	Educ/Health (IEC)	75.0
				Public Sect/Ent	50.0			IDF II	100.0

s = Standby project
/a Covering Cross River, Anambra, Imo and Katsina.
h = Hybrid

Biographical Information

Alhaji Abubakar Alhaji
Minister of State for Budget and Planning, Nigeria
Executive Director, MIGA

Alhaji Abubakar Alhaji has been designated head of the Nigerian delegation to the annual meetings. He was appointed Minister of State in June 1988, to be in charge of budget and planning, and to act as a special advisor to the President. He led the Nigerian delegation in the London Club negotiations in August 1988 and in the Paris Club negotiations in March 1989. He has taken the lead in the recent policy discussions with the Bank and the IMF.

Prior to this appointment, Alhaji Abubakar served as Permanent Secretary of the Federal Ministry of National Planning from October 1984, after having been Permanent Secretary of the Federal Ministry of Finance for five years.

Alhaji Abubakar is a career civil servant and served as Permanent Secretary with the Federal Ministry of Trade (1975-78) and with the Federal Ministry of Industries (1978-79). He is from a prominent northern Nigerian family and related to the previous Head of State, General Buhari.

Alhaji Abubakar has been very closely associated with and supportive of the Bank since the early 1970s. He was elected Executive Director of MIGA in June (representing, in addition to Nigeria, Cote d'Ivoire, Ghana, Lesotho, Madagascar, Malawi, Senegal, Togo, and Zambia.

Dr. S. P. Okongwu
Minister, Federal Ministry of Finance and Economic Development, Nigeria

Dr. Okongwu was appointed Minister of Finance and Economic Development in January 1986, after serving as Minister for the Federal Ministry of National Planning when the new Government took power in August 1985. His Ministry was later expanded to include planning, but in the most recent reorganization, the Ministry's budget and planning functions were transferred to the office of Alhaji Abubakar Alhaji, the Minister of State, leaving Dr. Okongwu limited responsibility for finance and economic development.

Prior to 1985, Dr. Okongwu was head of Multivar Systems, a consulting firm which provided advisory services in the areas of quantitative analysis of agricultural and industrial policy, a position which he had held since 1975. Prior to that, he was Controller of Planning and Permanent Secretary of the Ministry of Economic Development and Reconstruction in the East-Central State.

Dr. Okongwu was also a lecturer at the Economic Development Institute at the University of Nigeria, Enugu Campus in Anambra State, and was Associate Professor of Economics at the State University of New York at Albany. Dr. Okongwu received a Ph.D. from Harvard University in 1965.

Alhaji Abdulkadir Ahmed
Governor, Central Bank of Nigeria

Alhaji Ahmed has served as Governor of Nigeria's Central Bank since May 1982. During this period he has represented the Government in international financial negotiations. He plays a key role in the current discussions with the London and Paris Clubs.

After graduating from Barewa College in Zaria in 1959, Alhaji Ahmed worked for the New Nigerian Development Company Limited. He also attended the University of Ife and later studied in England where he earned a diploma in commercial accounting. He served for two years as commissioner for Finance and Economic Development in his home state, Bauchi. Before heading the Central Bank, he served as its Deputy Governor from 1977 to 1982.

Alhaji Ahmed is a Hausa from northern Nigeria and a Muslim. He is married, with four children. He is an associate member of the Association of Certified Accountants.

Alhaji Aliyu Mohammed
Director General, Federal Ministry of Finance and Economic Development
Nigeria

Alhaji Aliyu Mohammed was appointed as Director General early this year. Prior to this appointment, he has served as Permanent Secretary (before the position was retitled as Director General) in a number of Federal Ministries: Transport (1979); Education, Science and Technology (1984-1986); Petroleum and Energy Resources, (1986); Mines, Power and Steel (1986-1989).

Attachment 3

IBRD CAPITAL SUBSCRIPTION STATUS - BY COUNTRY

(AS OF JULY 31, 1989)

RESOLUTION			SHARES ALLOCATED				AMOUNTS TO BE PAID IN FOR UNSUBSCRIBED SHARES		NATIONAL CURRENCY UNRELEASED FOR SHARES SUBSCRIBED
		TOTAL	SUBSCRIBED		UNSUBSCRIBED		PAYABLE IN US $ A/	PAYABLE IN LOCAL CURRENCY	
NO.	ADOPTED		NO.	$ MILLION	NO.	$ MILLION	($ THOUS.)	($ THOUS.)	$ MIL EQ A/
NIGERIA									
145	60/09/27	667	667	80.46	0	.00	.00	.00	
218	65/04/30	400	400	48.25	0	.00	.00	.00	
258	70/07/31	85	85	10.25	0	.00	.00	.00	
314	77/02/09	1789	1789	215.82	0	.00	.00	.00	
346	80/01/04	2753	2753	332.11	0	.00	.00	.00	
347	80/01/04	250	250	30.16	0	.00	.00	.00	
395	84/08/30	822	822	99.16	0	.00	.00	.00	
424	88/02/03	235	235	28.35	0	.00	.00	.00	
424A	88/02/03	101	101	12.18	0	.00	.00	.00	
425	88/04/27	5553	0	.00	5553	669.89	2,009.66	18,086.93	
TOTAL		12655	7102	856.75	5553	669.89	2,009.66	18,086.93	0.7

A/ AS OF JUNE 30, 1989.

X

April 5, 1989

Dear Sir:

I have learned of your appointment as Alternate Governor for Nigeria on the Board of Governors of The World Bank. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position actively to participate in the affairs of the Bank, as well.

The Executive Directors, Officers and Staff of The World Bank believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Alhaji Aliyu Mohammed
Director General
Federal Ministry of Finance
Private Mail Bag No. 12591
New Secretariat, Ikoyi Island
Lagos, Nigeria

cc: Mr. Funna
Mr. Koch-Weser
Mr. Alizai

ETSanidad:jlk

4-001
4-3-89

89 APR -3 AM 9:56

WORLDBANK TMSS

ZCZC FIVP0052 RCA7817
FINSV SECGE EDS14
.TCP FCA
****
* FINSV *
****

RCA7817
248423 WORLDBANK

FROM: FEDERAL MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT,
FEDERAL SECRETARIAT,
IKOYI - LAGOS.

TO: THE VICE PRESIDENT,
WORLD BANK,
WASHINGTON D C.
U S A.

DIRECTED TO INFORM YOU THAT ALHAJI ALIYU MOHAMMED RECENTLY SUCCEEDED MR U K BELLO AS DIRECTOR-GENERAL, FEDERAL MINISTRY OF FINANCE AND AS SUCH ALHAJI ALIYU MOHAMMED IS NOW THE ALTERNATE GOVERNOR FOR NIGERIA AT THE WORLD BANK.

KINDEST REGARDS.

A S ARIKAWE,
FOR: HON. MINISTER OF FINANCE AND ECON. DEV.

31ST MARCH, 1989

DISTRIBUTION

TO- Executive Director
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

X

April 5, 1989

Dear Mr. Secretary General:

I have learned of your appointment as Alternate Governor for the Sultanate of Oman on the Boards of Governors of The World Bank and MIGA. I realize this is incident to your responsibilities in your own Government, but I hope you will be in a position actively to participate in the affairs of the Bank and MIGA, as well.

The Executive Directors, Officers and Staff of The World Bank and MIGA believe very strongly in its development mission and in the battle against poverty. We look forward to working with you to make the Bank and MIGA even more effective during the coming years. Congratulations on your appointment and thank you for your willingness to take on this additional responsibility.

I look forward to meeting you in the near future, and send my best personal wishes.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

His Excellency
Mohammed Bin Musa Al Yousef
Secretary General
Development Council
P. O. Box 881
Muscat, Sultanate of Oman

cc: Mr. Al-Sultan
Mr. Stoutjesdijk
Mr. Gustafson

ETSanidad:jlk

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DISTRIBUTION

TO- Executive Director
Country Director, Bank
Investments Director, IFC
File Credential

FROM - E. T. Sanidad
SECRETARY'S DEPARTMENT

WUI860
55578 MALIYA ON

EPMEMIO SR NBR 1510/89

TO : MR. T. T. THAHANE
SECRETARY
MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)
U.S.A.

89 MAR 30 AM 7:34
AND SECRETARY

C.C. H.E. MOHAMMED BIN MUSA AL YOUSEF
SECRETARY GENERAL OF THE DEVELOPMENT COUNCIL
MUSCAT

FROM : MINISTRY OF FINANCE / ECONOMY, MUSCAT.
===

SUB : DESIGNATION OF GOVERNOR AND ALTERNATE GOVERNOR OF
MIGA FOR OMAN AND AMENDMENT TO ALTERNATE GOVERNOR
IN WORLD BANK, IDA AND IFC.
==

REFERENCE YOUR TELEX OF 9TH MARCH 1989 PLEASE BE INFORMED
THAT THE FOLLOWING PERSONS SHALL REPRESENT THE SULTANATE
OF OMAN IN MIGA :

H.E. QAIS BIN ABDUL MUNIM AL ZAWAWI
DEPUTY PRIME MINISTER FOR FINANCIAL
AND ECONOMIC AFFAIRS : AS GOVERNOR

H.E. MOHAMMED BIN MUSA AL YOUSEF
SECRETARY GENERAL OF THE DEVELOPMENT
COUNCIL : AS ALTERNATE GOVERNOR

WE WOULD ALSO REQUEST YOU TO AMEND YOUR RECORDS IN THE WORLD
BANK, I.D.A. AND IFC TO

AMEND AND INCLUDE AS ALTERNATE GOVERNOR IN THE RESPECTIVE
ORGANISATIONS H.E. MOHAMMED BIN MUSA AL YOUSEF SECRETARY
GENERAL OF THE DEVELOPMENT COUNCIL IN PLACE OF DR. SHERIF
LOFTY.

H.E. MOHAMMED BIN MUSA AL YOUSEF IS THE NEWLY APPOINTED
SECRETARY GENERAL OF THE DEVELOPMENT COUNCIL.

BEST REGARDS

QAIS BIN ABDUL MUNIM AL ZAWAWI
DEPUTY PRIME MINISTER FOR
FINANCIAL AND ECONOMIC AFFAIRS.
30.3.1989

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

CORRESPONDENCE DATE : 89/01/26 DUE DATE : 00/00/00
LOG NUMBER : 890126008 FROM : Mr. Koch-Weser
SUBJECT : BRIEFING: Nigeria - talking points for meeting with Minister of State for Planning & Budgeting, Mr. Alhaji on Jan. 27 at 10:30 am
OFFICE ASSIGNED TO FOR ACTION : Mr. B. Conable (E-1227)

ACTION:

_________ APPROVED
_________ PLEASE HANDLE
_________ FOR YOUR INFORMATION
_________ FOR YOUR REVIEW AND RECOMMENDATION
_________ FOR THE FILES
_________ PLEASE DISCUSS WITH _______________
_________ PLEASE PREPARE RESPONSE FOR _________ SIGNATURE
_________ AS WE DISCUSSED
_________ RETURN TO _______________

COMMENTS :cc: Mrs. Haug, JV (follow file)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: January 26, 1989

TO: Mr. Barber B. Conable, EXC
Through: Mr. Heinz Vergin, Acting Senior Vice President, Operations
FROM: Caio Koch-Weser, Acting Vice President, Africa Region CKW

EXTENSION: 34850

SUBJECT: NIGERIA -- Talking Points for Meeting with Minister of State for Planning and Budget, Alhaji Abubakar Alhaji, on January 27, 1988 at 10:30 a.m.

1. You may want to take this opportunity to congratulate the Minister, who is in Washington for MIGA, on the Nigeria program and his key role in shaping it. You could tell him about the very favorable comments made by the Board during the recent discussions of the US$500 million Trade and Investment Policy Loan. You may also want to congratulate him on his fine performance at the January 9 donors' meeting in London, which set the stage for a Consultative Group meeting later this year. You could point to the IMF Board meeting scheduled for February 3 and the Paris Club meeting scheduled for later in the month of February as the final links in the chain of events in securing international support for the 1989 program.

2. You may wish to ask the Minister about the public's acceptance of the 1989 budget. (How have Nigerians reacted to the very sharp depreciation of the exchange rate -- from an average of ₦4.5 = US$1 in 1988 to almost ₦7 = US$1 this month -- and the steep rise in petrol prices?) This will be important for sustaining political support for the program.

3. Finally, you may want to discuss implementation of internationally assisted projects and how important this will be for mobilizing strong support from other Consultative Group members. Implementation has become a serious concern of the Bank, as we now have projects totalling over US$800 million that have been negotiated but are not yet effective. President Babangida has approved the comprehensive list of recommendations made by the Task Force on Implementation that was created last year. But it is critical that action is now taken to implement these measures so we can start seeing progress in reducing processing delays and accelerating disbursements.

JSalop/om

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

①~~BBC~~
② MF-file
(MH has copy)

DATE: January 31, 1989

TO: Files

FROM: Joanne Salop, AF4CO

EXTENSION: 34869

SUBJECT: NIGERIA -- Minute of the Meeting between Mr. Conable and Minister of State, Alhaji Abubakar Alahaji

1. The above meeting took place at 10:30 a.m. January 27, 1989, in Mr. Conable's office. Also present were His Excellency Hamzat Ahmadu, Ambassador of Nigeria, Mr. Koch-Weser, and myself.

2. The meeting began with Mr. Conable's congratulating the Minister on the Nigeria program and the Minister's key role in its formulation and continuation. He told the Minister of the very favorable response from the Board to the US$500 million Trade and Investment Policy Loan when it was presented in December. Mr. Conable also commented favorably on the successful donors' meeting that was held in London in early January and the plans for the Consultative Group meeting in October.

3. Mr. Conable stressed that the focus was now on implementation -- both on the policy side and on the project side. He pointed to large balances of loans from the Bank. Some loans had not been declared effective many months after they were negotiated. Other loans disbursed slowly because of delays in project implementation. He suggested that without effective project implementation, donors would become cynical and the concessional aid initiative would not succeed.

4. The Minister stressed that the government intended to implement the program. He personally had seen to it that the policy measures agreed with the Bank and the Fund were included in the 1989 budget. And President Babangida, one week after the promulgation of the budget, had called a meeting of the Armed Forces Ruling Council, state governors, and the Cabinet to indicate that they should begin implementation of all the new measures within the month. Steps had also been taken to implement the recommendations of the recent presidential task force on project implementation.

5. The Minister highlighted one issue in the budget that the intellectuals in Nigeria had attacked, viz., the large provision for debt service. Indeed, out of US$6.7 billion in projected foreign exchange receipts, US$2 billion was targetted for debt service. He pointed to the importance of debt relief not just for Nigeria but for other developing countries. The Minister said that the Bank should take lead in promoting that relief -- both debt reductions and reschedulings -- for countries that had taken the necessary adjustment measures.

6. There was also a discussion of IDA. Mr. Conable suggested that Nigeria's eligibility for IDA in FY89 and FY90 did not guarantee further commitments for the future. He said that the Bank had declared Nigeria IDA-eligible largely to trigger inflows of concessional funds. He stressed that IDA-eligibility was predicated on economic performance as well as poverty. The Minister noted that in terms of per capita income, Nigeria was as poor as other IDA recipients. He stated that Nigeria was "competitive" on performance and suggested that it was inappropriate for the Bank to be making IDA funds differentially available to poor people, depending on whether they lived in small or large countries.

7. In closing, Mr. Conable reaffirmed the Bank's commitment to Africa and Nigeria. He indicated that as measured by the proportion of the population living in absolute poverty, Africa was the poorest of the Bank's four regional groupings. Moreover, the greatest development challenge was in Africa. But, he stressed, without Nigeria, the Bank's strategy in Africa made little sense. He explained that for the long run, the Bank was concerned about Nigeria's very rapid population growth. Without a reduction, increases in overall income would be spread very thinly over the growing population. Hence the population issue should have high priority. The Minister agreed. Indeed, in his view, the three issues that the Bank should focus on were increasing the flow of resources, the debt problem, and population.

Cleared with and cc: Mr. Koch-Weser.
cc: Messrs./Ms. Conable, Haug, Qureshi, Jaycox (o/r), Barrientos, Squire, Adams, Aiyer, de Merode, Pellegrini, Seth, Husain, Swayze.

JSalop/om

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: September 22, 1988

TO: Mr. Moeen Qureshi, SVPOP

FROM: Caio Koch-Weser, Director AF4

EXTENSION: 34858

SUBJECT: NIGERIA: Annual Meeting Update

1. I attach a short note on recent developments in the Nigerians' negotiations with the Paris and London Clubs. A revised cash flow is appended to that note, based on lower oil prices assumptions than previously and assuming full Paris Club rescheduling of interest on previously rescheduled debt.

2. I also attach a revised brief for Mr. Conable's meeting with the Nigerian delegation. It reflects the results of Mr. Jaycox's recent visit to Nigeria.

Attachments

September 22, 1988

NIGERIA: FINANCING PACKAGE UPDATE

1. A Nigerian delegation headed by Minister of State Alhaji Abubakar Alhaji was in Europe September 18-22 to discuss the 1988-89 financing package with the Paris and London Clubs.

2. The delegation met with the Paris Club Secretariat (Mr. La Jeunesse) on September 19. Peter Mountfield (U.K. Treasury) and Messers. Jimenez and Johnson (IMF) were also present. At the meeting, the Nigerians indicated the need for a rescheduling of interest on previously rescheduled debt (PRD) on top of conventional rescheduling terms, in order to close the 1988-89 financing gap. The French and U.K. representatives indicated that they could not speak for other countries, but that something along those lines should be possible -- if indeed the numbers were to confirm the need for such rescheduling terms. However, they cautioned that full 100 percent rescheduling of interest on PRD might not be possible. They also pointed to a potential problem with comparability of treatment among Paris Club creditors, with respect to a possible rescheduling of the estimated US$150 million in arrears outstanding from the 1986 rescheduling. They stressed that Nigeria would not be eligible for Toronto terms, adding that the Paris Club would not go beyond maturities in 1988-89, even though the recent London Club rescheduling proposal included scheduled amortization beyond 1989. The French and U.K. representatives emphasized the need for a drawing from the Fund. However, the Fund representatives indicated that if there were to be a Fund drawing, the resources would need to be earmarked for reserves, hence they did not constitute an independent financing source.

3. On September 20, Mr. Jimenez briefed the full Paris Club on the Nigeria foreign exchange situation and progress in implementing the program. He stressed the need for rescheduling interest on PRD for closing the foreign exchange gap. He also indicated that there had been considerable progress in reconciling claims and signing the bilaterals under the 1986 Paris Club Agreement. While no commitments were made, the sense of the meeting was that the Paris Club would consider a Nigerian request for such rescheduling terms, assuming that a strong program was in place. The French and U.K. representatives reported on their September 19 meeting with the Nigerian delegation, noting that the message had been passed that Nigeria should not press for Toronto terms. They also expressed the view that the London Club proposal was favorable and that it would be fruitless to press further for new money from the banks. No opposition to the commercial bank rescheduling proposal was expressed.

4. The Nigerian delegation is meeting September 21-22 with the Steering Committee of the London Club commercial banks. Based on their reading that the absence of new money will not be an impediment in their negotiations with the Paris Club, the Nigerians hope to finalize the London

Club deal on September 22, permitting a full term sheet to be telexed to creditor banks before Berlin.

5. The attached cash flow assumes 100 percent rescheduling of interest on Paris Club PRD and arrears from the 1986 agreement. It also assumes inflows of quick disbursing funds from the African Development Bank. On this basis, foreign exchange market (FEM) funding of US$120 million per fortnight can be sustained at an oil price of US$15 per barrel. The projected reserve build-up is very small, based on the assumption that a Fund drawing could fill the gap in the event of a shortfall on oil revenues. If the Paris Club would reschedule only 90 percent of interest on PRD and none of the arrears from 1986, the unfilled gap would total some US$250 million. This implies three points that should be stressed with the Nigerians:

(a) they need to be flexible in their FEM funding in the face of the uncertainty surrounding oil revenues;

(b) they should prepare the way domestically for a Fund drawing -- regular resources, SAF, or ESAF -- to finance a shortfall in oil earnings or foreign financing; and

(c) they need to take urgent action to mobilize quick disbursing funds from the African Development Bank.

(Notes:Package)
JKSalop/om

5/15

Scenario II

NIGERIA: CBN FOREIGN EXCHANGE CASH FLOW 1987-89

(Millions of US Dollars)

	ACTUAL 1987	HALF-YEAR ACTUAL 1988	PROJECTED 1988	PROJECTED 1989
Sources:	4940	2706	5650	5600
CBN Oil Receipts a/ (Net of Cash Calls)	4487	2666	5000	4500
Other Public Sector Receipts	191	71	100	150
Interbank Purchases	59	69	100	100
External Borrowing (Cash)	203	-100	450	850
IBRD	203	--	250	500
African Development Bank	--	--	100	150
Japanese Cofinancing	--	--	200	200
London Club	--	--	--	--
Short-Term b/	--	-100	-100	--
Requirements:	2616	1172	2568	2480
Reserve Accumulation (Residual)	-491	14	110	209
Public Sector LC's and Other Uses	1176	196	420	320
Central Bank Letters of Credit	448	167	350	250
Contingencies	110	18	50	50
Public Sector Uses	493	5	--	--
Int'l Organizations and Embassies	125	9	20	20
Debt Service	1931	962	2038	1951
IBRD	327	225	500	498
Pro Notes	--	61	184	245
London Club c/	311	275	613	629
Paris Club d/	529	52	157	388
Other Official	143	--	30	56
Pre-SFEM Pmnts/Arrears Carryover e/	621	349	554	100
Interest on Dedication Acct Resched f/	--	--	0	35
Available for Auctions:	2325	1534	3082	3120
Purchased to Date (9/15/88)	2325	1534	2242	--
Available for Remaining Auctions	--	--	840	--
Average Auction Size To Date g/	89	118	118	--
Average Auction Size Remaining	--	--	120	120
Memo Items:				
Merchandise Imports	5774	--	5667	5982
Oil Price (US$ per Barrel)	17.83	--	15.94	15.21

a/ For 1987, nets out US$409 million in direct oil revenue allocations for dedication accounts. Including these amounts, total receipts, net of cash calls, were US$4,896 million. The 1988 and 1989 cash flows assume that none of the foreign exchange receipts from condensate exports pass to CBN.

b/ Withdrawal of Standard Chartered line of credit.

c/ Current interest on LCs and MLT plus payments on "payable debt" totaling US$122 million in 1988 and US$120 million in 1989.

d/ Assumes re-rescheduling of Letters of Credit in 1988 and 1989. Also assumes rescheduling of: all current maturities on MLT and scheduled interest; US$150 million in arrears from 1986-87 agreement; US$567 million in moratorium interest due in 1988 from 1986 rescheduling; and US$554 million in moratorium interest due in 1989 from 1986 rescheduling. Treats payments into Bank of England Special Account as if they were made to creditors at time of deposit.

e/ In 1988: US$366 million in private sector payments; US$151 million in public sector arrears; plus US$37 million in late interest to the London Club. In 1989: Pre-SFEM private sector debt service of US$100 million.

f/ Assumes rescheduling of US$355 million of arrears and US$26 million in accrued late interest on dedication account projects.

g/ For 1987, total funding is divided by 26 for comparison with 1988 and 89 figures.

(Revised)

1988 ANNUAL MEETINGS BRIEF

Name of Country: Nigeria Date: September 22, 1988

Meeting with: Mr. Alhaji Abubakar Alhaji, Minister of State, Nigeria

Population: 103.1 m (1986) Estimated Annual Growth Rate: 3.3% (1986-2000)
GNP per capita: $370 (1987)

	($m)
Total Commitments (by 6/30/88)	3,884.6
of which:	
Bank 67 Operations	3,849.3
IDA 2 Operations	35.3
Total Undisbursed (as of 6/30/88)	1,253.2
Lending Program, FY89-90	2,289.3

	($m)
FY88 Commitments	342.8
Disbursements	139.8
Amortization	155.0
Commitments from Special Facility 1/	0.0
Commitments from Special Joint Financing 1/	0.0
Commitments from Special Program of Assistance 1/	0.0

Summary Data	Average 1983-87	1988 2/
GDP growth (%)	-0.3	4.7
Export growth (%)	2.4	7.3
Import growth (%)	-21.8	-9.4
Current Account Deficit as % GDP	2.3	2.2
Gross Debt Service Ratio (%) 3/	28.1	21.8
Annual Inflation Rate (CPI)(%)	14.3	25.0

Aid Group Meeting: None
Last Meeting: n/a
IMF Status as of: Aug 1988
(Art. IV; Lapsed Standby)

Background: Nigeria introduced a courageous and comprehensive reform program in 1986 which was supported by a US$452 million Trade Policy and Export Development Loan in FY86. A second policy based loan of US$500 million to provide additional support and to help ensure the continued implementation of the reform program is currently scheduled for Board presentation in November/December 1988.

Issues likely to be raised by Delegation
(1) Timely foreign assistance

Issues to be raised by Bank Management
(1) IDA eligibility
(2) Future Bank program
(3) Implementation problems

Attachments
(1) Five-year lending program: FY88-92
(2) Biographical Information
(3) Capital subscription status

1/ Not applicable.

2/ Reflects recovery of agriculture and increase in crude oil production.

3/ Debt service ratio is from long-term debt and export of goods and non-factor services. Refers to actual rather than scheduled payments; excludes payment of US$785 million of arrears in 1987 and US$635 million in 1988.

Revised
September 22, 1988

NIGERIA - 1988 ANNUAL MEETINGS BRIEF

Background

1. Reform Program. Nigeria's Structural Adjustment Program was adopted in June 1986. The keystone of the Program was the introduction of a market-determined exchange rate system in September 1986. Other measures included trade reform and price liberalization. Implementation of the Program's structural measures has been good, but macroeconomic policy management and public expenditure control have been weak. Along with the weakening of oil export revenues, high levels of expenditure has put pressure on the exchange rate, which the authorities have been resisting for domestic political reasons, and this has resulted in a large differential between the exchange rate on the auction and on the interbank market. In addition, sharply rising food prices, resulting from last year's weather-related poor harvest, and the continuing compression of real wages have drawn sharp public criticism. President Babangida took the offensive in late August and made a major policy statement, laying out a broad program of consolidation for the next two years and reaffirming the government's commitment to the policy measures introduced under the 1986 Program. During a recent visit Mr. Jaycox met with the President and was very encouraged by the President's understanding of the issues and his support for reform. It was agreed that the Bank would meet in November with senior government officials to discuss overall development strategy and the Bank's role.

2. TIPL Negotiations. We have pursued the continuation and development of the major areas of economic reform -- including supporting macroeconomic policy management and public expenditure control -- through our discussions of the proposed $500 million Trade and Investment Policy Loan (TIPL). Negotiations are far advanced, but three conditions need to be met before we can present the loan to the Board:

   (1) A substantial narrowing of the differential between the exchange rate on the auction and the interbank market. The differential is now about 30 percent, indicating that the auction rate is not responding adequately to free market forces.

   (2) Agreement with the IMF on a new standby arrangement. A central issue in the Fund's negotiations is the domestic credit implications of the fiscal deficit. Discussions with the Fund are far along and are to resume October 10. We hope a letter of intent may be initialled before the end of the month.

   (3) Satisfactory assurance that the foreign exchange gap for 1988-89 will be closed. Negotiations with the London Club for favorable repayment terms are far advanced and the Paris Club has given a positive indication to the rescheduling of interest on previously rescheduled debt, going beyond its conventional terms. These agreements should be able to close the foreign

exchange gap in 1988-89, estimated on the basis of oil prices at $15 per barrel. IMF resources that would be made available under a standby would constitute an insurance policy against a further slide in oil prices.

Issues Likely to be Raised by the Delegation

1. Timely Foreign Assistance. The delegation is likely to raise the question of the timing of TIPL, arguing that they have done their part and now look to multilateral and bilateral support. You could congratulate them on their policy measures and continuing efforts to maintain and develop the reform program. You might point to the critical issue of foreign exchange management and the need to ensure a sustainable foreign exchange system that is free of administrative controls. This will be necessary to mobilize external financing. You could add that we intend to move quickly on TIPL, as soon as the outstanding matters are resolved, hopefully permitting presentation to the Board in November.

Issues to be Raised by Bank Management

The following are a series of talking points that you may wish to draw on:

1. Mr. Jaycox's Visit. You might open discussions by referring to the very productive round of meetings that Mr. Jaycox had during his recent visit to Nigeria (September 12-14), and mention that you are encouraged by the very high level of commitment to the reform program. You should congratulate the delegation on the measures taken and the recent efforts to reach agreement with the London and Paris Clubs. You might ask about the results of the most recent discussions with the representatives of these two Clubs.

2. IDA Eligibility. To provide additional support to maintaining and developing the country's reform program, you were pleased to announce to the Board recently that Nigeria is eligible for IDA funding. They should know that IDA funds are severely constrained, and that currently the Bank is considering an annual amount of up to 75 million SDRs. The situation will have to be further reviewed and a case made in the context of IDA-9. We expect, however, that the Bank's initiative will trigger support from other sources. Nigeria should make the maximum effort to mobilize other resources, including in particular ESAF or SAF support from the IMF, as well as substantial bilateral aid which could be further supported by working toward developing in the near future a concessional aid group.

3. Future Bank Program. As you discussed with the delegation last year, Nigeria's development potential is great and there are a broad range of areas in which the Bank can assist. It is important, however, for us to

work closely with the Government in developing our program to ensure that it has the Government's full support. You may add that you are very glad to hear that there will be a comprehensive review of the Bank's proposed program in early November with senior levels of government. The discussions would cover (1) the size of the Bank's program; (2) the sectoral composition and emphasis of projects and economic work; (3) the role of policy-based lending; and (4) ways to improve the processing and implementation of projects. You might emphasize the need not only to consider the near term income generating sectors and necessary infrastructure support, but, in addition, to assist the longer term development of the social sectors, and to address environmental issues. The population issue is particularly critical. The government took a major step in February this year to approve the National Population Policy and subsequently to establish an institutional base at the Federal level. You should welcome these developments. You may also want to comment that successful implementation of the policy will depend to a large extent on the government's ability to secure broad official and public support and to prepare strong programs involving both government and NGO/private channels. The Bank is now working with the Government to develop a Population Project (FY90).

4. Implementation Problems. You should mention that we are considering an annual lending program of about a billion dollars, but the success of such a program and the ability to transfer substantial resources will ultimately depend on improving implementation performance. The serious delays in the processing and implementation of Bank projects were partly responsible for the slowdown in the Bank's disbursements to Nigeria in FY88, which together with the delay in reaching agreement on TIPL, resulted in a negative resource transfer of about $250 million. There is now over one billion dollars of undisbursed Bank money in the pipeline. We cannot maintain a large program or assist in mobilizing external financing and concessional aid support with the prospect of such poor performance. You may say that you are pleased that a special task force has been formed to explore these problems and that the Bank will lend whatever assistance it can to help. These matters should be pursued during the proposed joint strategy review in November.

[JW/BF_AM.nir]

Attachment 1

NIGERIA - PROPOSED LENDING PROGRAM FY88-92
($ million)

FY88		FY89		FY90		FY91		FY92	
Tech Education	23.3	Trade Policy II	500.0	s Financial Sector	500.0	s Adjustment Loan	350.0	Adjustment Loan	150.0
Highway Sector	250.0	Multi-state ADP II	85.2	s Tree crops	120.0	Agric. research	50.0	s Primary education	100.0
Urban Infrastructure	69.5	Multi-state ADP III	200.0	National Seed	15.0	s Health system fund	70.0	s Telecommunication	75.0
		Imo Pop/Health	27.6	s Nat essential drugs	65.6	s National pop.	50.0	s Power VIII	250.0
		SME II	270.0	Oyo urban	81.2	s Gas condensate	150.0	s Water Rehab	240.0
		Refineries rehab.	27.7	Multi-state water I	200.0	Roads (State)	125.0	Multi-state water II	200.0
		Emergency Power	50.0						
		Lagos water supply	173.2						
Total	342.8	Total	1333.7	Total	981.8	Total	795.0	Total	1015.0
No. of projects	3	No. of projects	8	No. of projects	6	No. of projects	6	No. of projects	6
RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM		RESERVE PROGRAM	
None		None		Education univ devt	60.0	Ind training fund	40.0	Railways	150.0
				Energy (Petro. II)	200.0	Rural Finance	100.0	Livestock III	75.0
						Rural Infra.	100.0	Public Enterprise	200.0

s = Standby project

SECTORAL COMPOSITION OF LENDING PROGRAM

	(Number of Operations)		(Amount in US$ million and percentage shares)			
	FY88-90	FY88-92	FY88-90		FY88-92	
TOTAL	17	29	2658.3	100.0%	4468.3	100.0%
Of which:						
Adjustment loans	2	4	1000.0	37.6%	1500.0	33.6%
Agriculture	4	5	420.2	15.8%	470.2	10.5%
Human Resources (educ/PHN)	3	6	116.5	4.4%	336.5	7.5%
Infrastructure (urban/ws)	4	6	523.9	19.7%	963.9	21.6%
Transportation	1	2	250.0	9.4%	375.0	8.4%
Industry	1	2	270.0	10.2%	345.0	7.7%
Energy	2	4	77.7	2.9%	477.7	10.7%

Alhaji Abubakar Alhaji

Minister of State in charge of Budget and Planning, Nigeria

Executive Director, MIGA

Alhaji Abubakar has recently been designated head of the Nigerian delegation to the annual meetings. He was appointed Minister of State in June this year, to be in charge of budget and planning, and to act as a special advisor to the President. He led the Nigerian delegation in the London Club negotiations in August and visited Washington in early September to participate in the MIGA meetings and in operational discussions with the IMF and the Bank.

Prior to this appointment, Alhaji Abubakar served as Permanent Secretary of the Federal Ministry of National Planning from October 1984, after having been Permanent Secretary of the Federal Ministry of Finance for five years.

Alhaji Abubakar is a career civil servant and served as Permanent Secretary with the Federal Ministry of Trade (1975-78) and with the Federal Ministry of Industries (1978-79). He is from a prominent northern Nigerian family and related to the previous Head of State, General Buhari.

Alhaji Abubakar has been very closely associated with and supportive of the Bank since the early 1970s. He was elected Executive Director of MIGA in June (representing Cote d'Ivoire, Ghana, Lesotho, Madagascar, Malawi, Senegal, Togo, Zambia, as well as Nigeria).

Dr. S. P. Okongwu

Minister, Federal Ministry of Finance and Economic Development, Nigeria

Dr. Okongwu was appointed Minister of Finance and Economic Development in January 1986, after serving as Minister for the Federal Ministry of National Planning when the new Government took power in August 1985. His Ministry was later expanded to include planning. In the most recent reorganization, the Ministry's budget and planning functions were transferred to the office of Alhaji Abubakar Alhaji, the Minister of State, leaving Dr. Okongwu limited responsibility for finance and economic development.

Prior to 1985, Dr. Okongwu was head of Multivar Systems, a consulting firm which provided advisory services in the areas of quantitative analysis of agricultural and industrial policy, a position which he had held since 1975. Prior to that, he was Controller of Planning and Permanent Secretary of the Ministry of Economic Development and Reconstruction in the East-Central State.

Dr. Okongwu was also a lecturer at the Economic Development Institute at the University of Nigeria, Enugu Campus in Anambra State, and was Associate Professor of Economics at the State University of New York at Albany. Dr. Okongwu received a Ph.D. from Harvard University in 1965.

Alhaji Abdulkadir Ahmed

Governor, Central Bank of Nigeria

Alhaji Ahmed has served as Governor of Nigeria's Central Bank since May 1982, and during this period has represented the Government in international financial negotiations. He plays a key role in the current discussions with the Paris Club.

After graduating from Barewa College in Zaria in 1939, Alhaji Ahmed worked for the New Nigerian Development Company Limited. He also attended the University of Ife and later studied in England where he earned a diploma in commercial accounting. He served for two years as commissioner for Finance and Economic Development in his home state, Bauchi. Before heading the Central Bank, he served as its Deputy Governor from 1977 to 1982.

Alhaji Ahmed is a Hausa from northern Nigeria and a Muslim. He is married, with four children. He is an associate member of the Association of Certified Accountants.

Alhaji U. K. Bello

Director General, Federal Ministry of Finance and Economic Development

Nigeria

Alhaji U. K. Bello, a career civil servant, was appointed as Permanent Secretary of the Federal Ministry of Finance in October 1984, a position which was recently retitled Director General. Prior to that he was the Economic Secretary in the Cabinet Office, and in the late 1970s Director of External Finance in the Federal Ministry of Finance. In that capacity, he was the Bank's main counterpart in the Federal Government.

Attachment 3

IBRD: CAPITAL SUBSCRIPTION STATUS

AS OF JULY 31, 1988

NIGERIA

RESOLUTION		TOTAL	SHARES ALLOCATED				AMOUNTS TO BE PAID IN FOR UNSUBSCRIBED SHARES B/		NATIONAL CURRENCY UNRELEASED FOR SHARES SUBSCRIBED	SUBSCRIPTION TERMINAL DATE
			SUBSCRIBED		UNSUBSCRIBED		PAYABLE IN US $ A/	PAYABLE IN LOCAL CURRENCY		
NO.	ADOPTED		NO.	$ MILLION A/	NO.	$ MILLION A/	($ THOUS.)	($ THOUS.)	$ MIL EQ C/	
145	60/09/27	667	667	80.46	0	.00	.00	.00		
218	65/04/30	400	400	48.25	0	.00	.00	.00		
258	70/07/31	85	85	10.25	0	.00	.00	.00		
314	77/02/09	1789	1789	215.82	0	.00	.00	.00		
346	80/01/04	2753	2753	332.11	0	.00	.00	.00		
347	80/01/04	250	250	30.16	0	.00	.00	.00		
395	84/08/30	822	822	99.16	0	.00	.00	.00		
424	88/02/03	235	0	.00	235	28.35	248.06	2,232.50		FEB 3, 89
424A	88/02/03	101	0	.00	101	12.18	108.81	959.50		JUL 12, 89
425	88/04/27	5553	0	.00	5553	669.89	2,009.56	18,086.93		SEP 30, 93
TOTAL		12655	6766	816.22	5889	710.42	2,366.43	21,278.93	50.6	

A/ ON THE BASIS OF THE CURRENT SUBSCRIPTION PRICE OF $120,635 PER SHARE.

B/ FOR EACH SHARE, THE SUBSCRIBING MEMBER IS REQUIRED TO PAY AT THE TIME OF SUBSCRIPTION A PORTION OF THE SUBSCRIPTION PRICE IN GOLD OR US DOLLAR AND ANOTHER PORTION IN LOCAL CURRENCY. THE LOCAL CURRENCY PAYMENT MAY BE SUBSTITUTED BY NON-INTEREST-BEARING NOTES. THE LOCAL CURRENCY RECEIVED FOR SUBSCRIPTION PAYMENTS, INCLUDING THE PORTION SUBSTITUTED BY NON-INTEREST-BEARING NOTES, CAN BE USED ONLY FOR PAYING BANK'S ADMINISTRATIVE EXPENSES IN THAT CURRENCY UNLESS RELEASED FOR LENDING.

C/ AS OF JUNE 30, 1988.

FRM
08/10/88
11.18.15

FORM NO. 75
(6-83)

THE WORLD BANK/IFC

ROUTING SLIP	DATE: April 26, 1988

NAME	ROOM NO.
Mr. Conable, President	E1227

	APPROPRIATE DISPOSITION		NOTE AND RETURN
	APPROVAL		NOTE AND SEND ON
	CLEARANCE		PER OUR CONVERSATION
	COMMENT		PER YOUR REQUEST
	FOR ACTION		PREPARE REPLY
	INFORMATION		RECOMMENDATION
	INITIAL	X	SIGNATURE
	NOTE AND FILE		URGENT

REMARKS:

Attached for your signature is a letter to the President of Nigeria in response to a letter he sent you, also attached.
Mr. Qureshi has cleared the proposed reply.

FROM:	ROOM NO.:	EXTENSION:
Caio Koch-Weser	J 4 241	34858

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

April 27, 1988

His Excellency
General Ibrahim B. Babangida
President
Commander-in-Chief
Armed Forces of Nigeria
State House
Lagos, Nigeria

Dear Mr. President,

I very much appreciated receiving your letter of April 8, which was personally delivered to me by Dr. Okongwu. I am very encouraged by your continued strong commitment to the reform program.

In particular, I appreciate the serious difficulties that you have in implementing some of the reform measures. Your action in initiating the petroleum price increase has shown courage and wisdom by depoliticizing the pricing of petroleum products through the commercialization of NNPC. I am deeply saddened by the loss of human life in the riots in Jos, and share your Government's deep concern over this tragedy.

I was pleased to read in your letter that the fiscal deficit is being addressed. Minister Okongwu also assured me that steps have been taken to bring public spending in line with revenue. As you know, expanding public spending without a proportionate increase in revenue would absorb a large share of the limited foreign exchange available, thereby putting excessive pressure on the exchange rate and domestic prices. Our assessment is that a large budgetary correction is necessary, particularly with respect to capital spending, in order to contain inflation to moderate levels and to avoid excessive pressure on the exchange rate. We believe this a critical element in preserving and protecting the important adjustment gains you have made so far.

Lately, we have observed with concern the operation of the foreign exchange market. The growing divergence between the exchange rate on the interbank market and the auction suggests that the auction rate is not being determined according to free market principles. We fear that problems in maintaining the integrity of the auction could undermine the entire reform program, which is based on a market-determined exchange rate system. Non-market procedures for setting the exchange rate will lead to the rationing of scarce foreign exchange across competing users and may open the way to the abuses that characterized the pre-reform era. At the same time, it will deprive the budget of funds that could otherwise be used for public expenditure. You may consider whether it might not be timely and now possible to reduce the public visibility of auction funding and the pricing of foreign exchange, just as you have moved to depoliticize the pricing of petroleum products. We can provide technical assistance in this area -- in consultation with the IMF -- if you would like to consider alternatives to the current auction system.

In the days ahead, you personally will be taking very difficult decisions that will be required to restore domestic finances to a balanced path and to allow the exchange rate to reflect the forces of supply and demand. The Bank will continue to provide its fullest support to your efforts. In addition to providing Bank financial assistance, we will work closely with your staff to help secure from the international financial community the resources that you will need to sustain the program and to put the economy on a path towards sustained growth.

In closing, I personally would like to assure you that we are confident that your adjustment efforts will soon produce the expected gains and Nigeria will start to realize its tremendous potential. I look forward to meeting with you again, and wish you success in your current endeavors.

Yours sincerely,

Barber Conable

Barber B. Conable
President

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

AH
~~JWS~~
BBC

DATE: December 16, 1987

TO: Mr. Ossi J. Rahkonen, SEC

FROM: Robert M. Voight, CEXPE RMVoight

EXTENSION: 61340

SUBJECT: IFC Resident Mission in Nigeria

Attached please find a Board Announcement and a draft Staff Announcement of the opening of the IFC Resident Mission in Nigeria. I would appreciate your circulating the announcements to the Board and advising me when the twenty-four hour no objection period has elapsed so that we may print and distribute the Staff Announcement.

cc: Mr. A. Alizai, CF2

OK — BBC

From: The Secretary

IFC RESIDENT MISSION IN NIGERIA

At the request of the Government of Nigeria, the Corporation has agreed to establish a Resident Mission in Lagos. Mr. Bahadurali Jetha, a British national, has been appointed IFC Representative in Nigeria.

The presence of an IFC Representative in Nigeria will broaden and strengthen IFC's relationships with the Nigerian business and financial communities, and will help identify new business opportunities in the private sector. It will also facilitate IFC's communication with the Government of Nigeria.

IFC made its first investment in Nigeria in 1964 and since then has made a total of 14 investments with a total value of about US$55 million equivalent, including participations of US$3.8 million equivalent. IFC presently has active investments in 7 companies for a total of about US$45 million equivalent.

Distribution:
Directors and Alternates
President
Executive Vice President

For Information:
Senior Management Council
Senior Vice Presidents, Bank
Directors and Department Heads, Bank

FYI/ /87
DATE

Staff Announcement

I am pleased to announce that the Government of Nigeria and the International Finance Corporation have agreed to establish a Resident Mission in Lagos, Nigeria.

Mr. Bahadurali Jetha has been appointed as the IFC Representative in Nigeria. Mr. Jetha, a British national, joined the Bank in 1974 on secondment as the Director of Investments, SOFISEDIT, Senegal. In 1978 he joined the Western Africa Projects Department as an Operations Officer in the Industrial Development and Finance Division and was promoted to Sr. Operations Officer in 1983. In 1986 Mr. Jetha transferred to IFC's Department of Investments, Africa II, as Sr. Investment Officer.

Mr. Jetha's assignment will be effective in January 1988.

William S. Ryrie
Executive Vice President

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

October 7, 1987

Dear Chu:

Just a note to express my appreciation and thanks for the beautiful photograph album of the Lagos trip you presented to me during our recent Annual Meetings in Washington. The photographs are a pleasant reminder for Mrs. Conable and me of our visit to Nigeria.

Best personal regards.

Sincerely,

Barber Conable

His Excellency
Dr. Chu S. P. Okongwu
Minister of Finance
Federal Secretariat
Ikoyi
Lagos, Nigeria

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 5, 1987

Dear Admiral Aikhomu:

On our return to Washington, Charlotte and I would like to take this opportunity to thank you most sincerely for your warm hospitality and the courtesies extended to us during our visit to Lagos.

I was very pleased to know that you were coordinating the activities of the economic ministries and regularly monitoring the progress of the Structural Adjustment Program. As we discussed, a Bank mission has just completed the appraisal of the Trade and Investment Policy Loan. A number of issues surfaced during the working level discussions with your officials, which need to be resolved expeditiously. The attached aide-memoire, drafted by the appraisal mission at the end of their visit to Lagos, provides a succint summary of the outstanding issues. I hope that when your economic team next meets, you will be able to discuss these issues and reach decisions that can guide the mission in the further processing of this loan. We share your Government's interest in processing the loan as quickly as possible and would hope that the loan could be approved by our Executive Directors by October, so that we can disburse the first tranche before the end of this year. I urge you to consider this aide-memoire at your earliest convenience, to help resolve the outstanding issues, and permit us to proceed with negotiations in September.

Once again thank you very much for a very useful visit. Charlotte and I send you and your charming wife our best regards.

Yours sincerely,

(Signed) Barber B. Conable

Rear-Admiral Aikhomu
Chief of General Staff
State House, Lagos

cc: Messrs. C. Koch-Weser, AF4DR (o/r)
W. S. Humphrey, AF4CO

IHusain/JDucker/nhh

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 5, 1987

Dear Chu:

Charlotte and I would like to thank you for being such a wonderful host to us during our recent visit to Lagos. As I told President Babangida, I have found a very good friend in you and hope that we can work together to help Nigeria overcome its present economic difficulties.

As you know, the appraisal of the Trade and Investment Policy Loan has just been completed and the mission has left an aide-memoire highlighting the issues that require Government decision. Although the working level discussions with your officials were useful, I must say that the schedule of processing of this loan is very tight and it will require your personal attention and efforts to keep the operation moving on schedule. I am also requesting President Babangida to help you to get an early resolution of some of the outstanding issues.

The second point which I once again wish to reiterate is the need for expediting Bank-assisted projects within the Nigerian bureaucratic process. As you know, my officials have constantly flagged this point for a number of years, but thus far we have not made very much progress. I am aware that you are embarking on a reorganization of your ministry. The Bank would be more than happy to help you in this exercise. The current Technical Assistance Loan to your ministry can be utilised if you require any external or outside assistance. But in the meantime I would urge you to do anything possible to reduce delays in processing projects.

The two already negotiated loans, Highway Sector Loan and Lagos Water Supply Project, have been delayed now for seven months and need to be advanced. I hope you will be able to obtain your Council's approval in the next few weeks so that we can present them to our Executive Directors, well in advance of the Trade and Investment Policy Loan.

Let me once again say how very much Charlotte and I enjoyed our stay in Lagos. I look forward to meeting you in Washington in September.

With best wishes,

Yours sincerely,

(Signed) Barber B Conable

Dr. Chu S. P. Okongwu
Minister of Finance
Federal Secretariat
Ikoyi
Lagos, Nigeria

cc: Messers. C. Koch-Weser, AF4DR (o/r)
W. S. Humphrey, AF4CO

IHusain/JDucker/nhh

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 5, 1987

Dear President Babangida:

On our return to Washington, my wife and I would like to take this opportunity to thank you most sincerely for the warm hospitality extended to us, and the useful discussions we had in Lagos.

As I told you during our meeting, I am very favourably impressed by the efforts Nigeria is making in restructuring its economy. On my part, I can assure you that the Bank will continue to provide financial and technical support to underpin your program.

As you know, the Bank's appraisal mission has just completed its work in Lagos on the proposed Bank Trade and Investment Policy Loan. The mission carried out intensive discussions and dialogue with the officials of your Government. A number of issues remain unresolved which are explained in the aide-memoire left with the Ministry of Finance. Given the tight timetable prior to presentation to our Executive Directors, I would urge you to direct the top economic managers in your Government to address these problems soon. I hope that we are able to stick to the original schedule, under which the first tranche of the loan would be disbursed before the end of this year.

Once again, I would like to express my thanks to you and the officials of your Government for looking after Charlotte and myself so well. We enjoyed our visit very much.

With best regards,

Yours sincerely,

(Signed) Barber B. Conable

Major-General Ibrahim B. Babangida
President and Commander-in-Chief of the Armed Forces
Dodan Barracks
Ikoyi
Lagos, Nigeria

cc: Messrs. C. Koch-Weser, AF4DR (o/r)
W. S. Humphrey, AF4CO

IHusain/JDucker/nhh

THE WORLD BANK
Washington, D.C. 20433
U.S.A.

BARBER B. CONABLE
President

August 3, 1987

Dear Ishrat:

Just a note of thanks from Charlotte and me for your fine hospitality while we were in Nigeria. Your efforts in putting together (and revising!) our program were much appreciated, and we both felt that we accomplished a great deal in a relatively short time.

Visiting Nigeria was one of the high points of our Africa trip. It was heartening -- and impressive -- to see firsthand the economic progress the Nigerians have made with the help of the World Bank. We came away with a new understanding of the country and its problems, and the memories of the places we visited and the people we met will undoubtedly stay with us for a long time.

We enjoyed meeting you and your staff and, once again, thank you for the part you played in making this visit such a success.

Sincerely,

(Signed) Barber B. Conable

Barber B. Conable

Mr. Ishrat Husain
Resident Representative
World Bank
Lagos, Nigeria

cc: Messrs. C. Koch-Weser o/r (AF4DR)
W. S. Humphrey (AF4CO)

SHChoi/DGReese:nl

① [illegible]
② cp

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: October 9, 1987

TO: Files

FROM: Tariq Husain, Resident Representative in Nigeria

EXTENSION:

SUBJECT: NIGERIA: Meeting of the Nigerian Delegation with Mr. Conable

1. The Nigerian delegation was led by Mr. Okongwu, the Minister of Finance. Other members included the Governor of the Central Bank, the Permanent Secretaries of Finance and Planning, and the Ambassador of Nigeria to Washington. Messrs. Jaycox, Koch-Weser and Tariq Husain were present during the meeting.

2. Mr. Okongwu expressed appreciation for Bank support and assistance in developing the ongoing reform program. He made a specific reference to the assistance the Bank team made during the 1986 debt rescheduling exercise in London. He said that he looks forward to a continuation of this excellent relationship and that Nigeria is fully committed to implementing a "growth" focussed reform program. This would, he said, require understanding by the IMF and more innovative approaches for resolving debt-related issues. He sought Mr. Conable's assistance in both of these tasks. He noted that the Managing Director of the IMF does understand the Nigerian position and predicament, but such understanding seems not to have percolated to the staff level.

3. He sought Bank assistance -- both technical assistance and moral suasion -- in the next round of London club negotiations.

4. Mr. Conable complimented Nigeria on its courageous reform and assured continued support from the Bank. He said that for FY88 and 89 the Bank is planning on a US$2 billion lending level to support Nigeria's reform program. Mr. Conable stated that long-term economic development requires sustainable reform and growth is an essential requirement for continuing reform. He said that the Bank will continue to work with the IMF and other creditors to produce innovative solutions. Mr. Conable said that Mr. Okongwu's collaboration would be essential as the Finance Minister is the principal official responsible for ensuring the wise use of public resources for which sensible public expenditure actions and public service pricing policies are essential requirements.

5. Finally, Mr. Okongwu requested that the Bank should increase the number of Nigerians on its staff. Mr. Conable said that soon outside recruitment will be opened and the Bank would welcome bright, young Nigerians so that they can grow with the Bank.

Cleared w/ & cc: Mr. Koch-Weser
cc: Messrs. Conable, Qureshi, Jaycox, O'Brien, Lydic, DMT (Africa Region IV), RMN (Lagos)

THusain:MH

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE: July 17, 1987

TO: Files

FROM: Ishrat Husain, Resident Representative, RMN, Lagos

SUBJECT: Mr. and Mrs. Conable's Visit to Nigeria

Mr. and Mrs. Conable arrived in Lagos on Tuesday, July 14 for a three-day visit to Nigeria. They were received at the airport by the Minister of Finance and other senior officials of the Government and their first official engagement was a courtesy call on the Chief of General Staff at his residence.

The next morning they proceeded to Kano and spent the whole day visiting the Agriculture Development Project, Shelterbelt and health facilities in rural areas. The Military Governor of Kano State who received them narrated the major problems facing his state. He specifically mentioned the increasing incidence of guinea worm and sought Bank assistance for drinking water supply project in his state. Commissioner of Health in her presentation at Danbatta General Hospital wanted the Bank to help rehabilitate the primary health care facilities in the state.

On return to Lagos in the evening, the Chief of General Staff hosted a state banquet in their honour which was attended by members of the AFRC, service chiefs, members of the Council of Ministers, Ambassadors of six major shareholders and other dignitaries.

Mr. Conable flew to Ajaokota on the 16th morning and went around the various installations. The Minister of Mines, Power and Steel and General Manager of Ajaokuta Steel works briefed them about the progress and plans. In the early afternoon he met a cross section of the organised private sector in Lagos where the discussion mainly centred around trade liberalisation in Nigeria and how it was adversely affecting Nigerian industry.

Mr. Conable then met with the Ministers of Finance, National Planning, Industry, Petroleum, Secretary to the Military Government and Acting Governor of Central Bank at Dodan Barracks. The Minister of Finance presented a progress report on SAP and flagged the following issues:

(a) the debt servicing ratio in 1987 was quite high around 43% and needs to be reduced;

(b) new money has not yet been released by the commercial banks and export credit agencies;

(c) high level of conditionality in the Bank loans is also a contributory factor to slow implementation of the Bank's lending program in Nigeria;

P-1867

(d) unwarranted conditionalities such as the overview of Public Expenditure Program should be avoided in the context of the Second Trade Policy Loan. If this is cofinanced with the Japanese, for example, these conditionalities will also hinder the flow of other concessional resources to Nigeria;

(e) investment in the steel sector should be reprogrammed rather than abolished.

The Secretary to the Military Government added that the Government had pledged to the Nigerian people that adjustment will take place with growth. In order to honour this policy the Government was keen to generate some growth and therefore sought the Bank to focus on how this goal could be attained.

The Minister of Petroleum Resources suggested that the Bank should assist Nigeria in developing gas resources, export oriented refineries and development of mineral resources such as limestone, kaoline and clay. He thought that Nigeria was in a position to export cement to the West Africa sub region at competitive prices and should therefore expand cement capacity in the country.

Mr. Conable commended the Ministers for the excellent progress they had made in the implementation of SAP and assured that the Bank will continue to act as a central player in coordinating various sources of development assistance to Nigeria.

He also mentioned that the Bank has reorganised itself to be more efficient and responsive to the needs of the borrowers and the Country Director will, henceforth, be responsible for most of the decision making in respect of the operations in these countries. He therefore urged the Nigerians to improve their procedures as an unduly long time is taken in Nigeria to get the Bank loans approved and made effective.

Mr. Conable also advised the officials to avoid using resources that do not contribute to growth. He added that -- "you are the best arbiters of your program. You know the best timing of your decision and you should exercise ultimate choice. The Bank can only present the options to you."

On the issue of trade liberalisation, he said that he found high resistance by the private sector. But he told the Ministers that the relative advantage which Nigeria enjoys are manifold and these can be realised with risk and adventure and not through fear or continued protection. However, care must be taken that disruptions are not so bad that they reflect adversely upon the process of adjustment.

In his address to the Minister as well as in the meeting with President Babangida, Mr. Conable was very emphatic about the need to control rapid population growth in Nigeria.

The meeting with President Babangida was most cordial, amiable and relaxed. Mr. Conable praised the highest qualities of leadership and courage displayed by President Babangida in steering the Structural Adjustment Program and assured him of Bank's continued support to Nigeria. President Babangida thanked Mr. Conable for the close and excellent state of relationship which at present existed between the Bank and Nigeria. He believed that if there were any differences they should be resolved through dialogue and discussions. President Babangida assured Mr. Conable of his strong commitment to the SAP and other economic reforms.

At the end of his visit, Mr. Conable addressed a Press Conference which was widely attended and prominently covered by the electronic and print media.

cc: Messrs. Queshi, Jaycox, Koch-Weser, Wyss, O'Brien, Dubey, Bock, Humphrey, Aiyer, Seth, Pellegrini, Ms. de Morode

IH:eaf

FORM NO. 89
(2-83)

THE WORLD BANK

ROUTING SLIP	Date July 1, 1987

OFFICE OF THE PRESIDENT

Name	Room No.
Members of Policy Committee	
Mr. Vinod Dubey	
Mr. Edward V.K. Jaycox	
Mr. Caio K. Koch-Weser	
Mr. Alexander Shakow	

	To Handle		Note and File
	Appropriate Disposition		Prepare Reply
	Approval		Per Our Conversation
	Information		Recommendation

Remarks

Marianne Haug

From

NIGERIA
COUNTRY STRATEGY PAPER

Following the June 22, 1987, Policy Committee review of the Nigeria CSP (dated May 27, 1987), I wish to record the following decisions and points:

(a) The FY88 lending program of about US$1.0 billion including about US$500 million in adjustment lending is approved. This program assumes: (i) a thorough review and agreement on the Public Investment Program; (ii) continued commitment by the Government of Nigeria to administrative and policy reform; and (iii) close monitoring and linkage between the level of Bank lending and other capital flows.

(b) Nigeria's creditworthiness and the level of future Bank lending will be reviewed by me and the Policy Committee in about one year's time. This update report will present revised forecasts of IBRD and other lending sources under various growth scenarios and assess exposure risks and sustainability of policy reform. In addition, the report should examine:

- the modus operandi of linking suggested IBRD lending levels with other capital flows, including concessional funds;
- the necessary speed and impact of decentralization and administrative reform; and
- the social cost of adjustment.

(c) The Nigerian Government should be encouraged to initiate a Population Census.

Barber B. Conable

Barber B. Conable

July 1, 1987

June 23, 1987

Jennifer,

Per our conversation.

Nolita

Ambassador Hamzat Ahmadu, A.C.I.S D.P.A. The Wali of Sokoto, External Affairs Officer (Special Grade) entered the Nigerian Civil Service in April 1950 with the former Colonial Administrative Service of the Government of Nigeria in a career spanning more than thirty years. Ambassador Ahmadu served as Private Secretary to the Premier of Northern Nigeria Alhaji Sir Ahmadu Bello, the Sardauna of Sokoto, then moved to the Federal Government Service in the Prime Minister's Office (Foreign Service Affairs Branch). Served as Private Secretary to the first Nigerian High Commissioner in London the late Alhaji Abdul Maliki in the Nigerian High Commission in London. In 1961 he then moved on to the Nigerian Embassy in Bonn, West Germany. Back to the Headquarters in 1964 after a three year tour of duty in Bonn, served as Head of Africa Division; Consular and Treaties Division. The next appointment was that of Director Asia Division. In May 1966 Ambassador Ahmadu was seconded to the State House as Administrative Secretary to the Head of the Military Government, Supreme Commander of the Nigerian Armed Forces Major General J.T.U. Aguyi-Ironsi. 1966-1975 served as Principal Secretary to the Head of the Federal Military Government; Commander of the Nigerian Armed Forces General Yakubu Gowan. August - November, 1975 Principal Secretary to Head of the Federal Military Government; Commander in Chief of the Nigerian Armed Forces General Murtala Muhammed. 1975 - 1978 Ambassador to the U.S.S.R. and German Democratic Republic. 1978 - 1981 Ambassador to the Kingdom of the Netherlands.

1982-1984 Ambassador to the Republic of the Cameroun. 1984-1986 Director General African Affairs Directorate, Ministry of External Affairs. 1986 - 1987 Permanent Secretary and Head of the Diplomatic Service, Ministry of External Affairs. 1987 Appointed Ambassador to the United States of America.

His Excellency has received many honours and decorations among them Commander of the Order of Merit (Republic of Cameroun) decorated twice, Commander of the Order of National (Republic of Niger) decorated twice, and similar honours from several other African countries like Egypt and Ethiopia.

The Ambassador is married with children. His hobbies include reading current affairs, hockey, walking and squash. Foreign languages spoken are English, Arabic, Elementary German and French.

June 1987

WASHINGTON, D.C.

Myra - file, please

WORLD BANK OTS SYSTEM
OFFICE OF THE PRESIDENT

RECEIVED DATE : 86/11/03 DUE DATE : 00/00/00
LOG NUMBER : EXC861104015
SUBJECT : Min. of Finance of Nigeria - appreciation for meeting dur
Annual Meetings
OFFICE ASSIGNED TO FOR ACTION : Mr. Barber Conable E1227

ACTION:

_____ APPROVED
_____ PLEASE HANDLE
__✓__ FOR YOUR INFORMATION
_____ FOR YOUR REVIEW AND RECOMMENDATION
_____ FOR THE FILES
_____ PLEASE DISCUSS WITH _____
_____ PLEASE PREPARE RESPONSE FOR _____ SIGNATURE
_____ AS WE DISCUSSED
_____ RETURN TO _____

COMMENTS :
cc's were sent to Thalwitz + Stern.

Copies to E. Stern
W. Thalwitz

Office of the Honourable Minister
Federal Ministry of Finance
New Secretariat, Ikoyi, Lagos
Tel. 619577

October 22, 1986

Mr Barber Conable
President
The World Bank
1818 H Street N W
Washington D C 20431
U S A

My dear President

Upon my return to Nigeria, I write to express appreciation for the fruitful discussions I had with you and your staff members during the occasion of the 1986 AGM in Washington D C last month. Indeed, the firm support, goodwill and invaluable intercessionary role of The Bank in Nigeria's current economic demarche have been most commendable and fortifying. The confidence which you have demonstrated in our Structural Adjustment Programme, our capacity for sound economic management and in the long run prospects of the Nigerian economy has also been gratifying.

For our part, I wish to assure you that, the difficulties of the near term notwithstanding, the Administration is determined to maintain course with the implementation of the programme in order to attain a revamped Nigerian economy in minimal time.

On behalf of the Government and people of Nigeria, may I thank you once again and request you to please convey our appreciation to your staff members who participated so resolutely in the coordination of the assistance package for Nigeria.

With best personal regards.

Sincerely Yours

Chu S P Okongwu
Minister of Finance

RECEIVED

1986 NOV -3 PM 6: 30

OFFICE OF THE PRESIDENT

(3/82) WORLD BANK OUTGOING MESSAGE FORM Cable, Telex

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PAGE 1 OF 1 | OFFICIAL DEPT/DIV ABBREVIATION: WA1NI | MESSAGE NUMBER: | TEST NUMBER (FOR CASHIER'S USE ONLY):

START HERE

INTBAFRAD

LAGOS, NIGERIA

TO MOHSIN ALIKHAN. PLEASE CONVEY FOLLOWING MESSAGE TO MINFIN.

QUOTE DR. CHU S. P. OKONGWU, FMF, LAGOS, NIGERIA

DEAR MINISTER:

I WOULD LIKE TO CONVEY MY SINCEREST THANKS TO PRESIDENT BABANGIDA AND YOURSELF FOR THE WARM MESSAGE AND GOOD WISHES ON MY APPOINTMENT AS PRESIDENT OF THE WORLD BANK. MY COLLEAGUES AND I VERY MUCH LOOK TO THE SUPPORT AND HELP OF YOUR GOVERNMENT AND OF THE BANK'S OTHER MEMBER GOVERNMENTS' IN OUR TASK OF CARRYING OUT THE BANK'S MANDATE, IN PARTICULAR, TO CONTINUE OUR CONCERTED EFFORTS FOR THE DEVELOPMENT OF SUB-SAHARAN AFRICA.

I WOULD ALSO LIKE TO CONVEY MY CONGRATULATIONS TO YOUR GOVERNMENT ON THE FORMULATION OF THE MEDIUM TERM ADJUSTMENT PROGRAM. IT PROVIDES A STRONG FOUNDATION FOR THE SUSTAINED GROWTH OF NIGERIA'S ECONOMY. MY COLLEAGUES AND I LOOK FORWARD TO CONTINUING OUR CLOSE WORKING RELATIONSHIP WITH YOUR GOVERNMENT AND TO ASSIST IN ANY WAY WE CAN TO SUPPORT THE GOVERNMENT IN ITS EFFORTS TO IMPLEMENT THE PROGRAM. WITH MY THANKS AGAIN FOR THE GOOD WISHES AND KIND REGARDS, BARBER CONABLE, PRESIDENT, INTBAFRAD UNQUOTE. REGARDS ALISBAH.

END OF TEXT

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INFORMATION BELOW NOT TO BE TRANSMITTED

CLASS OF SERVICE: Telex	TELEX NO.: 961-21174	DATE: 07/29/86
SUBJECT: Thank You Telex to Babangida	DRAFTED BY: SMehra:cp	EXTENSION: 78072
CLEARANCES AND COPY DISTRIBUTION: Cleared w/cc: Messrs. Alisbah, Koch-Weser, Humphrey	AUTHORIZED BY (Name and Signature): Bilsel Alisbah, Acting RVP	
	DEPARTMENT: WAPDR	
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CP Nigeria
cc: Humphrey
H.

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REF : TCP FCA

RCA6796
248423 WORLDBANK
LAGOS 15 JUL 86

MR BARBER B CONABLE
PRESIDENT
THE WORLD BANK
WASHINGTONDC

I WISH TO CONGRATULATE YOU MOST SINCERELY ON YOUR ASSUMPTION OF OFFICE AS PRESIDENT OF THE WORLD BANK. THERE IS NO DOUBT THAT YOU ARE TAKING OVER THE MANTLE OF LEADERSHIP OF THE BANK AT A VERY CRITICAL JUNCTURE WHEN THE DEVELOPING WORLD IS, MORE THAN EVER BEFORE, LOOKING UP TO THE BANK FOR EFFECTIVE SUPPORT IN THEIR DRIVE FOR ECONOMIC RECOVERY.

OVER THE YEARS, NIGERIA AND SUB-SAHARAN AFRICA IN PARTICULAR HAVE DEVELOPED PROFOUNDLY CORDIAL, AND MUTUALLY BENEFICIAL RELATIONSHIPS WITH THE WORLD BANK. IT IS OUR EARNEST HOPE AND EXPECTATION THAT THESE RELATIONSHIPS WOULD RECEIVE ENHANCED IMPETUS DURING YOUR TENURE OF OFFICE.

ON BEHALF OF THE PRESIDENT, GOVERNMENT AND PEOPLE OF THE FEDERAL REPUBLIC OF NIGERIA, I WISH YOU EVERY SUCCESS AND GOD'S GUIDANCE IN THE DISCHARGE OF YOUR RESPONSIBILITIES AS PRESIDENT OF THE WORLD BANK.

WITH BEST PERSONAL REGARDS

CHU S P OKONGWU
MINISTER OF FINANCE
LAGOS, NIGERIA

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ALT RTD FROM:EXCM

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RECEIVED
1986 JUL 15 AM 9:13
OFFICE OF THE PRESIDENT

MEMORANDUM

Negotiated Solutions to Nigeria's Debt Problem

Finance, Trade and Risk

Yale School of Organization and Management

April 1, 1986

The Nigerian Government and the IMF

The IMF and Nigeria have reached a conditionality agreement. The parties involved view these measures as leading to macroeconomic stabilization and to the creation of a strong foundation for long-term economic growth. In view of Nigeria's debt servicing problems at a time of declining world oil prices, these measures will be particularly focused on diversifying Nigeria's export sector. The agreement includes the following:

1) the removal of all subsidies to domestic petroleum consumption;

2) a reduction in government expenditures through cuts in the size of the work force, salaries of government employees, and defense expenditures;

3) privatization of inefficient state-owned enterprises in the following areas: agricultural production, food and beverages, electrical and electronic manufactures, and;

4) liberalization of trade to reduce the opportunities for corruption at the government level and to stimulate the growth of infant industries which today have trouble securing import licenses. This liberalization focuses mainly on reducing the difficulties and costs associated with import licenses.

4-3-86

The IMF and Nigeria have also resolved their differences in a most controversial area: exchange rates. The government of Nigeria recognizes the need for a realistic exchange rate, but views the political consequences of an overnight devaluation as excessive. Hence, a two-tiered exchange system will go into effect. Initially, the following goods will be serviced under the official exchange rate:

1) basic food items that are not produced domestically;

2) agricultural and other imports destined for Nigeria's critical export sectors;

3) farm and capital equipment, and;

4) consumer goods viewed as necessities for lower and middle income Nigerians.

Foreign exchange for the following goods will only be available in the legal parallel market:

1) all luxury items, and;

2) industrial inputs (for non-export industries).

The IMF and Nigeria view the existence of an official rate as only temporary. The IMF will monitor Nigeria's progress in working towards a single free-market exchange rate. Specifically, middle and lower end consumer goods will be serviced at the free-market rate within 6 months.

Basic food items will remain on the official exchange rate until Nigeria increases its agricultural production to a sufficient level.

This agreement between the IMF and Nigeria is seen as a crucial first step in working out a settlement with both official and private creditors. It also opens the door for Nigeria to receive a $2.5 billion dollar IMF loan and a $600 million structural adjustment loan from the World Bank, although Nigeria would like to avoid further debt if at all possible.

Given that Nigeria has recently declared a moratorium on all interest and principle repayments, the need for further concrete action is urgent. Of the following options for action, it seems that option one, together with new lending from the World Bank and the IMF, is the most likely to be achieved in a timely fashion.

<u>Option 1: Rescheduling</u>

Rescheduling Nigeria's Debt Held by Public Institutions

In order to establish a precedent of public awareness and global support, as well as in recognition of the interdependence of the international monetary system the official creditors agree to:

1) Allow the interest rate for the currently outstanding Nigerian loans owed to the respective nationally controlled institutions to be capped at not more than one quarter of a percentage point above the borrowing rate for an equivalent sized loan by the central banks of the participating countries.

2) Extend the repayment period from a normal twelve year repayment to a period not to exceed fourteen years. In those cases where the loans are currently being repaid on a shorter time frame, the reduction will be proportional. A scenario describing the current financing situation and estimates of the effect of the above official lender initiatives is attached as Exhibit 1.

The attached pro formas (Exhibit 2) provide a variety of scenarios involving three variables in Nigeria's debt service: percent of export revenues devoted to debt servicing, per barrel oil prices, and level of oil production.

A reasonable scenario would involve average oil prices at $15/barrel, with Nigeria maintaining its oil production at 1.7 billion barrels, and devoting 35% of revenues to debt servicing. With these assumptions, the amount of Nigeria's financing gap would be $2,045,000,000.

Rescheduling Principal

We propose that private and official lenders reschedule principal payments amounting to $2,036,000,000, leaving a projected remaining gap of $9,000,000; an insignificant amount in comparison to the total.

Planning for a Worst Case Scenario

All parties must recognize that even should Nigeria keep production up and devote significant funds to debt servicing, if oil prices drop and/or if non-oil exports are significantly adversely impacted in the short run either by international economic factors or by internal dislocation, a significant shortfall could occur. A stand-by plan should be arranged to deal with this possible contingency. Options include the following:

1) Creditors may agree to capitalize a portion of interest due. If for example the price of oil should drop to $13/barrel, creditors would need to capitalize $366,000,000 in interest, or 19% of current interest due. Some portion of the shortfall could also be made up by additional rescheduling of payment on current or medium term letters of credit and supplier credits.

Major creditors do not favor this option for obvious reasons--it increases exposure, increases the amount of future payments, and additionally sets a precedent for other debt reschedulings in even more urgent situations.

2) Nigeria may take out short/medium term loans from the IMF. This after all is the IMF's purpose--to deal with balance of payments crises. The IMF and Nigeria have agreed on an economic plan to deal adequately with currency adjustment, fuel subsidies, and modification to import license restrictions. Consequently, the Nigerians have available approximately $2.5 billion in IMF funds should such funds be required. While Nigeria has declined to accept such loans in the past, she may wish to establish that she will borrow some portion of these funds if it becomes impossible otherwise to pay interest due.

Despite the intriguing properties of securitizing debt or writing down debt, rescheduling of principal combined with IMF loans in the event of an unexpected shortfall provide the best answer to the Nigerian problem. The debt problem is not severe, and it makes little sense to attempt to devise new, risky, or untested solutions to the problem if proven methods will suffice.

The Nigerian problem is a short term problem. Even should oil prices remain low, reforms planned by the Nigerian government will increase economic efficiency and consequently boost non-oil exports and decrease the cost of imports. In addition, the World Bank has initiated major agricultural studies in Nigeria, with the intent being that the Bank make available significant project and structural adjustment loans with the objective of making Nigeria a net food exporter by the early 1990's. Similar activities may be expected in the manufacturing area. With a stronger and more diverse economy and an improved balance of trade, Nigeria should not face a long term problem in debt servicing.

Option 2: Recognition of Decreasing Loan Values

A long term solution to the world debt crisis must include recognition by major lenders, both public and private, that the amount of developing nation debt currently carried on their books significantly overestimates amounts likely to be repaid.

While private lenders, in particular, may wish to delay recognizing the decline in value of their loan portfolios, once the decline is recognized, lenders will be free to consider establishing a secondary loan market or securities market in international debt. Recognition of the decline entails matching accounting values with true economic values. (In our negotiations, the Federal Reserve has demanded this adjustment, but has been willing to facilitate the transition.)

Should the current crisis worsen, it will become necessary to write down loans at once, with the likely result being great dislocation of the financial markets. An alternative way of achieving the same end is to begin a gradual recognition of the amounts to be written down by agreeing to record a proportion of total principal due to an institution in an "Special Allowance for Unpaid Debt" account. Such an account would be a general account, similar to a standard allowance for unpaid accounts, rather than a country by country account. This method has the advantage of not providing any incentive for particular nations to default on portions of their debt.

In time, banks would be able to write down debt to a point where the debt equals true market value. At the same time, such write downs will avoid putting nations in a position where their only choice is a general default.

This procedure would have no immediate effect on Nigeria, although it may ultimately provide cheaper debt in the future if one believes the theoretical arguments regarding the lower cost of debt under a secondary markets scenario. Analysis of Nigeria's current debt crisis indicates that it is compounded by falling oil prices, inefficient exchange rates, artificial price supports, overspending on imports, and lack of careful economic planning. Most of these problems are legacies of previous governments and are currently being addressed. It is likely that with the reforms currently being implemented, Nigeria will be able to fully service her debt within a very few years. Therefore, it would be advisable to stick with debt rescheduling and other traditional means of dealing with the balance of payments crisis until reform is given an opportunity to work.

Major private lenders have little current incentive to write down debt. Only if the G-5 nations recognize their role and responsibility in the crisis, and consequently both put pressure on the private lenders and provide mechanisms for an orderly write down will the write down occur in the near future, and in an efficient and non-disruptive fashion.

Option 3: Securitization of a Portion of Nigeria's External Debt

The most radical solution to Nigeria's debt problem involves the securitization of Nigeria' long and medium term debt (leaving the $6 billion in overdue trade credits to be rescheduled independently). Depending on how quickly G-5 government entities could move to force their banks to participate and on how quickly investment bankers could design and price this instrument, this could be the most timely (albeit unlikely) solution.

The main goals are fourfold:

1) to increase Nigeria's ability to pay its debt obligations by matching cash flows--i.e. its export oil revenues to its debt service payments;

2) to comply with the Federal Reserve's demand that commercial banks value their loans in a more realistic fashion;

3) to insure that Nigeria will have ongoing access to capital markets should it desire additional financing for growth, and;

4) to establish a replicable method of dealing with Third World debt problems[1].

The proposed means involves the conversion of $12 billion in syndicated loans to negotiable perpetual bonds (callable after a certain number of years[2]) whose return will vary between 5.25%[3] and 17%, depending on oil prices. The securities must be senior to all future debt, and should be attractive to oil importing countries and oil dependent entities as a hedging device. The Nigerian government would issue the bonds with an up-front agreement to purchase from the banks who hold the syndicated loans.

The main risks to the buyer are oil price and production declines and a refusal of the Nigerian government to pay. Our work to date indicates that there is no party willing to insure against these risks in substantive quantities, although MIGA may wish to take a very limited portion of the

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[1]This particular method is best suited for oil exporting countries, but other commodity-dependent countries could use a similar instrument if an appropriate basket can be found.

[2]Other properties could be added to the instrument, such as a put during a given period after a certain number of years.

[3]The minimum return was calculated to be an amount Nigeria could still afford in a disaster scenario for oil prices--assuming that $6 billion of debt would still be serviced at market rates, that the 30% ceiling on export revenues used for debt service would be maintained, that oil production would be at 1.7 mbd, and that oil prices would fall to $10/barrel. See Exhibit 3 for details.

risk. The Nigerian government guarantees to provide 30% of its export oil revenue in foreign exchange for debt service, thus limiting the transfer risk. Further, the minimum payment is based on extremely conservative assumptions about Nigeria's ability to pay (see Exhibit 3). The risk of repudiation in future years is approximately the same as it is in the current state of affairs.

The upper limit on the return could be negotiated, but is estimated to be 17% for discussion purposes. The formula to calculate the increases in return in relation to spot oil price increases is also negotiable[4]. Nigeria would want to hold on to some portion of the gains in order to retire some of the consol bonds or invest in other projects. When oil prices increase enough to force the imposition of the ceiling return, Nigeria could retire some portion of the debt.

The negatives to this option are that Nigeria no longer has access to creditors for workouts, nor would it be able to force its creditors to give it additional loans (although that does not seem desirable from Nigeria's current point of view). The dispersion of the securities would increase information costs relative to the current situation, and would also require public disclosure of detailed financial information.

The advantages of this option are the achievement of the four goals mentioned above. Nigeria would certainly be better able to pay its bills if the formula were carefully negotiated. Theoretically, the default premium would decrease with better matching of cash flows and increased dispersion in debt holdings. If the market can be facilitated by international institutions so that it is a thick, liquid market, the illiquidity premium currently being paid to the banks would also decrease. Banks could easily dispose of their assets and would have a realistic basis on which to value them. (This entire option is, of course, predicated on the Fed's cooperation in making the accounting transition to market valuation of these assets palatable to banks.)

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[4]Exhibit 3 shows the relationship between oil prices and return on the bonds. The curve is bowed to give investors a greater share in increased oil revenue initially and Nigeria a greater share as oil prices increase beyond $18.

EXHIBIT 1

	MILLIONS OF US$	PROPORTION OF OFFICIAL DEBT	1986 GAIN FROM EXTENSION
ECGD (UK)	267	0.308670	37.26094
HERMES (FRG)	201	0.232369	28.05037
COFACE (FR)	158	0.182658	22.04954
MITI(JPN)	91	0.182658	22.04954
EXIMBANK (USA)	44	0.050867	6.140379
G5 TOTAL	761	0.879768	115.5507
WORLD TOTAL	865		
GAIN FROM PROPORTIONAL INTEREST RATE REDUCTION			86.8
PROJECTED FINANCING GAP (Using $21/Bl oil Scenario)			813
REMAINING GAP			610.6492
PROPORTION ALLEVIATED			24.89
PROPORTION REMAINING			75.11%

EXHIBIT 2

Pro Forma Nigerian Financing Gap
(Assumes Non-oil Revenues at 805)

Oil Price	17	16	15	14	13
Oil Production	1.7	1.7	1.7	1.7	1.7
Domestic Usage	0.3	0.3	0.3	0.3	0.3
Oil Export Production	1.4	1.4	1.4	1.4	1.4
Oil Revenue	8,687	8,176	7,665	7,154	6,643
Non-oil Revenue	805	805	805	805	805
Total Revenue	9,492	8,981	8,470	7,959	7,448
Debt Service @ 35%	3,322	3,143	2,965	2,786	2,607
Current Debt Service	5,009	5,009	5,009	5,009	5,009
As % of Total Revenue	53%	56%	59%	63%	67%
Financing Gap	(1,687)	(1,866)	(2,045)	(2,223)	(2,402)
Current Principal	3,112	3,112	3,112	3,112	3,112
Current Interest	1,897	1,897	1,897	1,897	1,897
Rescheduable Principal	2036	2036	2036	2036	2036
Financing Gap w/Current Principal Rescheduled	349	170	(9)	(187)	(366)

Scenario 2: Oil Production at 1.5

Oil Price	17	16	15	14	13
Oil Production	1.5	1.5	1.5	1.5	1.5
Domestic Usage	0.3	0.3	0.3	0.3	0.3
Oil Export Production	1.2	1.2	1.2	1.2	1.2
Oil Revenue	7,446	7,008	6,570	6,132	5,694
Non-oil Revenue	805	805	805	805	805
Total Revenue	8,251	7,813	7,375	6,937	6,499
Debt Service @ 35%	2,888	2,735	2,581	2,428	2,275
Current Debt Service	5,009	5,009	5,009	5,009	5,009
As % of Total Revenue	61%	64%	68%	72%	77%
Financing Gap	(2,121)	(2,274)	(2,428)	(2,581)	(2,734)
Current Principal	3,112	3,112	3,112	3,112	3,112
Current Interest	1,897	1,897	1,897	1,897	1,897
Financing Gap w/Current Principal Rescheduled	(85)	(238)	(392)	(545)	(698)

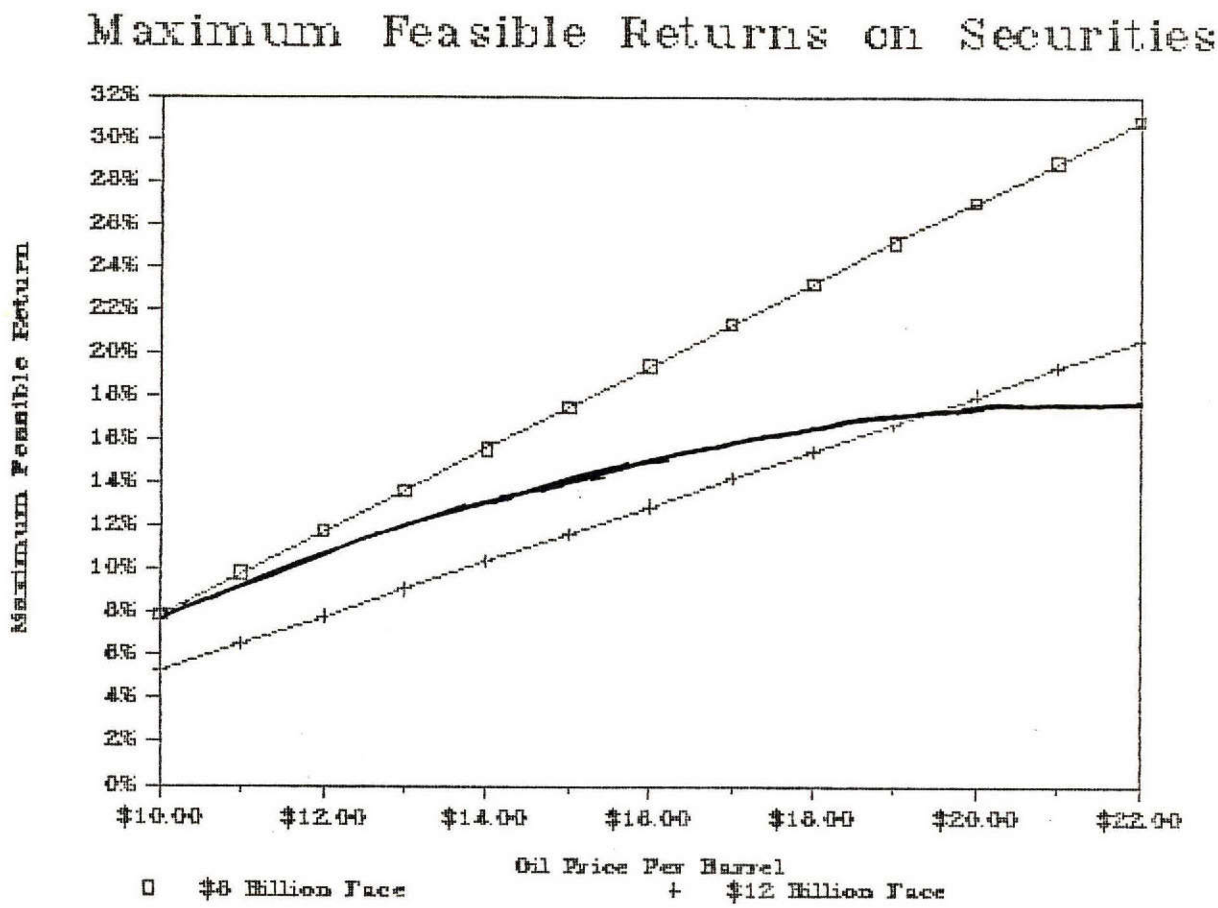
Scenario 3: Oil Production Down, 30% revenue devoted to debt

)il Price	17	16	15	14	13
)il Production	1.5	1.5	1.5	1.5	1.5
)omestic Usage	0.3	0.3	0.3	0.3	0.3
)il Export Production	1.2	1.2	1.2	1.2	1.2
)il Revenue	7,446	7,008	6,570	6,132	5,694
Ion-oil Revenue	805	805	805	805	805
'otal Revenue	8,251	7,813	7,375	6,937	6,499
)ebt Service @ 30%	2,475	2,344	2,213	2,081	1,950
:urrent Debt Service	5,009	5,009	5,009	5,009	5,009
As % of Total Revenue	61%	64%	68%	72%	77%
'inancing Gap	(2,534)	(2,665)	(2,797)	(2,928)	(3,059)
:urrent Principal	3,112	3,112	3,112	3,112	3,112
:urrent Interest	1,897	1,897	1,897	1,897	1,897
'inancing Gap w/Current 'rincipal Rescheduled	(498)	(629)	(761)	(892)	(1,023)

;cenario 4: High Oil Producion, 30% Debt Serviced/Total Export Revenue

)il Price	17	16	15	14	13
)il Production	1.7	1.7	1.7	1.7	1.7
)omestic Usage	0.3	0.3	0.3	0.3	0.3
)il Export Production	1.4	1.4	1.4	1.4	1.4
)il Revenue	8,687	8,176	7,665	7,154	6,643
Ion-oil Revenue	805	805	805	805	805
'otal Revenue	9,492	8,981	8,470	7,959	7,448
)ebt Service @ 30%	2,848	2,694	2,541	2,388	2,234
:urrent Debt Service	5,009	5,009	5,009	5,009	5,009
As % of Total Revenue	53%	56%	59%	63%	67%
'inancing Gap	(2,161)	(2,315)	(2,468)	(2,621)	(2,775)
:urrent Principal	3,112	3,112	3,112	3,112	3,112
:urrent Interest	1,897	1,897	1,897	1,897	1,897
?escheduable Principal	2036	2036	2036	2036	2036

EXHIBIT 3



This graph illustrates the maximum returns Nigeria could pay as a function of oil prices under two scenarios. In one case the full principal amount of $12 billion is securitized. In the second case the principal is written down to $8 billion, but the return offered by Nigeria is higher for any oil price.

These returns are calculated under extremely conservative assumptions:

1. No foreign exchange earnings except from oil.
2. $6 billion in debt still serviced at a market rate, assumed at 15 percent.
3. Nigerian government guarantee of 30 percent of total oil export revenues available for total debt service.

The actual return offered on the securities would rise slightly more gradually than illustrated here, and it would reach a maximum of 17% (negotiable) at an oil price of $19 or $20 per barrel.

108

RODERICK M. HILLS
1333 NEW HAMPSHIRE AVENUE, N.W.
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TRIP

January 27, 1986

Mr. A. W. Clausen
World Bank
1818 H Street, N. W.
Room E1227
Washington, D. C. 20433

Dear Tom:

I enclose a simple syllabus of my course on International Finance which we are creating and doing this year at the Yale School of Managment. Each of the 23 students in the class represent a major institution involved in finance, trade or risk. For example: World Bank; IMF; Barclay's Bank; Citibank; Long-Term Credit Bank; and Nigeria (Finance Minister) are all represented in the class. Most of the students have had some experience in International Finance and all are deeply involved in their role-playing. A semester-long project is the renegotiation of, and the dealing with, the debt of Nigeria and Mexico.

We would certainly enjoy your participation, and I think you would enjoy the class. If you could join us some Tuesday afternoon between now and April 29 (there are no classes on March 11 and March 19), we would certainly appreciate it. I very much recognize that if you were to commit now to a future date it might be necessary for you to cancel; however, that is a risk we are more than willing to take in the hopes that perhaps you could be with us.

Our classes begin at 2:30 p.m. and end at 4:30 p.m. and are traditionally followed by dinner with a few students and one or two of the faculty members. Also, the Dean of Yale School of Management, Burton Malkiel, would particularily be pleased to join us.

I sincerely hope your schedule will permit you to participate.

Best personal regards,

Rod
sw

Roderick M. Hills

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1986 JAN 28 PM 2: 13

OFFICE OF THE PRESIDENT

"FINANCE TRADE AND RISK"

I. Introduction

A. Subjects to be studied

(1) Macro Analysis

(a) World Monetary Reform
(b) Third World Debt

(2) Micro Effort

(a) Changing Structure of Financial Centers

(i) London
(ii) Tokyo
(iii) New York
(iv) Others
°Frankfort
°Hong Kong
°Singapore

(b) Changing Nature of Government Policy and Institutions

(i) Export-Import Bank
(ii) International Finance Corporation ("IFC")
(iii) World Bank
(iv) Asian Development Bank
(v) "MIGA"
(vi) Federal Reserve Board
(vii) United States Treasury Department
(viii) Minister of Finance (Japan)
(ix) City (London)
(x) Third World Equity Markets

(c) Changing Nature of Relevant Institution and Instruments

(i) Financial Institution
(ii) Trading Organization
(iii) Financial Instruments (Industry Countertrade)

B. Reference Material

(1) Macro Analysis

(a) World Monetary Reform

(i) "Economist" Analysis
(ii) Baker proposals to G-5 Minister
°Mulford Analysis of October 23, 1985
°Baker Statement of November 12, 1985
°Mulford Analysis of November 19, 1985
(iii) Commentaries
°Newsweek Article of November 18, 1985
°Wall Street Journal Article of December 12, 1985
°Wall Street Journal Article (Leuschel) of January 6, 1986
°Financial Times (Robeson) Article of January 8, 1986
°Wall Street Journal Article (Metzer) "Baker Would Make U. S. Poorer"

(b) Third World Debt

(i) Baker Proposal
°Treasury Background Briefs of September 27, 1985
°Baker Statement in Seoul on October 8, 1985
(ii) Commentaries
°Foreign Affairs Article - Bogdanowicz-Bindert
°Economist Article of October 12, 1985
°Business Week "Facing the Tough Facts About Global Debt", November 18, 1985
°Fortune Magazine, "Why Baker's Plan Won't Work", December 23, 1985
°Fortune Magazine, "Nervous Money Keeps Fleeing".
°Financial Times, "For Crises, Read Problem", January 8, 1985
°Economist Commodity Prices vs. Money Cost

(2) Micro Effort

(a) Changing Nature of Financial Centers

(i) Japan
°Japanese Financial System, Hudson Institute, 1985
°Integration of Domestic and International Financial System, IMF Staff Paper, 1984
°Japan's Equity Market, Morey Brooks, 1985
(ii) London
°"Britain Braces for a Financial Free For All", New York Times, December, 1985
(iii) New York

(b) Changing Governmental Policies

(i) Wellons, "Competitiveness In the World Econmy"
(ii) "World Bank Risk Agency Set", New York Times, 1985
(iii) U. S. vs. Japan in Open Markets
°Wall Street Journal, December 10, 1985, "U. S. Raps Japan"
°Text: Joint Press Conference, Mulford and Oba
°"U. S. Calls for Further Financial Liberalization
°"An Exchange of Views Between PBEC Executives and Japenses Foreign and MITI Ministers, November, 1985
(iv) "Boeing Take Aim at Airline Subsidies", Washington Post, 1985
(v) "Peru: The Message From Garcia", Foreign Affairs, Winter 1985/86
(vi) U. S. Treasury Department Statement on Sub-Sahara Africa

(c) Changing Financial Institutions and Instruments

(i) "Making a Match Gracefully", Financial Times, December 20, 1985
(ii) "Citibank Interested In Expanding Role In Japan", Wall Street Journal
(iii) "Barclay's Seeks the Benefit of Tokyo's Relaxation Financial Times, January 9, 1985
(iv) "Japan's Postal Savings System Faces Real Competition" Wall Street Journal, December 13, 1985
(v) "Japan Firms Trying to be U. S. Debt Dealers", January 8, 1985
(vi) "U. S. Brokers Eye Japan", Newsweek, January 13, 1986

C. Methodology

(1) Lecture and Guest Speakers

(2) Establishment of Roles Played By Participants

(3) Class Discussions Of Course Problems:
(Following are examples)

(a) Debate of Position of Japanese Minister of Finance Minister with Respect to Offshore Banking and Yen Liberalization
(b) Compare U. S. Deregulation With London and Tokyo
(c) Develop and Debate Proposed Mergers and Corporate Strategic Plans
(d) Discuss Export-Import
(e) Develop Third World Country (e.g. Peru vs. Nigeria) Debt Proposal
(f) Competitive Efforts with Respect to Potential Mergers and Financial Transactions Such as a Counter Trade
(g) Compare private and public solutions with respect to risk protection.

(4) Review of Participant Papers

Dec 11, 1985

Helen: Personally I think this is an excellent idea and, should Mr. Clausen need assistance with lecture materials, then of course, to the degree we're competent, we'll help all we can.

F. Vogl

December 9, 1985

Frank:

Mr. Clausen is going to be asked to be a Distinguished Scholar lecturer at Yale University sometime before the end of June. The background for the invitation which came to me by phone is this:

Rod Hills, former head of SEC and husband of Carla Hills, formerly HUD, is connected with YALE University and said that about two years ago Yale established a School of Management and asked him to work on the establishment of a second year curricula. They have decided to create a course in international finance starting in January. Rod Hills is taking a sabbatical and will teach the course for the first year.

Mr. Hills will talk to AWC when the latter returns next week but I thought we would like to get your opinion beforehand.

Helen

Helen

12-16-85

1 Yale camp at

2 Bohemian Club Grove commissioned at

3 Yale in 1944

February 10, 1986

Mr. A.W. Clausen
President, World Bank
1818 H St., N.W.
Room E 1227
Washington, D.C. 20433

Dear Tom:

To augment your participation in our class I enclose:

- A brief statement of the problem and our methodology of dealing with it

- The demands that have been initially made by each of the "primary organizations" participating in the problem

- A summary of a Brookings study on the conflicting interests of LDC and Industrialized Nations

I shall meet your plane. We all look forward with excitement to having your with us.

With best regards,

Rod

Roderick Hills

NIGERIAN DEBT PROBLEM

PARTICIPANTS PRIMARY

PUBLIC INSTITUTE

Nigerian Finance Minister	Mohammed Yiman
Shearson-Lehman Bros. (Advisors)	Martha Brooks
IMF-President	Mike Stryer
World Bank-President	Douglas Garfinkel
U.S. (Federal Reserve)	R. M. Hills
U.S. (OMB Treasury)	Stephen Daffron

PRIVATE INSTITUTE

Barclay's Bank	Martha Smith
Deutsche Bank	Constance McKee
Citibank	Bob McCarthy
DKB and Long Term Credit Bank	Katsunari Yamaguchi
Equator Holdings	Roger Mann

OBJECTIVE

To reach an agreement to restructure the debt of Nigeria.

REFERENCE MATERIALS

(i) See material from original course syllabus
(ii) Participants will circulate other material

<u>CLASS DISCUSSION OF PROBLEM</u>

January 28	-	Description of problem and organizational discussion
February ~~11~~ 4	-	Each primary participant will state the subject matter of any agreement desired from any other participant Class members who are not primary participants will have read materials and be expected to understand impact of the negotiations on their own organizations. All will be expected to participate in the discussion to identify all relevant issues.
February ~~18~~ 11	-	First negotiation session may take up to ~~two thirds~~ one-third of the class session. Each participant will have submitted organizational demands in writing by February 10.
February ~~25~~ 18	-	Second negotiation sessions may take up to two-thirds of the class session. Heavy participation by the full class will be encouraged. If a settlement is not reached a vote will be scheduled for March 4.

VOTING PROCEDURE:

The Nigerian Finance Minister, the IMF and the U.S. (O.M.B. and Treasury) shall submit to Paul Bracken by 1:00 p.m. on February 28 a complete proposal for restructuring Nigeria's debt. If the three cannot agree than each shall submit their own proposal.

Each of the four commercial banks shall either declare their support for one of the proposals submitted by Nigeria, the IMF or the U.S. or submit their own proposal by 9:00 a.m. on March 3.

All proposals will be distributed and the class by majority vote shall adopt one the written proposals.

NIGERIA'S POSITION STATEMENT ON ITS EXTERNAL DEBT

Nigerian's external debt problem should be considered in light of its 1986 budget. light of Nigeria 1986 budget. Our budget, as all of you know , has won the praise of many economists and governments as a realisitic approach to many of the economic ills facing the Republic of Nigeria.

Policies concerning the new budget, the country's debt, and the future economic direction of the country were the subject of broad democratic discussions by the Nigerian people recently. The budget reflects much of the Nigerian people's view on these difficult issues. We therefore have a strong faith that it has the backing of our people, something essential for the continued stablitity of the government.

The 1986 budget is a tough austerity budget. The projected budget of $15.6 billion for 1986 will result in across the board reduction on both public and private demand. We have reduced the government subsidy for oil and expect to raise nearly a billion from this. Salaries of public and private employees will also be reduced, and there will be a tax levied on all imports from which the government expects to raise another billion. The austerity budget has not spared defense either. Consequently, the share of defense in the national budget is expected to fall by nine-tenths of one percent.

The budget of 1986 is built, as president Babangida said, around sound policies rather than around projects. It is a most comprhensive document for reconstructing the Nigerian economy with programs for agricultural self-sufficency, rural infrastructure development and for building our domestic industrial base. We expect every segment of Nigerian society to willingly make the sacrifices necessary to make the budget work.

THE BUDGET AND THE NATIONAL DEBT

Nigeria has always shown a strong commitment to service its foreign debt. Although plummeting world oil prices have put a serious strain on our economy, The new government of Nigeria will continue this tradition. To meet the economic objectives specified in the budget, Nigeria would like to reschedule its medium and long term debts so that it would spend no more than 30% of its foreign exchange earnings on debt services.

The 30% ceiling for 1986 is meant to ease the burden of service payment, which otherwise would consume up to 50% of our foreign exchange earning given the continued decline in the price of oil. Our creditors should see this not as an absolute limit but only as a temporary limit that would be eased as Nigeria's foreign exchange situation improves. We will also continue to service our trade debt. Although we are a few months behind in some of our trade credits, we hope to change some of them to medium and long term debt through rescheduling.

Our creditors, we believe, will look at the tough, workable budget and the across the board reduction in expenditure as an effort on the part of our governments to get its acts together.

Our proposals are sound enough to reassure the banks of our efforts to put Nigeria on a sound economic footing from which the banks stand to gain. Nigeria is a country with enormous potential and resources. We want to utilize our resources to realiz our potential.

It is our concern, as it is yours, to adopt a realistic exchange rate. There will be a two-tierd exchange system, but we cannot at this time devalue our currency, the Naira, by 50% as has been proposed by the IMF. A gradual adjustment of the exchange rate, instead of a one time devaluation which could lead to serious economic and political instablity is prefered by our people as was manifested in recent debates. Our people are poor, and we cano't demand further abrupt sacrifices from them. We are confident that our proposals reflect the economic and political realites of Nigeria.

The removal of the government subsidy for oil is expected to have some inflationary effect. A 50% devaluation on top of that would increase the costs of the already scarce imports by 50% a hardship that is unacceptable to our people. Our proposal, on the other hand, using a levy will also raise the prices of imports but the proceeds from this will be channeled further into ecoromic development programs. Concurrently, we plan to give rebates to importers of raw-materials and other inputs destined for our export sector. We will continue to diversify and promote Nigeria's export sector which now dependent on oil for over 80% of its value. To improve the access of exporters to foreign exchange, we will allow some retention of hard currency by exporting companies.

We have enough reason to think that a sudden devaluation of our currency will not help our export sector by making it more competitive because more than 80% of our exports is in oil, and the price of oil is denominated in US dollars. Thus the standard IMF argument is inapplicable in Nigeia's case.

The US secretary of the treasury, Mr. Baker, in his recent address to the group of 5 called on the third world debtor countries to adopt comprehensive macroeconomic and structural policies. Our budget attempts to develop such a policy. We want to strengthen our private sector by divesting of our goverment holding in food and other consumer-oriented industries. We will cut subsidies to our parastatals by 50% and we expect them to meet their costs and make profits by raising their prices.

All these measures should boost our creditors' confidence in Nigeria. We are confident that the reluctance of some banks to join Nigeria in rescheduling its debt will be overcome that we may stretch the payment period and reduce the current service payment amount. We understand the pressure on some regional banks in the USA to write off some of their third world loans. We donot want to force banks into this uncomfortable position. Nigeria has been all along a reliable debtor, always making timely payments of what it owes its creditors. We want our creditors to maintain this confidence in Nigeria so that they will have no reason to wait for any organization's approval of our policies. We want our creditors to join us in taking the most practical path for a long-term solution to our problems rather than relying on stop-gap symbolic measures.

World Bank Policy on Nigeria

The World Bank is particularly concerned that major players in the current controversy not mix up symbolic and ideological issues with the major goals at hand. The World Bank believes that requirements established by the IMF as prerequisites for further aid are largely appropriate and necesary for Nigeria's future development as well as her ability to repay current debts. In particular, it is clear that a fairly rapid currency devaluation and relaxation of restrictions and clarification of procedures around import licencses are vital to improving the country's economic outlook.

The Bank is heartened by Nigeria's current budget plans, and particularly by the sizable decrease in oil and gas price supports. The Bank hopes that Nigeria will proceed to implement this budget. The Bank remains concerned about what kind of schedule is envisioned for currency devaluation; the Naira is currently overvalued in the official exchange rate fivefold. The Bank is also alarmed by President Babangida's unilateral statement of a debt repayment ceiling. While that ceiling is within reasonable bounds given Nigeria's development needs, it seems advisable for Nigeria to discuss such a ceiling in advance with its creditors.

Matters have been made significantly worse by the sudden and unanticipated drop in international oil prices, a drop which is tantamount to a national disaster for Nigeria. In light of the short term economic effects of the oil price drop, the IMF's $2.5 billion loan seems all the more necessary. Both Nigeria and her creditors must work with the IMF to ensure long term growth and stability. The Bank will be involved whereever possible both through its good offices and by assisting in developing an integrated short and long term development and debt repayment plan. The keys to success in this issue include a recognition of both ecnomic and political realities, and a willingness to design solutions relevant to the current and specific nature of the problem, rather than solutions based solely on generalized theories and past practice.

Martha J. Smith
Finance, Trade and Risk Seminar
Professors Bracken and Hills
Nigerian Debt Problem
February 5, 1986

Position Taken by Barclays International Bank on Nigeria's Recently Announced Budget and Policies for Servicing Medium and Long-Term Debt:

As I mentioned at yesterday's meeting, the general position of Barclays is unchanged. The Bank is still willing to negotiate rescheduling of the $4.8 billion of payments due this year. While 85% of the Bank's loans and leases are in the United Kingdom, the United States, and South Africa, the Bank has significant assets all across the African continent and therefore looks at the Nigerian situation with great seriousness.

The Bank has always required an approved IMF economic stabilization programme to be a precursor to a rescheduling, but in the case of Nigeria, this requirement may be waived. The recently introduced Government Budget for 1986 puts in place many of the economic policies that the IMF would require in an IMF austerity plan. The Budget introduces policy changes that the Bank believes will encourage economic recovery in Nigeria once the current, grave resource-allocation imbalances have been corrected. The significant differences between the Budget and the IMF's suggested plan---slower and less extreme currency devaluation and looser inflation controls---are not enough to make Barclays pull out of rescheduling negotiations. The Bank has been assured by the Government of Nigeria that the Budget will be acted upon and that Nigeria's intentions to service foreign debt are serious.

The Nigerian Government's cap on debt-service of 30% of export earnings is a major negotiating point for Barclays' Bank. The Bank beleives that such a cap is arbitrary and so may be raised. The Nigerian government also has not specified whether all creditors are to bee treated similarly if the cap is called into effect. To the extent that Barclay's has a disproportionately high share of Nigerian debt, the Bank will try to negotiate more favorable debt-service. Also, the Bank is concerned about ensuring correct measurement of export earnings by Nigerian authorities, given that the measurement will carry such economic importance.

February 6, 1986

To: Trade Finance and Risk Class

From: Roger Mann

Re: Synopsis of Equator Holdings' Impromptu Nigeria Debt Statement of 2/4/86

1. Equator's business is based exclusively on the Black African market.

2. Nigeria, with or without a debt crisis, is the largest Black African economy.

3. The bulk of Equator's revenues are Nigeria-generated, so the short term and long range health of the Nigerian economy is of critical importance to Equator.

4. The Nigerian debt crisis is both positive and negative for Equator.

5. It is positive because it frightens away other potential competing suppliers of credit, so that, in 1985, for example, Equator financed 7% of Nigeria's trade.

6. It is negative because falling oil prices are leading to delays in remitting revenues for these short term trade credits. The delay has been about 90 days and is growing.

7. Equator draws a sharp distinction between Nigeria's medium and long term debt which is mainly owed to commercial banks and where Equator has little exposure, and the short term trade finance on which Equator's main role is guaranteeing letters of credit.

8. Nigeria is proud of its record of never having made a late payment on its term debt and Equator will stand by Nigeria in supporting a solution which is in the long range best interests of the country. These are Equator's interests.

U.S. Treasury Department
Position Paper on the Question of
Nigerian Debt

1. The Nigerian debt problem is representative of the LDC debt problem as a whole. Nigeria has experienced setbacks in efforts to improve conditions with regard to infltion and fiscal imbalances. These setbacks undercut the prospects for sustained growth and position the country so as to be more suseptible to the economic and political unrest that can only worsen the situation. A key element of the solution to this problem must therefore be a means of paying the debt while maintaining an acceptable level of economic growth.

2. Austerity programs within the Nigerian government and the economic system as a whole play a crucial part in the solution of the current problem. However, recognition of the attendant economic and political tradeoffs inherent in the austerity measures means that a certain flexibility must be allowed in their implementation in order to maintain the also vital commodities of stability and control.

3. The U.S. Treasury, as the representative agency of the U.S. Government, is currently consulting with the IMF and the World Bank in order to coordinate the efforts of those institutions and facilitate the process of both short and long term restructuring of the Nigerian debt. Specifically we have recommended:

a. The IMF maintain its standards but at the same time give special consideration to the reforms launched unilaterally by the Nigerian government.

b. The IMF should publicly state its aims as short term in nature and designed towards the balancing of external accounts, and not, as is widely perceived, as a tool for restructuring the Nigerian economy.

c. The World Bank should consider requesting a relaxation of its $13.5 billion debt limit. ?

d. That priorities within the World Bank be realigned to compensate for the shift in economic fortunes caused by the drastic downturn in the price of petroleum. ?

4. The U.S. Treasury notes Nigerian efforts to pay its debts and views the Nigerian statement targeting 30 percent of export earnings as a postive sign of good faith and not a concrete limit on liability.

5. The U.S., as a part of the Group of Five, will continue its efforts to lower the price of the dollar and the attendant interest rates, both of which we perceive of as actions which have a favorable impact on the Nigerian debt situation. In this vein, the U.S. will continue such actions for the benefit not only of Nigeria but of the world economy as a whole.

R/

FEDERAL MINISTRY OF FINANCE

OFFICE OF THE MINISTER

95

Ref. No. ....
Telegrams : FEDMINFIN
Telephone : 682517

New Secretariat,
Ikoyi,
P.M.B. No. 12591,
Lagos, Nigeria

30th December, 1985

Mr. A.W. Clausen,
President,
The World Bank,
Washington, D.C. 20433,
U.S.A.

Dear Mr. Clausen,

I want to thank you for your message of congratulations on my appointment as Minister of Finance. Please be rest assured that I would do my best to live up to the expectations of my office.

It was very nice to meet you and discuss our economic and financial problems. We are going to do our best to implement policies that would restructure our economy in a direction that would lead to increased self-reliance and efficient economic management. We hope we can continue to count on the support of the Bank in our endeavours.

All the best in the years ahead. The tribute in Seoul was most deserved. I wish you and your family all the best in the coming year.

Yours sincerely,

(Dr. Kalu I. Kalu),
Minister of Finance.

1/27 - Bill Humphrey called to advise that Dr. Kalu has just become Min of Planning.

1-31-86

RECEIVED

1986 JAN 29 AM 9:33

OFFICE OF THE PRESIDENT

X

September 24, 1985

Dear Mr. Minister:

On behalf of the Executive Directors, Officers and Staff, I would like to express our pleasure at your appointment to the Board of Governors of The World Bank as Governor for Nigeria. Congratulations!

We look forward to your participation in the affairs of the Bank.

On a personal note, I hope to have the opportunity of greeting you in Seoul at the time of the Annual Meetings.

Sincerely,

A. W. Clausen

The Honourable
Dr. Kalu I. Kalu
Federal Minister of Finance
Private Mail Bag No. 12591
Lagos, Nigeria

cc: Mr. Girukwigomba
Mr. Alisbah, WA 1
Mr. Alizai, CA 2

HMFleming:jlk

THE WORLD BANK
Washington, D. C. 20433
U. S. A.

A. W. CLAUSEN
President

September 20, 1985

Dear Mr. Ambassador:

Thank you for your letter of September 6 in which you informed Bank management of the change of your Government.

We are very much encouraged by the new Government's recent public announcements and its commitment to economic development. As you know, the Bank has enjoyed a close working relationship with Nigeria, and we very much look forward to continuing this work.

We wish the new Government every success in meeting Nigeria's economic challenges. The task is enormous and we are ready to help in any way we can.

Sincerely,

(Signed) A. W. Clausen

His Excellency
Ignatius C. Olisemeka
Ambassador of Nigeria
Embassy of Nigeria
2201 M Street, N.W.
Washington, D.C. 20037

TSwayze:pt

Logged out

AMBASSADOR

EMBASSY OF NIGERIA
2201 M STREET, N. W.
WASHINGTON, D. C. 20037

1246

Dear Mr. Clausen,

6th September, 1985

You would no doubt have learnt of the recent change of government in Nigeria. That change, which was smooth, was entirely without accident or bloodshed.

The new President, Major-General Ibrahim Babangida, on assuming office, enunciated the goals and policy of his Administration. These include respect for fundamental human rights and civil liberties. In pursuit of this policy, political detainees have been released. He also pledged to run an open government which allows free access to public functionaries.

Another area of priority to the Administration is the restoration of freedom of the press. In this connection, the much criticised Decree No.4 restricting press freedom was immediately abrogated and all journalists detained under it set free.

In pursuit of the economic goals of the Administration, Presiden Babangida stated: "we shall break the deadlock that frustrated negotiations with the IMF with a view to evaluating more objectively both the negative and positive implications of reaching a mutual agreemen with the FUND". He stressed that the primary objectives would be "the revival of the nation's economy, more efficient management of scarce resources, instilling discipline, probity and public accountability in our body politic".

Finally, President Babangida reaffirmed the determination of his Administration to honour Nigeria's international obligations, maintai and improve Nigeria's relations with all countries, including the United States of America as well as international organisations withi and outside the United Nations system.

You will agree that these are all clearly positive moves. Confidence in Nigeria and her enormous potentialities remains unshak and continues to grow

I thought I should keep you informed of these developments, in t belief that it would deepen the understanding which you have of my country, thereby reinforcing the respect and co-operation mutually shared between us.

Yours Sincerely,

[signature]

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE April 11, 1985

TO Mr. A. W. Clausen, President
(through Mr. Ernest Stern, Senior Vice President, Operations)

FROM Wilfried P. Thalwitz, Vice President, WAN

EXTENSION 72063

SUBJECT NIGERIA: Meeting with Minister of Finance, Dr. Soleye at 4:00 p.m., Tuesday, April 16

The Nigerian Finance Minister is in Washington for the Development Committee meetings. Following is his bio-data and those of others who may be with him.

Dr. O. O. Soleye, Minister of Finance. Born in 1936, he has a diploma in Social Administration (1962), followed by a B.A. and Ph.D. (1970) at the University of Manchester, where he specialized in industrial sociology. Until his appointment as Minister on January 18, 1984 he led a modest life as a senior lecturer at the University of Ibadan. Between 1975 and 1979, he was a Commissioner in the Ogun State Military Government, heading first the Ministry of Works and Housing and later the Ministry of Finance.

Alhaji Ahmed, Governor of the Central Bank. He is 44 years old. In 1977 he became Deputy Governor of the Central Bank of Nigeria, and Governor in 1982. He is a good friend of the Bank and very helpful in discussions of general economic policy, although his influence has been limited. He also continues to be a fence sitter on the devaluation issue.

Alhaji U.K. Bello, Permanent Secretary, Ministry of Finance. A career civil servant, he succeeded Alhaji Abubakar Alhaji as Finance's Permanent Secretary in October 1984. Previously, he was Permanent Secretary for the Production, Prices and Income Board. He has also served as the Permanent Secretary in the Cabinet Office and in the late 1970's, Director of External Finance and in that post he had also been the Bank's main counterpart in the federal government.

A. Introduction: A Respectable Record of Economic Policy Measures

1. The economic policy reforms introduced by the Federal Military Government of Nigeria (FMGN) since 1984 are impressive - particularly in relation to the track record of its predecessor government and also in comparison to other Sub-Saharan African countries. Unfortunately, the two outstanding issues - the exchange rate and petroleum subsidies - have overshadowed all the other policy reforms introduced during the last 15 months.

2. The new military government, which assumed power on December 31, 1983, was confronted with a situation where the demand and prices of

its main export, oil, were softening but its obligation to service the external debt contracted by the previous government -- some albeit for frivolous purposes -- was increasing sharply. Consequently, the new government adopted a policy of stabilizing the economy by restraining aggregate demand and significantly reducing external borrowing.

3. Balance of Payments and Debt Situation. In the external sector, during the last year the Government through very tight controls in imports has succeeded in reducing the current account deficit from 6.3% to less than 1% of GDP. The external reserves are now running at about twice the low level inherited in 1983, even though external debt servicing obligations amounting to almost US$3.5 billion have been fully met and the country is current in its external payments on medium and long-term debt. The import licensing and foreign exchange allocation systems have been streamlined, priority sectors and subsectors have been identified, and explicit criteria are being used in the allocation process. The uninsured short-term trade arrears, estimated at US$4-5 billion and accumulated during the civilian regime, have been successfully renegotiated and some promisory notes have already been issued. The FMGN has resisted strong political pressures for allowing increased inflow of imports instead of meeting its external debt servicing obligations (almost 44% of export earnings). At the same time, it has drastically reduced external borrowings and eliminated reliance on short-term commercial loans. Except for World Bank loans, new commitments of medium and long-term loans have been few and insignificant. No doubt, the particular mode adopted to reduce external imbalance is not without costs in terms of foregone output and employment but the net result (a reduction in aggregate demand) has been by and large successful.

4. Fiscal Policies. To achieve the internal balance several measures have been taken. Because the source of expansionary aggregate demand was the public sector, the Government introduced very tight fiscal policy measures, and as a result, lowered the budgetary deficit from 18% of GDP in 1982 to 5% in 1984. The Federal Government has imposed much greater discipline on the state governments and has weeded out a large number of state capital projects which did not conform to the current priorities and realities of the economic situation. The massive retrenchment of about 250,000 public sector employees, coupled with a wage and salary freeze, has also helped to reduce recurrent expenditure. In Rivers State, for example, the monthly wage bill in 1984 was down to ₦13 million from ₦22 million the previous year. The Federal Government, with the assistance of the World Bank, reviewed its portfolio of capital projects and reordered the priorities, emphasizing completion of on-going projects and initiating very few new projects.

5. Agriculture Sector. The agricultural sector is also being revitalized. The Government is allowing food product prices to be determined by market forces without any intervention by the Commodity Boards. Public sector expenditure allocation to agriculture has been increased by 44 percent. Bank-assisted projects claim almost three

quarters of the sectoral allocation. In the past, major investments had been made in inefficient large scale irrigation schemes under the River Basin Authorities; these investments are now, for the most part, being redirected into more cost effective smallholder agriculture. The import tariff structure has been restructured reducing inter-industry variations in the rates of effective protection and the coverage of excise tax has been extended to a much large number of domestically produced commodities.

6. Power Sector. Under the new government, Nigeria has also been turning around a poor and deteriorating power system. Under NEPA's power rehabilitation program, sparked by Bank assistance, plants are being restored, service has improved and customers are beginning to shut down the uneconomic standby autoproducer units. The rehabilitation program is increasing current plant capacity use of 40 percent or less to 60 percent, which would be equivalent to a 600 MW increase.

7. Population Policy. The present Government has, unlike all previous governments, accorded the population issue the high priority it deserves. With Bank assistance, the Government is engaged in formulating population policy and has emphasized the population issue as a fundamental one for the 1986-1990 Five Year Plan.

8. Conclusion. In the final analysis, of course, the exchange rate reform and withdrawal of petroleum subsidies, along with the concommitant flow of increased external resources, would not only reinforce and strengthen structural adjustment, but also, relieve Nigeria of some of its present pain and agony. Nevertheless, the above measures taken by the FMGN represent a very significant achievement of policy conditionalities specified in the Bank's SAL program and the IMF's EFF program.

B. Economic Reforms and the Level of Bank Lending

Background

9. Adjustment of the exchange rate to improve economic incentives and to help move away from administrative controls, together with an increase of domestic petroleum prices are the two major additional actions needed to convert the Government's impressive series of stabilization measures into a full reform program acceptable to the IMF. The Nigerians believe that the international financial community has not given Nigeria enough credit for the economic measures which they have taken and which have required considerable courage. Nevertheless, the government appears to be locked into a public position of opposing the IMF. At the official level there is also a worry about borrowing heavily from the IMF at a time when future oil prices are very uncertain.

10. Officials have told us that, while appreciating all the help the Bank has continued to provide Nigeria, they are worried that we are

giving too much weight in our decisions to the fact that they have not yet reached agreement with the IMF. In spite of this, it has unilaterally taken some action on exchange rate reform. To reverse the steady appreciation of the exchange rate, driven by increasing oil export revenues, the previous civilian government had allowed the exchange rate, which peaked at $1.80 per Naira in 1980, to slide substantially in 1981 - 1983. The rate remained constant at a level of about $1.33 per Naira from mid-1983 to 1984 during the period of active discussions with the IMF. In mid-1984 the military government allowed the exchange rate to depreciate further against the dollar, letting it fall over ten percent from 1.26 in November 1984 to the current rate of 1.13, and the Minister of Finance has recently emphasized in public the need for a realistic exchange rate. However, the exchange adjustment against other major currencies continues to be insignificant.

Issue

11. Our major operational issue is what should the size and composition of the Bank's lending program be in the absence of further reforms and what further measures would be needed to trigger an increase in Bank lending. Indeed the Minster may ask whether the Bank would be prepared to go forward with a larger program if the Government satisfies the Bank on the exchange rate and petroleum prices but does not negotiate an agreement with the IMF.

Suggested Response

12. You may wish to tell the Minister that we have been very encouraged by the courageous measures the Government has taken over the past fifteen months to restore fiscal discipline and to make appropriate and difficult public investment choices. You could add that our concern about the exchange rate and domestic petroleum prices stem from the need to restore economic growth and make the Nigerian economy less dependent on oil, which in turn requires improved economic incentives to guide resource use and a move away from extensive administrative controls.

13. Once again you should emphasize, as you did at the Annual Meeting last year, that the level and composition of our lending program in Nigeria is closely geared to progress on further economic reform. You might emphasize the value of an IMF agreement as a means of attracting needed foreign capital to support the Nigerian development program and to permit a formal rescheduling of the officially insured open account trade arrears. Implementation of the full IMF/SAL package would permit a Bank lending program approaching one billion dollars in new commitments.

14. On the basis of present policies we can go forward with a lending program covering infrastructure and social investments together

with limited activites in agriculture 1/. You could add that provided we are satisfied that the depreciation of the Naira is part of a real Government commitment to move towards a more realistic exchange rate on a reasonable schedule, the Bank could consider mounting a substantially larger lending program, including quick disbursing assistance such as a second fertilizer import loan. The SAL, however, would have to await a formal agreement with the IMF.

15. In discussing Bank assistance without an agreement with the IMF, we have to avoid appearing to undercut the Fund and, indeed, the discipline of an IMF program would be an important consideration.

16. It would be useful if you asked the Minister about his strategy on the exchange rate in the absence of an IMF agreement and what the Government's target levels are. We should, of course, also enquire about where his discussions with the IMF stand.

C. Project Implementation Problem

Background

17. Nigeria's disbursement performance continues to lag behind other countries in the West Africa Region and Bank assisted countries as a whole. The undisbursed balance of World Bank loans in Nigeria is over one billion dollars, 47 percent of the ongoing loan and credits approved. An accelerated draw-down of Bank loans would, of course, not only assist the country's balance of payments problem, but it would advance the economic and social benefits generated by the specific project activities. Last month Mr. Alisbah participated in an extensive government review of implementation problems of World Bank projects, in which the following issues were highlighted:

- inadequate counterpart funding: This has been a particularly severe problem in our numerous agriculture development projects. Adequate funds have now been allocated in the 1985 budget, and we hope the money will be released on a timely basis.

- delays in Bank project imports: Licences are required to import goods, including goods financed by the Bank even though they are not making a direct claim on Nigeria's scarce foreign exchange resources. These procedures are extremely cumbersome and time consuming.

1/ This 'core lending program' for FY85, 86 and 87 is attached.

- <u>delays in contract awards</u>: Contract delays have been particularly great in infrastructure development and in some cases have led to rebidding from the delaying implmentation.

<u>Issue</u>

18. The Government workshop review of these problems was useful, but we know we will have to continue to pursue them to help expedite project implementation. There have also been inordinate delays in obtaining government clearances for new Bank projects, often with 10-14 months elapsing between negotiations and final government approval (e.g. Kaduna ADP, 10 months; Sokoto Health, 14 months; and still outstanding: South Borno ADP, 14 months; Borno Water Supply, 11 months; Lagos Solid Waste, 10 months; and Imo Urban, 10 months).

<u>Suggested Response</u>

19. You could point out that these delays undercut our efforts to argue a strong case for Nigeria's need for Bank assistance. We recommend you again urge the Minister to strengthen and increase his own staff in order to provide adequate support to the Bank lending programs. You might also again repeat our suggestion that, if it would be helpful, funds from the Technical Assistance Loan (which will become effective shortly) could be used to strengthen his staff with Nigerian consultants.

Attachment

WSHumphrey/TSwayze:cgh

Attachment

NIGERIA

FY85-FY87 LENDING PROGRAM

FY85		FY86		FY87	
Tech. Asst.	13.0	Transp. Parastatals	15.0	(S) Tech. Teacher Trng.	100.0
Borno Water Supply	72.0	Livestock	85.0	Forestry II	50.0
Sokoto Health	34.0	Imo Urban	53.0	Lagos Water	150.0
		S. Borno ADP	75.0	Population	50.0
		Industry TA	5.0	Water Supply Rehab.	50.0
		ADF	172.0	(S) Roads	50.0
	119.0		405.0		450.0

WA1NI
April 8, 1985

E-1827

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 11, 1984

TO Memorandum for the Record

FROM Bilsel Alisbah, BA Director, WA1DR

EXTENSION 78051

SUBJECT NIGERIA: Meeting between Mr. Clausen and the Federal Minister of Agriculture

1. Dr. Bukar Shaib, Federal Minister of Agriculture, met with Mr. Clausen at 3:15 p.m., on Tuesday, October 9, 1984. He was accompanied by His Excellency Mr. Olisemeka, the Ambassador for Nigeria, Mr. Girukwigomba, the Alternate Executive Director for Nigeria, and Messrs. Awoyemi, Adekanye, and Bincan. Messrs. Fuchs, Alisbah, Walton, Denness, and Ms. Mehra were also present.

2. In opening the meeting, Mr. Clausen said he was glad that a solution had been worked out for the two critical problems related to ongoing projects, i.e., counterpart funding and the arrangements for managing the procurement and distribution of fertilizer for the 1985 crop year. He had noted the slow progress of the agricultural development projects which was attributable in large part to shortages in counterpart funding and hoped that this problem would no longer impede implementation. Turning to the broader picture, Mr. Clausen expressed concern that Nigeria had been an exporter of agricultural products and was now importing substantial quantities of food and other agricultural products.

3. The Minister said that Nigeria's resource situation had deteriorated considerably since his last visit to Washington and, as a result, agricultural production had been adversely affected. The Government was now giving high priority to agriculture, and concerted efforts were being made to put the resources needed into place. He stated that the Bank had been very helpful in looking for a solution to the critical problems ongoing projects were facing. All the options possible for the management of the 1985 fertilizer program had been explored, and in view of the need for immediate action, he had decided to hire Crown Agents and hoped they would be able to mobilize staff immediately.

4. The Minister emphasized that the ongoing Bank-assisted Agricultural Development Projects have very high priority. He expressed his interest in further Bank assistance for future agricultural investments. He was particularly concerned about the need to continue to import fertilizer for 1986 and 1987 because of the delays in the establishment of the Onne Fertilizer plan, and said that the Government would need a second loan from the Bank to finance fertilizer imports for 1986 and 1987.

5. Mr. Clausen confirmed the Bank's interest in continuing assistance for the sector. Insufficient fertilizer supplies were clearly a bottleneck to increasing agricultural production and the Bank would like to help the Government to ensure the availability of adequate fertilizer for the period in question. Mr. Clausen further stated that, while improvement in the supply and distribution of fertilizer to farmers was an important objective, in view of the relevance of macro policy issues such as the exchange rate and pricing, action on macro policy reforms would be needed before consideration of a second fertilizer loan.

6. The Minister then described a proposed redefinition of the respective roles of agricultural agencies, partly to increase the activities of federal agencies in the states in areas where they were better equipped than state-level agencies and partly to ensure the continuation of project agencies as projects were completed. Mr. Clausen agreed with the importance of perpetuating responsible agencies in order to ensure adequate operation and maintenance of investments already made.

cc: Mr. Clausen's office (2)

cc: Messrs/Mss. Stern, S. Husain, W. Thalwitz, Fuchs, Eccles, O'Brien, Isenman, Humphrey, Walton, I. Husain, Denness, Swayze, Duncan, Mehra copy for files

344

October 11, 1984

Mr. Ernest Stern

Re: NIGERIA - Visit of the Minister of Agriculture

Attached is a copy of the record of the understandings we were able to work out over three days of discussions with the Minister and a record of his meeting with Mr. Clausen.

Contrary to our earlier expectations, the Minister was very reasonable and low key and made a considerable effort to find a workable solution under the circumstances for the two critical problems, i.e., ADP funding and arrangements for managing the 1985 fertilizer program. In addition, he confirmed his interest in a sustained program of Bank assistance for the future, and while he understood the limitations on lending in the absence of macro policy reforms, made a strong plea that preparation not be interrupted in the meantime.

As you will see from the memorandum, there are still some worrisome areas such as technical assistance and the respective roles proposed for implementing agencies, but I think we made some headway this time around.

We owe a lot to David Hopper who worked the Minister through all the problems before he came to Washington.

We now have to see how much of what the Minister promised he will be able to deliver. We may be right back in a crisis situation if the additional funds do not flow to the ADPs by November 5, and if the Crown Agents are not on the fertilizer procurement job almost immediately.

BA

Bilsel Alisbah

cc: Messrs. S. Husain)
D. Hopper) With Attachments
W. Thalwitz)
H. Fuchs)

THE WORLD BANK/INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE October 11, 1984

TO Memorandum for the Record

FROM Bilsel Alisbah, Director, WA1DR

EXTENSION 78051

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cc: Mr. Clausen's office (2)

cc: Messrs/Mss. Stern, S. Husain, W. Thalwitz, Fuchs, Eccles, O'Brien, Isenman, Humphrey, Walton, I. Husain, Denness, Swayze, Duncan, Mehra

Record of Discussions Between a Delegation of the Federal Ministry of Agriculture, Nigeria, and the World Bank

1. A delegation led by Dr. Bukar Shaib, Federal Minister of Agriculture, Nigeria, met with staff of the World Bank on October 8 and 9, 1984. Messrs. Awoyemi and Bincan (Federal Ministry of Agriculture (FMA)), H. E. Mr. Olisemeka and Adekanye (Nigerian Embassy), and the following Bank staff participated in the meetings: Messrs./Ms. Fuchs, Alisbah, Eccles, Humphrey, Walton, Denness, Hindle, Mehra. The subjects discussed and the understandings reached are recorded below.

2. Counterpart funding for seven ongoing Agricultural Development Projects (ADPs). The meeting discussed the local funding requirements of the seven ongoing ADPs in Sokoto, Bida, Bauchi, Oyo, Kwara, Kano and Ondo states for the remaining three months of 1984. The Nigerian delegation confirmed that, in addition to the existing 1984 federal budgetary allocation of ₦9.6 million for these ADPs, a further sum of ₦13.12 million would be allocated for the remainder of 1984, and made available to the ADPs by November 5, 1984. 1/

3. The Nigerian delegation also confirmed that a sum of ₦3.96 million over and above the existing 1984 federal allocation of ₦ 2.15 million would be provided for the ARMTI, ATAP and the Kaduna ADP in the remainder of 1984.

4. For 1985, as shown in the attachment 1, FMA would request a ₦50 million budget for the seven ongoing ADPs listed above, the Kaduna ADP, ARMTI and ATAP. In addition to this minimum figure, provision would also be made in the 1985 budget for the other ongoing agricultural projects, e.g., forestry and oil palm and any new projects coming on stream e.g., South Borno ADP and the eight new ADPs. And the total requirement for all the projects combined would be accommodated within the Ministry of Agriculture's final 1985 budget. FMA would also inform the relevant states of the 1985 state funding requirements (as shown in attachment 1), and require the states to ensure that the amounts needed would be included in the state budgets. It was also agreed that over the next two to three months the Bank, FMA, and the State Governments would undertake a joint examination of the ongoing ADPs to determine their financial needs and the possibilities of reducing the financial burden on the states and the federal government.

5. Dr. Bukar Shaib also stated that, following the concerns expressed during recent meetings by state agriculture commissioners about the funding shortages and the integral role of the Development Loan Stock Scheme (DLS) in filling the funding gap, he had discussed the prospects

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1/ It is understood that the actual flow of these funds would need to take place prior to the release of the second tranche of the fertilizer loan.

for its resumption with the Minister of Finance. The latter had agreed to support this if it was proposed by the Federal Ministry of Agriculture for 1985. FMA intended to do this.

6. Fertilizer procurement and distribution for 1985. The meeting discussed the alternative arrangements possible for procuring and distributing fertilizer for the 1985 crop year since the Federal Executive Council's decision that NAFCON should concentrate on the Onne fertilizer plant and not be responsible for the 1985 fertilizer program. The meeting agreed that given the complexity of the task and the extensive logistical support required, a firm rather than individual consultants was needed; and, in view of the limited time available, a firm which already had offices established in Nigeria and was able to mobilize staff immediately, should be selected. The Nigerian delegation decided to postpone bid opening for a short period and negotiate terms with the Crown Agents (U.K) immediately, given that they had extensive procurement experience in Nigeria, fertilizer procurement experience elsewhere, well-equipped offices in Nigeria, and could mobilize staff very quickly.

7. Dr. Bukar Shaib confirmed that, although the timetable for the commercialization of Nigeria's fertilizer operations had slipped because of the need to void the marketing partner agreement NAFCON had drawn up, the Government intended to commercialize these operations within a reasonable period. A National Fertilizer Board would be established and made responsible for policy matters related to fertilizer, and the International Fertilizer Development Center (IFDC) would be contracted and staff mobilized by late October/early November to help work out arrangements for commercializing fertilizer operations.

8. An outline of these arrangements would be agreed between the Government and the Bank by December 31, 1984. Bank staff confirmed that the services of IFDC could be financed out of the fertilizer loan. At the same time, the Government would take the necessary measures to establish the National Fertilizer Board and make it operational.

9. The Nigerian delegation requested that the disbursement percentage under the fertilizer loan be increased from 50 percent to a proportion sufficient to utilize the remainder of the loan for fertilizer imports for the 1985 crop year except for the portion expected to be needed for the IFDC contract. They stated that counterpart funds which would be freed up as a result would be made available for the ADPs. Mr. Alisbah confirmed support for the possibility of raising the disbursement percentage under the Bank loan.

10. Technical assistance. The Nigerian delegation clarified that the following Government decisions pertaining to technical assistance were in effect: existing technical service contract terms would continue to apply in the following cases: renewal of contracts of incumbents under ongoing projects; all consultants employed by FACU and the FASUs (given their specialized supervisory role); the nine posts required to be filled for the Kaduna ADP as conditions of loan effectiveness; and for ADF-related staff to be located in FACU and the FASUs (staff to be located in the states would be considered as regular

appointments on civil service scales). For all new projects, in the first instance civil service terms would be offered for all new recruitment, and in the event that the relevant agency was unable to attract the required skills on the basis of these terms, experts could be recruited as consultants on the basis of international salary levels. Bank staff felt that it would be efficient to define a time frame within which experts would be recruited as regular staff, and suggested that a period of, say, 45-60 days be allowed to recruit experts as regular staff before reverting to the consultant route if unsuccessful.

11. The Government had also decided to phase out management consultants. The delegation believed that the Kano ADP management had decided not to renew the MASDAR contract, and Chisholm Associates' contract would be renewed only for the transition period till the new director of the Livestock Project Unit (LPU) and his staff could manage LPU's operations independently without technical assistance. KASRA and BASRA would also be phased out and FARA would continue to be responsible for all consultant recruitment.

12. On the question of zonal managers for the Kaduna ADP, the Nigerian delegation asked that the candidates proposed by the state, although this was done after the completion of the FARA interview process, be interviewed in the normal manner and an assessment made about whether they had the qualifications and experience needed for the job. The Bank delegation agreed to this.

13. <u>Future relationship of the RBRDAs and ADPs</u>. The Nigerian delegation informed the Bank of the broad outlines of the recent reorganization of FMA. The newly created state-specific River Basin and Rural Development Authorities (RBRDAs) would be responsible for rural infrastructure including dams, water supplies, boreholes and roads, which the Government believed the federal agencies were better equipped to implement. The federal government had approved the reorganization and a decree to this effect would be issued soon. In order to minimize disruptions, the ongoing ADPs would continue their current operations, but all new ADP-type investments would need to be restructured. The key concern was to ensure continuity of agencies responsible for maintenance, etc., following project completion.

14. Bank staff and the Nigerian delegation shared a concern about duplication of the states' administrative machinery, and agreed that the desirability of adapting states to the Kano model should be considered. It was agreed that once the decree was finalized, the subject would be discussed further between government officials and Bank staff.

15. <u>Future Bank assistance</u>. The Nigerian delegation confirmed that Borno state had decided to work with the <u>Southern Borno ADP</u> as negotiated. Although the state had previously preferred to carry out a statewide project, they could no longer afford it.

16. The delegation also stated that FMA had confirmed to the Ministry of Finance its interest in borrowing from the Bank for all the projects listed in the attachment to Mr. Alisbah's letter of July 2, 1984. These were: the eight new ADPs, <u>Livestock II</u>, <u>Forestry II</u>,

ATAP/ARMTI II, Oil Palm, and Fertilizer II (Attachment 1). The Minister requested that preparation work for all these projects be continued according to the current schedule and before departure of the appraisal mission for the first of these projects, he would obtain confirmation for the Bank from the Federal Ministry of Finance that these projects would be included in the government's borrowing program. The Bank agreed to this arrangement.

17. Referring to the July 2 letter, Dr. Bukar Shaib urged that the tentative appraisal schedule of January 1985 for Fertilizer II be adhered to. Because of the delay in the establishment of the Onne fertilizer plant, domestic fertilizer production would not come on stream before 1988 and the government would need to import fertilizer for 1986 and 1987.

18. Mr. Alisbah clarified that, since the summer the Bank's proposed future program for Nigeria had been reviewed by management and the conclusion reached that substantial progress on broader macro-economic issues such as pricing and the exchange rate was essential to enable the Bank to provide assistance for programs such as fertilizer imports. At the same time, the counterpart funding problem would, of course, have to be satisfactorily resolved, the backlog of negotiated projects cleared, and confirmation of the overall borrowing program for the future received by the Bank.

19. Dr. Bukar Shaib urged that, given the importance of fertilizer, project preparation should not be interrupted now. Mr. Alisbah and the Minister agreed that project preparation should be continued on the clear understanding that the Bank would not be able to appraise the project without substantial progress on macro policy reforms.

20. Bank assistance for irrigation. The Nigerian delegation asked that in view of the role envisaged for RBRDAs, the Bank should review the RBRDA framework and explore the possibilities of providing assistance to them in addition to the ADPs. The delegation felt that possibilities ranged from assistance for minor irrigation to the completion of major irrigation schemes using water already impounded.

21. The Bank and the delegation agreed that Bank staff and relevant Government officials would work together to try to define areas which might lend themselves to Bank assistance.

22. Review of future investment priorities in agriculture. The preparation of the Government's fifth Five Year Plan as well as the project pipeline for possible Bank assistance beyond the next two years were discussed.

23. The Bank and the Nigerian delegation agreed that it would be helpful for the Bank and the Government to jointly carry out a review of

the investment priorities in the agriculture sector as well as a review of the tree crop subsector, in order to lay the basis for the preparation of the fifth Five Year Plan and Bank assistance for agriculture in the medium and long term.

Mr. Bilsel Alisbah Director Western Africa Programs I International Bank for Reconstruction and Development	Dr. Bukar Shaib Federal Minister of Agriculture Federal Ministry of Agriculture, Nigeria

Washington, D.C.
October 9, 1984

Attachment 1

	1984					1985		
	Direct Federal Requirement 1/	Budgeted and Disbursed 2/	% of Requirement	Additional Federal Allocation ₦13.12 M 3/	DLS 4/	Federal Requirement Direct 1/	DLS 4/	State Reqt. 1/
	Naira Million							
Bauchi	9.6	1.6	17		5.5	9.6	5.5	7.9
Kano	11.1	1.8	16		5.9	11.0	6.0	9.0
Sokoto	7.4	1.48	20		9.5	7.4	9.5	7.8
Ilorin	2.0	0.94	47		1.3	-	-	-
Oyo	2.4	1.05	44		2.2	2.2	2.2	2.1
Ekiti-Akoko	2.8	1.05	38		2.3	2.1	1.7	2.6
Bida	2.1	1.03	49		1.8	0.4	0.9	0.7
	37.4	8.95	24	22.07	28.5	32.7	25.8	30.1
Kaduna	-	.64				10.3		1.1
ATAP	4.0	.45				4.0		
ARMTI	3.0	1.06				3.0		
	44.4	11.1	25	26.07		50.0		31.2

1/ As agreed between Federal and State authorities at the Kaduna Conference February 1983.
2/ Approved 1984 budget fully disbursed.
3/ Additional resources to be reallocated to the projects.
4/ Development Loan Stock requirement as agreed at Kaduna Conference February 1983.

Attachment 2

NIGERIA: PROPOSED WORLD BANK PROJECT PIPELINE (AGRICULTURE)

1. Eight Agricultural Development Projects - $150 million. To increase food production by supporting the Government's program of input distribution and extension services for small farmers and improving rural infrastructure in eight southern states (Benue, Ogun, Bendel, Rivers, Cross River, Anambra, Plateau, and Imo).

2. Livestock II - $100 million. To assist smallholder livestock production nationwide through credit, extension, and improvement of related infrastructure and services. The project would also help improve animal health as well as marketing and processing.

3. Fertilizer Imports II - $200 million. To help finance Government fertilizer imports for the 1986 and 1987 crop years and improve delivery systems to ensure the timely supply of fertilizer to Nigerian farmers.

4. Forestry II - $50 million. To help the Government in its objective to develop a rural forestry program to increase the supply of fuelwood, establish new and improve existing plantations for industrial timber and pulpwood, and further strengthen the Federal Department of Forestry.

5. ATAP/ARMTI - $40 million. Assistance to continue the support provided by the federal Agricultural Technical Assistance Program (ATAP) and the Agriculture and Rural Management Training Institution (ARMTI).

6. Oil Palm - $100 million. Assistance to develop Nigeria's great potential in oil palm. The project would help improve smallholder farm production and fruit collection systems, and expand oil palm processing facilities.

Check with IPA; but am not inclined to go. Draft regret.

CURTIS J. HOXTER
INCORPORATED
745 FIFTH AVENUE
NEW YORK, NEW YORK 10151

TELEPHONE
(212) 751-2850

CABLE ADDRESS
"CURTHOXTER NEW YORK"
TELEX ITT
422526 "HXTR-UI"

October 5, 1984

Dear Mr. Stern:

The President of the Zentralsparkasse und Kommerzialbank (Z-Bank) in Vienna, Dr. Karl Vak, who is also at the same time the Chairman of the Austrian Foreign Policy Association, has asked us to assist in the organization a Conference which will concern itself with current world financial problems with particular emphasis on the debt problems of the undeveloped world. It is intended that leading personalities from Europe, Latin America and the United States as well as from Asia would participate in this symposium which would bring together people at the highest level with a participation of more than 500.

The time for this Conference is Thursday, November 22nd and Friday, November 23rd in Vienna.

I would be most appreciative to have your reaction to this proposal and hope that we could persuade you to actively participate in this meeting. Expenses for travel and hotel facilities will be carried by the Organization and a fee will be paid, which we can negotiate.

The enclosed preliminary program will give you an over-all picture of the project together with the names of those that have accepted or are in the process of doing so.

May we hear from you?

With kind regards.

Cordially,

C. J. Hoxter

Curtis J. Hoxter

Mr. Ernest Stern
Senior Vice President, World Bank
1818 H Street, NW
Washington, DC 20433

1985 - YEAR OF KEY ACTIONS IN WORLD ECONOMIC AND FINANCIAL DECISION-MAKING

A CONFERENCE SPONSORED BY:

THE AUSTRIAN FOREIGN POLICY ASSOCIATION

and

ZENTRALSPARKASSE UND KOMMERZIALBANK (Z-BANK)

November 2nd and 23rd, 1984

in

VIENNA, (AUSTRIA)

A. THE DEBT QUESTION

1- The Third World

2- Eastern Europe

3- Western Europe

4- Latin America

5- Africa

6- The Pacific Basin

B. THE ROLE OF THE PRIVATE SECTOR AND THE PUBLIC AUTHORITIES

1- The IMF

2- The World Bank

3- The Development Banks

4- The Bank for International Settlement

5- Individual Governments

C. THE ISSUE OF TRADE-RELATED AND PUBLIC CREDITS

D. THE CURRENCY ISSUES

1- The future of the Dollar

2- Other Reserve Currencies

3- The U.S. Economic's Impact on the World - The U.S. Budget Deficit and U.S. interest rates - World repercussion.

* * *

PARTICIPANTS

Karl Otto Poehl,
President, Dutsche Bundesbank

Dr. Markus Lusser,
Governor, Swiss Naitonal Bank

Richard Erb
Deputy Managing Director,
Internatonal Monetary Fund

Leopold Gratz,
Minister of Foreign Affairs, Austria

Dr. Franz Vranitzky
Minister of Finanz, Austria

Ernest Stern,
Senior Vice President, World Bank

Raul Prebisch,
Former Executive Director - Latin American Economic
Commission, now advisor to the Argentine Central Bank

Janos Fekete,
Senior Deputy President, Hungarian National Bank

C. Fred Bergstein,
Exeuctive Director, Intistute for
Internatonal Economic Relations

William Rhodes,
Senior Vice President, Citibank

Dr. Walter Seipp, Chairman of the Board,
Commerzbank AG, Germany

Jacob Palmstierna,
Managing Director, Skandinaviska Enskilda Banken

Antonio Ortiz Mena,
President, Inter-American Development Bank

Taroichi Yoshido,
President, Asian Development Bank

Arthur Dunkel,
Secretary General, GATT

Gamani Corea,
Secretary General, UNCTAD

Dr. Norman Bailey,
Former official, National Security Council~~, The White House~~

Manuel Ulloa,
Senator, Former Prime Minister of Peru

THE WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE September 26, 1984

TO Memorandum for the Record

FROM W. S. Humphrey, Division Chief, WAINI wtt

EXTENSION 78058

SUBJECT NIGERIA: Annual Meeting - Meeting between Mr. Clausen and the Nigerian Delegation

1. The Nigerian delegation met with Mr. Clausen at 7:00 p.m. on Tuesday, September 25, 1984. The Nigerian delegation consisted of Messrs. Soleye, Ahmed, Alhaji Abubakar, Chikelu, Ezeife, Fadare, Mowoe, Nwankwo, Oseni and Owoeye. Messrs. Stern, S. Husain, Thalwitz, Alisbah, Humphrey and I. Husain were also present.

2. The Minister started by thanking Mr. Clausen and the Bank for the recent report on Sub-Saharan Africa. He was most encouraged by the Bank's proposed response to the needs of Africa and he hoped that the recommendations of the report would be implemented as quickly as possible. Mr. Clausen agreed that the time for action was now and said he would be referring to this need in his concluding remarks to the Annual Meeting.

3. The Minister said that the Government appreciated the role of the Bank in Nigeria and was carefully reviewing the funding problems faced by the on-going projects and the priorities of the new projects which had been suggested for Bank financing. Despite the embargo on foreign borrowing announced in the 1983 budget, he expected that most of the projects negotiated with the World Bank would go forward. The Permanent Secretary, Finance added that the interdepartmental review was nearly complete and that the unit dealing with World Bank matters in the Ministry of Finance would be strengthened. He hoped to provide the conclusion of the review to the Bank very shortly.

4. Mr. Clausen said that the counterpart funding problems on existing projects were very serious and it was difficult to go forward with new ones until these were resolved. Disbursements were slow and action was needed to speed them up. For the future he stressed that the Bank could do much more to help Nigeria if agreement was reached with the Fund and, in particular, if action was taken on the exchange rate. The overvaluation of the Naira was causing major distortions in the economy. The Minister responded by giving the usual Nigerian reasons for not devaluing (no effect on oil export earnings, lack of possible agricultural exports and the increase in prices of imported raw materials for industry creating inflationary pressures). The Minister also said that he felt the Bank was pushing for devaluation in order to increase the Naira equivalent of World Bank loans.

5. Messers. Stern and Husain responded to these arguments stressing that the Bank's interest in devaluation had nothing to do with the Naira equivalent of loans but hinged on the need to have an appropriate exchange rate for the non-oil economy in order to create adequate incentives for agriculture and industry and also an economy whose production was internationally competitive. The example of Indonesia as an oil economy which had successfully sustained a viable agricultural sector and kept its domestic currency appropriately valued was cited.

6. In response, the Minister said that changing the structure of the economy was difficult. He agreed with Mr. Stern's analysis but good management was needed in addition to exchange rate change. In Nigeria's situation, the political situation had to be watched in order to avoid undue short-term pain. Mr. Clausen said that the external financial assistance which could accompany appropriate adjustment measures would ease this pain. The Government had to convince the people that adjustment was needed and that additional resources for the country would accompany appropriate adjustment measures. The Bank for its part could expand considerably its support for Nigeria if appropriate policies were put in place.

c.c. Mr. Clausen's office (2)

Messers: Stern, S. Husain, Thalwitz, Alisbah, Fuchs, Bouhaouala, Eccles, Guetta, O'Brien, Isenman, I. Husain, Walton, ter Weele, Thiam, al Khafaji, Aiyer, Apitz, Pellegrini, Bharier, Iskander, Segura, R. Stern, Chaparro, Mrs. Husain, WAINI staff

WSHumphrey:js

R1. cc. Messrs. Knox & Humphrey.

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FEDERAL MINISTRY OF FINANCE

OFFICE OF THE MINISTER

Ref. No. 10176/S.29/T III/8
Telegrams : FEDMINFIN
Telephone : 682517

New Secretariat,
Ikoyi,
P.M.B. No. 12591
Lagos, Nigeria

20th March, 1984

Mr. A.W. Claussen,
President,
World Bank,
Washington D.C.,
U.S.A.

Dear Mr. Claussen,

I thank you most sincerely for the opportunity afforded me and the members of my delegation to have a brief discussion with you when we called in your office on Thursday, 16th February, 1984.

I am looking forward to increased cooperation and assistance from the Bank to our development efforts. Our needs, as you rightly observed, are enormous in the present circumstances. However, with the understanding of key personalities like you, I am confident that we will be able to weather them through.

With my best personal regards.

Yours sincerely,

Oleg. Soleye

(Dr. O.O. Soleye)
Minister of Finance.

1984 APR -1 AM 10: 07

March 8, 1984

Dear Mr. Minister:

It is indeed good to know that you have been appointed Governor for Nigeria on the Board of Governors of The World Bank. Congratulations!

The Executive Directors, Officers and Staff join me in extending to you a warm welcome. We look forward to your participation in the affairs of the Bank.

On a personal note, it was a pleasure to meet you a few weeks ago and to have the opportunity of discussing matters of mutual interest to Nigeria and The World Bank.

Sincerely,

A. W. Clausen

The Honourable
Dr. Onaolapo Soleye
Federal Minister of Finance
Federal Ministry of Finance
Private Mail Bag No. 12591
Lagos, Federal Republic of Nigeria

cc: Mr. Smith
Mr. Alisbah
Mr. Alizai

ETSanidad:MH

THE WORLD BANK INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DATE February 27, 1984

TO Memorandum for the Record

FROM W. S. Humphrey, Division Chief, WAIA

EXTENSION 78058

SUBJECT NIGERIA - Meeting between Minister of Finance and Mr. Clausen

1. Mr. Clausen met with the Nigerian Minister of Finance at 3:00 p.m. on Thursday, February 16, 1984. The Minister was accompanied by Alhaji Abubakar Alhaji, Permanent Secretary, Ministry of Finance; Alhaji Ahmed, Governor of the Central Bank and Mr. William Smith, Executive Director for Nigeria. Messrs. Stern, Fuchs, Alisbah, Chaudhry and myself were also present.

2. Mr. Clausen welcomed the Minister and said he would be interested to hear about the steps which the new Government in Nigeria was taking to deal with its very difficult economic problems.

3. The Minister said that the economic situation in Nigeria had worsened over the last four years and that the Government's first priority was to stop the deterioration and strengthen the economy. This involved instilling discipline at all levels of Government including a careful review of the budget at federal and state level to ensure that only the highest priority expenditures went forward. The Bank's Public Expenditure Report had been helpful in this exercise. He said that the package of measures was being accepted as a principal for all actions. Measures would include a suspension of subsidies to the states, interest rate adjustments, a restructuring of tariffs and parastatal reform. A committee had been set up to look at the privatization of appropriate parastatals. It was most important to reduce the budgetary subventions to parastatals in general. It might well be that some parastatals would have to be closed down.

4. In response to a question about devaluation, the Minister responded that Nigeria was not opposed to it. The Government accepted that the Naira was overvalued but there were political and social difficulties in an immediate quantum adjustment in the exchange rate. Discussions with the IMF were continuing on how the exchange rate might be adjusted in a way which was compatible with Nigeria's situation.

5. Mr. Clausen congratulated the Minister on the steps that were being taken. Mr. Stern emphasized the importance of devaluation both for stabilization and restructuring the economy. Mr. Clausen added that an arrangement with the IMF was also important for Nigeria's relations with the international financial community since it would be a visible sign that appropriate measures were being taken. The Minister outlined the timetable agreed with the IMF for further negotiations which he hoped would culminate in IMF Board approval of an EFF in late June. He hoped that the structural adjustment loan could be processed in parallel so that it would reach the Bank's Executive Directors about the same time as the IMF

agreement reached the Fund Board. Mr. Clausen said we would do everything we could to fit in with this schedule.

6. In conclusion, the Minister said that many people were expecting Nigeria to try to reach agreement with its OPEC partners to increase its oil quota. The Nigerian Government felt that it was most important that its economic policies be based on the assumption that oil revenues would not increase above present levels. Then any increase that might take place would provide welcome additional resources but would not be counted on to meet essestial needs.

c.c. Mr. Clausen's office
Messrs. Stern, Fuchs, Knox, Alisbah, Chaudhry, I. Husain
WAIDA staff

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