McNamara Papers

Travel briefs

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NIGERIA

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May 14, 197
(Revised)

ITINERARY FOR VISIT TO NIGERIA AND GHANA, MAY 15-23, 1971

DATE	TIME	GMT			REMARKS
May 15 (Sat.)	1530	1930	Depart Washington--National	AA386	Non-stop
	1628	2028	Arrive New York--La Guardia		Met by PanAm car for transfer to JFK
	1745	2145	Depart New York--JFK	PA182 (B707)	Via Casablanca 6.45 - 8.00
May 16 (Sun.)	1125	1025	Arrive Lagos--met at airport by Mr. Ayida, Permanent Secretary, Federal Ministry of Finance Remainder of day free		Federal Palace Hotel
May 17 (Mon.)	0900		Meeting with Resident Mission at hotel		
	1000		Chief Awolowo, Federal Commissioner for Finance		
	1100		Joint meeting with Permanent Secretaries of Economic Ministries Lunch free		
	1500		Lagos Chamber of Commerce and business leaders		
	1630		UNDP ResRep		
	2000		Dinner hosted by Chief Awolowo		
May 18 (Tues.)	0730		Depart Hotel by car		
	0930		Cocoa Research Institute of Nigeria (CRIN)		
	1130		Governor of Western State		
	1200		University of Ibadan		
	1300		Working lunch at University (Vice Chancellor and professors)		
	1430		International Institute of Tropical Agriculture (IITA)		
	1630		Depart Ibadan by plane		
	1800		Arrive Kano--meeting with Governor of Kano State		
	1930		Reception by State Government Dinner free		
May 19 (Wed.)	0800		Visit city of Kano		
	0930		Depart Kano by plane		
	1130		Arrive Port Harcourt--visit to industrial area and meetings with government and industry personalities Lunch free		
	1500		Depart Port Harcourt by plane		
	1530		Arrive Benin Meeting with Governor of Mid-Western State		
	1630		Depart Benin by plane		
	1730		Arrive Lagos		
	2000		Dinner hosted by Mr. Ayida		
May 20 (Thurs)	0900		Commissioner for External Affairs		
	1000		Secretary to Federal Military Government		
	1100		General Gowon Lunch free		
	1700	1600	Depart Lagos	GH555	Non-stop
	1650	1650	Arrive Accra--met by Minister of Finance and others		
	1830-2000		Reception hosted by Minister of Finance Dinner free Stay overnight at Ambassador Hotel		

DATE	TIME	GMT			REMARKS
May 21 (Fri.)	0900		President of Ghana		
	1000		Prime Minister		
	1045		Joint meeting with Ministers of Finance, Agriculture, Transport, Communications and Education		
	1130		Minister of Finance		
	1215		Depart Accra by helicopter		
	1330		Arrive Akosombo (Volta River Dam)		
			Lunch on board Presidential Yacht		
	1630		Depart Akosombo by helicopter		
	1745		Arrive Accra		
	1930		Dinner hosted by Prime Minister		Block Star Hotel
May 22 (Sat.)	0045	0045	Depart Accra	LH551 (B707)	Non-stop
	0800	0700	Arrive Frankfurt		
	1000	0900	Depart Frankfurt	LH498 (B707)	Non-stop
	1335	1735	Arrive New York--JFK		
	1425	1825	Depart New York--JFK	DL915	Non-stop
	1656	2156	Arrive Houston		
	1720	2220	Depart Houston	TT607	Non-stop
	1805	2305	Arrive Austin		
May 23 (Sun.)	1600	2100	Depart Austin	BN168	Non-stop
	1640	2140	Arrive Dallas		
	1800	2300	Depart Dallas	BN10	Non-stop
	2146	0246	Arrive Washington--Dulles		

LEC
May 14, 1971

MR. ROBERT S. McNAMARA

President of the World Bank Group

Visit to Nigeria: May 16-20, 1971

Sunday, May 16

1125	Arrived Lagos - flight PA 182.
	Received by: Mr. A. A. Ayida, Permanent Secretary, Federal Ministry of Finance.
	Mr. Otto Essien, Principal Assistant Secretary, Federal Ministry of Finance. (Liaison Officer during entire trip)
	Dr. (Miss) S. O. O. Johnson, Official Hostess to Mrs. McNamara during latter's stay in Lagos.
	Brief press conference on arrival.
	Stay at: Federal Palace Hotel - telephone 26691 Victoria Island
Lunch	Private
	No official program.

Monday, May 17

0900 - 1000	Met with IBRD Resident Mission in Nigeria
1030 - 1130	Met Chief Awolowo, Federal Commissioner for Finance. Messrs. Ayida, Obi and Essien present.
	Place: Ministry of Finance, Tinubu Square
1130 - 1300	Met with Permanent Secretaries - Federal Economic Ministries (Ayida - Finance; Ebong - Economic Development; Asiodu - Mines and Power; Lawson - Transport; Longe - Works and Housing; Shaib - Agriculture and Natural Resources; Williams - Communications; Ciroma - Industries; Adegoroye - Trade) and Daniyan - General Manager, Nigerian Industrial Development Bank.
	Place: Federal Ministry of Finance, Tinubu Square
Lunch	Private
1530 - 1645	Met selected members (about ten) of Chamber of Commerce; President of Chamber, Chief Henry Fajemirokun, in chair.

Monday, May 17

0900-1000 : Meeting with Resident Mission (Bank's Office)

Address: 17, Kingsway Road, Ikoyi or
Federal Palace Hotel

1030-1130 : Meeting with Chief Awolowo, Governor for the Bank and Federal Commissioner for Finance. Messrs. Ayida and Essien will be present.

Place: Ministry of Finance, Tinubu Square (15 minutes from Federal Palace Hotel and 30 minutes from Bank's office at 17 Kingsway Road, Ikoyi)

1130-1300 : Meeting with Permanent Secretaries, Federal Economic Ministries (Ayida - Finance; Ebong - Economic Development, Asiodu - Mines and Power; Lawson - Transport; Longe - Works and Housing; Shaib - Agriculture and Natural Resources; Williams - Communications, Ciroma - Industries; Adegoroye - Trade) and Daniyan, General Manager, Nigerian Industrial Development Bank.

Place: Federal Ministry of Finance, Tinubu Square

Lunch : Private

1500-1630 : Selected members (about ten) of Chamber of Commerce * (Chief Henry Fajemirokun will give a brief welcome speech and is likely to address a few questions to Mr. McNamara. After Mr. McNamara's reply, meeting will be open to participants. (Names of participants included in Black Book.)

1700-1730 : Mr. Stanley Fryer, Resident Representative, UNDP

Place: 11, Queen's Drive, Ikoyi or
Federal Palace Hotel

1800 : Return to Federal Palace Hotel

~~1845~~ 1815 : Leave for residence of Chief Awolowo for Buffet Dinner - 18, Andrew Street, Lagos

Note: A separate program for Mrs. McNamara for Monday, May 17 is being prepared by Government. Mrs. Burney has arranged a tea party at her residence (29, Queens Drive, Ikoyi) for Mrs. McNamara to meet about ten Nigerian ladies and Mrs. Fryer (wife of UNDP Resident Representative and Mrs. Hanson, wife of Resident Representative, Ford Foundation from 4:30 - 6:30 p.m.

* President, Lagos Chamber of Commerce

Central Bk agreed product prices too low for producer incentive to farmers (wrote this after 1 day had no whole to play & know nothing of this)

They stressed that 4½% was perhaps small percentage but large absolutely; clearly their sights weren't high enough

Their plan for increasing productivity of small-holder agri appeared quite inadequate

NIDB's sights are set too low - for Govn: Board to have misunderstanding

Ch. Adebo "a word of caution to him in its planning. Planning - spending much more than lowering ? not so much things going to fight - a curse of inflation" -

cut weak in capacity to both plan & execute - "make clear that we are not prepared to give money unless ability to execute is shown"

"they need an advisory gp similar to what was provided for Pakistan

"an critical of agr. plan because they constitute list of several rather than firm plans"

"the farmer has been cheated - price too low - a producer price"

for govn "if you say you lack personnel for education, they will feel you are cheated - but they see they have so many things to do with their great staff that need external assistance"

Wilson, Industries - ? of ports, rlys & roads don't work that is the greatest bottleneck at present basically a question of mgt - if the Bk is to become involved it must understand the rigid mgt disciplines -

Prof. Oyenuga - must give greater prominence to small-scale bus.

Hayward - one of the barriers to agri expan is the system of taxation: one of the most heavily taxed entities in the society is the farmer

executive capacity is the limiting factor to achievement of the plan -

Gusbadin - govt has not put proper wgt on tech. education

NIDB needs help from Bill Diamond -

UNDP - the more projects they can develop for IBRD to execute the happier they will be (30 m for 5 yrs) - that multilateral aid (UNDP & IBRD)

there is a growing feeling in Nigeria

has become too cumbersome

they dislike too many visitors

The top people are up to their eyes in work - only 1 or 2 people in each ministry have authority to act -

Extreme shortage of govt admin. structure (3 ? manage all of finance, ? Pl. ?)

"Encourage them to increase dynamic leadership in the states"

ADEBAJO - Dir. Inst. of Admin.

Lit - ? the goal sharply enough defined

needs pushing on further financing development -

Violent anti - and anti-Bk, anti-? attitude among faculty members at Ibadan:

They lack status to facts & analysis - jump to conclusions; don't tell lies but don't work hard enough to know the truth & they misconstrue the truth to suit their interests - e.g. criticism of ?

Tuesday, May 18 (Mrs. McNamara will accompany party)

0730	:	0930 Leave Federal Palace Hotel for Ibadan (by car). Enroute and via Ijebu-Ode (Bank financed road). Arrive at CRIN at about 1000 hours. Dr. Opeke Director, CRIN, will meet at gate of Institute and conduct tour.
1030 ~~1045~~	:	Leave CRIN for Ibadan
1150 ~~1120-1130~~	:	Arrive Ibadan
1115-1145 ~~1130~~	:	Call on H.E. Governor of Western State - Colonel Rotimi
1200-1245 ~~1230~~	:	Arrive University of Ibadan Campus and call on Vice-Chancellor - Dr. Lambo
1245 ~~1315-1330~~	:	Working Lunch at Sultan Bello Hall (University of Ibadan campus) Host: Dr. Lambo
1400	:	Leave Ibadan for IITA
1415 ~~1445~~	:	Arrive at IITA Dr. Albrecht, Director, IITA will receive party and conduct brief tour and discussion.
1615 ~~1530~~	:	Leave for Ibadan Airport
1630 ~~1545-1600~~	:	Leave Ibadan Airport for Kano
1830	:	Arrive Kano Airport - Drive to Governor's House for courtesy call
1930	:	Cocktails by Kano State (Before cocktails, brief stop at Guest House)
Dinner	:	Free (Stay overnight at Government Guest House)

Wednesday, May 19

730	:	Leave Guest House for Airport - brief trip around town enroute
0800-0815	:	Leave Kano for Port Harcourt
1100	:	Arrive Port Harcourt
1115-1130	:	Call on Military Governor, Lieutenant Commander Diete Spiff
		(Program not known: visit industrial area; Port area?)
1300	:	Lunch - Host: Military Governor
1500	:	Leave Port Harcourt for Benin (Mid-Western State Capital)
1600	:	Arrive Benin - call on and have discussions with Governor Ogbemudia
1700	:	Leave Benin
1800	:	Arrive Lagos
2000	:	Dinner at residence, Permanent Secretary, Federal Ministry of Finance (Guest list not known)

REMARKS AT AIRPORT UPON ARRIVAL IN NIGERIA

¶ It is a great pleasure indeed for me to be here.

~~My visit to Nigeria fulfils an old desire.~~ I am particularly ~~delighted~~ pleased that I shall have the opportunity of meeting General Gowon. ~~whose dedication to the unity and progress of your country has won the admiration of many far beyond its borders.~~ From him, and from the others I will be seeing, I hope to gain a better understanding of your economic problems and opportunities, and of your plans for the future.

The purpose of my visit is to learn how we in the World Bank Group might be able to support more effectively your plans for the economic and social progress of the people of Nigeria. In doing so, I am ~~will remain deeply~~ conscious of the fact that the support we provide will be~~, as it always has been,~~ modest in relation to your own efforts. ~~Indeed,~~ That is as it should be, for the essence of true progress is that it is inspired, shaped and led by the people of the country itself.

Nigeria occupies a place of special importance in the Bank Group's scheme of activities. This is indicated by the fact that we have provided more assistance for the development of this country than for any other nation in Africa. Our first operation here was a loan of \$28 million (₦N10 million) for a railway project 13 years ago, when Nigeria was moving towards the threshold of independence. Since then, the cumulative total of our financing commitments has grown to \$375 million (₦N134 million). It is my hope that, in the years ahead, this total will increase substantially. ~~If all goes well, we may be able to treble our lending to Nigeria in the next five years as compared with the rate during the last five years.~~ In our current fiscal year, Bank lending to this country has already totaled \$97.2 million (₦N35 million); at that level, it is nearly three times the figure for fiscal 1970.

World Bank Group assistance to Nigeria has in the past been spread over a wide range of sectors, including transportation, electric power, industry and education. Last month, we approved a loan of \$80 million (£N29 million) in support of your rehabilitation program. This month we approved our first operation in the agricultural sector -- a loan of \$7.2 million (£N2.6 million) for a cocoa project in the Western State. We expect, in the years to come, to be able to finance additional projects in the agricultural sector, because it ~~This~~ is the sector which does, and will continue to, provide employment for the great majority of Nigerians.

The increase in our activities in Nigeria is symbolic of the increase that is taking place in Africa, and indeed in the world as a whole. Nearly three years ago, we launched a program under which we proposed that the worldwide total of our lending in the five years through 1973 should be more than twice what it had been in the previous five years. Furthermore, while the global total would double, the African total would triple. We are already well on the way to achieving these goals. In Fiscal 1970, the worldwide financing commitments of the World Bank Group were 98% above the annual average for 1964-68. Commitments in Africa were 170% higher.

The purpose of our assistance in Nigeria, as elsewhere, is not simply to support a project here or a project there. The purpose is to help to attack the crucial bottlenecks to economic progress which you yourselves have determined to attack -- and thereby build a better, fuller and happier life for the people of this country. We count it as a privilege to be participating~~, however modestly,~~ in this great endeavor -- an endeavor in which the initiative and the leadership lies with you.

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RECENT TOPICS OF INTEREST

Decimal Currency

Currently the currency is the Nigerian pound (£N) subdivided into shillings and pence, £N1 = $2.80. Nigeria proposes to adopt a decimal system on January 1, 1973 based upon the NIARA which would have a value of $1.40. One Niara would consist of 100 Kobos.

The Commonwealth and South Africa

Nigeria supports the opposition of other African countries to the present South African regime. At the January 71 Commonwealth Conference in Singapore, Nigeria played a leading role leading to the formation of the Committee of Six charged with reviewing the situation regarding the sale of defence equipment to South Africa by the U.K. and reporting back within six months. It was assumed that a moratorium on such sales would be in effect pending the report of the Committee but when U.K. decided to sell helicopters to South Africa, Nigeria withdrew from the Committee, which is now believed to be moribund.

Canada

Canada is actively involved in providing finance and technical assistance for telecommunications, railways and power. During a recent visit to Nigeria by Mr. Sharpe, the Canadian Foreign Minister, a no-interest loan agreement for $20 million for the supply of 54 1500 h.p. locomotives was signed. A Canadian team is currently in Nigeria reviewing and assisting the management of Nigerian railways. Talks are also proceeding regarding the supply and financing of track.

In the power sector Canadian financed consultants are reviewing the operations of ECN and NDA with a view to making recommendations for the merger of these two corporations into a single authority.

In 1970 Canada financed a survey by consultants of the needs and feasibility of rural electrification. There are indications that Canada might be interested in providing some financing in this field.

The engineering and final design of two additional generating units at Kainji is likely to be financed by Canada, on a loan basis. At present, Kainji has four English Electric units installed, with capacity for eight more.

Nigeria is also discussing with Canada the financing of the engineerin for a transmission line to provide power from Kainji to Niger.

NIGER

After a recent visit to Niger, General Gowon announced a program for cooperation on economic, monetary, commercial and customs affairs, the supply of power to Niger from Kainji, postal and telecommunications services, navigation on the Niger road, including the provision of tugs for barges, road links, agricultural development and cultural and educational exchanges.

CZECHOSOLVAKIA

A Czech Trade Mission visited Nigeria in February for discussions on an extension of the Trade Agreement which expires in March, 1972. Czechoslovakia has now started to import Nigerian oil and has announced that $40 million in aid is available for Nigeria's Development Plan and is releasable when needed.

RUMANIA

A Rumanian delegation visited Nigeria in March for talks on possible cooperation with the newly established Nigerian Oil Corporation (NOC) in which the Government is to be the majority stockholder. These talks were said to cover the whole field envisaged for NOC, prospecting, production, transportation and marketing of crude, refining and marketing of refined products, and the development of petrol-chemical industries.

LABOR UNIONS

There have been signs of increasing labor unrest. During the war, wages were not increased commensurate with prices. After the war, the Government introduced wage and price controls in an effort to stem inflation. About the same time, a Commission was established under the leadership of Chief Adebo to review wages and salaries throughout the country and in the civil service in particular. Work stoppages and go-slows developed in several industries and areas, including the dockers at Apapa Wharf, Nigerian Airways personnel and even among the doctors at Lagos Hospital. The Adebo Commission handed down an interim award covering the majority of blue-collar worker, but slowness in implementing this award gave rise to further protests and demonstrations. It is expected that the final report of the Commission, when issued, will recommend wage and salary increase of not less than 20%, with some retroactivity.

There are two main unions operating in Nigeria and both have been gaining some strength. The Nigerian Trade Union Congress (NTUC) is a Moscow leaning organization claiming about 400,000 members. The President and Secretary of NTUC, both regarded as leading Marxists, were recently placed under detention for making anti-government speeches and advocating go-slows and strikes. This resulted in some demonstrations in Lagos. The other trade union, the United Labor Congress (ULC) is West-oriented and claims about 600,000 members.

TELECOMMUNICATIONS

It was recently reported that the Government has announced its intention to nationalize Nigerian External Telecommunications Ltd. The Company which handles all Nigeria's external links is owned 51% by the Nigerian Government and 49% by British Cables and Wireless.

FOREIGN POLICY

At the time of the announcement of the decision to exchange diplomatic representation with mainland China, it was stated that this was in uniformity with Nigeria's policy of "positive neutrality". At the same time Nigeria's attachment to the principles of the OAU and UN WAS re-affirmed. With the conclusion of the civil war, it is apparent that Nigeria is making known its willingness and even desire to play a more dominant role in Africa affairs. The celebration of the 10th Anniversary of Independence on October 1, 1970 was one of the first open demonstrations of this position. The Heads of State of all African countries (except S.A., Rhodesia, Mozambique and Angola) were invited, including the four countries which gave formal recognition to Biafra during the war. Attendance was disappointing since it coincided with the funeral of President Nasser. Those that attended were treated to an impressive display of Nigeria's newly developed military might and offers of cooperation and solidarity. In furtherance of this policy General Gowon, during recent months, has paid formal visits to several neighbouring countries and more are planned for the near future.

SETTLEMENT OF BORDER DISPUTE WITH CAMEROON

The Akpa-Yafe - Calabar region between West Cameroon and South Eastern State has been the scene of frequent incidents over the past few years. Off-shore oil exploration in progress to the South of the area has intensified the necessity for precise border delineation.

During a State visit to Cameroon in April, a joint settlement by the Heads of State announced agreement on criteria for the settlement of the dispute. A team of experts from the two countries will work out details of the settlement.

Cholera

Some three thousand cases of Cholera have been reported in Nigeria during the past year, resulting in 481 deaths. The Federal Government, with the assistance of WHO, has conducted a vigorous educational and immunisation campaign and vaccine is now being manufactured in Nigeria. The number of new cases reported has declined rapidly in recent weeks.

Urbanisation

Lagos is a classic example of urban drift which is well described in a recent article in "West Africa" (Annex 8A). It is interesting to note that the article suggests that a solution to the problem demands the resources of the World Bank.

Establishment of National Corporations

Steel:

Under a decreē dated April 26, the Nigerian Steel Development Authority was established to operate an iron and steel complex estimated to cost approximately $335 million. The Authority is empowered to acquire land anywhere in Nigeria for the complex, the feasibility of which is being studied by a Russian Technical Mission.

Oil:

On the same date, the Nigerian National Oil Company was also established which is empowered to explore, prospect and mine oil, and lay pipes for crude oil, natural gas, water or any other liquid. It has wide descretionary powers to pursue any line of action which will facilitiate its operation, including entering into contracts or partnerships with any company, firm or person.

The Corporation will be subject to all regulations regarding licenses or leases, except that its prospecting and exploration licences will not be limited in duration.

The Company will be managed by a Board, chaired by the Permanent Secretary of the Federal Ministry of Mines and Power. The Permanent Secretaries of the Federal Ministries of Finance, Industries and Economic

Development will be Board Membmers.

Earnings will be retained by the Board but investments in projects or award of contracts in excess of $140,000 will require the approval of the Federal Executive Council.

TRAFFIC - RIGHT-HAND DRIVE

The Government has set April 1, 1972 as the date for changing to a right hand drive traffic pattern and is spending £N1.5 million on a public educational program.

Boards of Governors • 1970 Annual Meetings • Copenhagen

J

INTERNATIONAL MONETARY FUND
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION

Press Release No. 55

September 24, 1970

HOLD FOR RELEASE
UNTIL DELIVERY
Thursday, September 24, 1970

Statement by the Hon. C. N. ISONG, Governor of the Central Bank of Nigeria and Governor of the Fund for NIGERIA, at the Joint Annual Discussion

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I should like to thank the President and the Executive Directors of the Bank for the moral and financial assistance given to my country for the last three years despite our unfortunate civil war. We appreciate this stand because of the effects the unique influence of the Bank Group decision had on governments, the private sector, and other well-intentioned institutions during the most critical period of our national history. The immediate and massive capital aids given to my country at the end of the conflict have, in addition to our internal efforts, enabled us to make a quick recovery, which in turn has made it possible for us to embark on a Four-Year Economic Development and Reconstruction Program estimated at approximately £N 1,500 million in both the public and the private sectors. We intend to finance much of our capital requirements from internal resources with the support of foreign assistance. Naturally, we expect further assistance from the Bank Group in the process of laying a firmer foundation for our reconstruction and rehabilitation efforts, which are aimed at giving birth to the new nation for which we have fought so hard and sacrificed so much.

Having said this, I should like to touch on a number of important points concerning the objective role of the Bank Group. We have been inspired by the enormous achievements of the President of the Bank and his able supporters, since his taking office, either in reappraising this role or in altering the basic administrative structure of the organization of the Bank Group to make these institutions more efficient and adaptable in meeting a new challenge. In spite of these efforts, however, it is no secret that, each year during these meetings, we continue to witness the undesirable phenomenon of the ever-increasing gap between the poor and the rich nations. We see also the effects and the dangers of ever-increasing debt burdens on the poor countries, resulting in some cases in attempts to meet these commitments by increasing taxes, a situation which, in turn, creates a vicious circle by generating a disincentive for investment in their economies. We experience, from year to year, the dangers of inflation in both the developed and the developing nations and the grim consequences of an alternative policy of deflation. The perennial problems of international liquidity and balance of payments, resulting in a number of economic ills, are still with us. The fact that these problems occur in ever-increasing momentum, from year to year, must inevitably lead us to reappraise constantly the basic role of the Bank Group in both the economic and the political field.

In our view, the Bank Group cannot aspire to eliminating absolutely the gap between the rich and the poor countries, since that would be aiming at an impossible goal. All that the developing countries are asking for is for a narrowing of this gap, and this cannot be done by merely increasing the growth rate in the developing countries. This point has been ably stressed by the President in his opening address. Whatever may be the objectives of the Bank Group, these objectives must include the essential elements by which, in the long term, a developing nation achieves a balanced growth rate in a manner which engenders economic and political stability.

We believe, however, that through its constructive roles and the use of its development funds in the right direction, at the right time and place and with the minimum of cost, in terms of money and time, combined with its influence at the world level--as we have explained--the Bank Group can assist the economies of the developing nations to make a great leap forward, given the will and proper planning. It is our view that, despite the dramatic changes which have taken place as a result of a redefinition of the priorities of the Bank Group, we must still consistenly strive to evolve a new organic role for the Bank Group. If we accept the basic proposition that the role of the Bank Group is to provide an essential lever for rapid and balanced development, then a sharp division between rich and poor countries as regards the conduct of their business must be avoided. This is one sure way of avoiding disillusionment. More understanding between the poor and the rich member countries is necessary in the evolutionary process of reaching out for the maximum satisfaction of the member states in the long term. If the rich countries are content with becoming richer year by year, sometimes at the expense of the poor, and if the poor countries fail to take full responsibility for their actions or to evolve a rational economic policy to reduce their state of poverty, then, clearly, a state of economic and political disequilibria will be reached which will defeat the objectives of the latter.

One way in which the World Bank Group can assist in developing this philosophy and attitude of mind is to forget, in the consideration of the affairs of the developing nations, that there is a division between the private and the public sectors. Each nation's economic problems should be viewed pragmatically without any preconceived ideas, but only in the light of the problems posed. In the final analysis, what has been said here is merely a question of emphasis, since the principle has, in the main, been accepted by some members of the Bank Group. We would need to continue to stress this point from year to year.

Take, for example, the emphasis placed on the development of infrastructure, which in turn is based on the asseumption that by laying a firm foundation for development there would be an automatic inflow of private capital from the developed nations. In consequence, because the developing nations are not financing their own infrastructure, mostly from internal savings, pressures develop on fiscal resources as regards short-term commitments. I have cited this example merely to demonstrate that rigidity in a particular concept, while solving a particular problem, may also create a serious disequilibrium in some other essential sectors of the economy. It also follows from this that the principles governing the disbursement of loans received from the Bank Group should be more flexible, and that all projects should attract Bank Group loans, subject to guarantees, if the recipient countries are to reduce disequilibria to the minimum. If we accept this proposition, it follows further that the reallocation of the Bank Group resources, as between IDA, IFC, and the Bank, is both necessary and desirable. Finally, the proposition entails a closer coordination between the Bank Group and the recipient countries at the very beginning of the planning. Put bluntly, recipient countries should be able to determine how much of such loans should go into various sectors of the economy, in order, in the long term, to reduce disequilibria to the minimum. The continued imposition of a concept by the Bank Group on the recipient nations may, indeed, under certain circumstances do more harm than good. It is with this in mind that I would recommend a further reappraisal of the approach to development finance by the Bank Group.

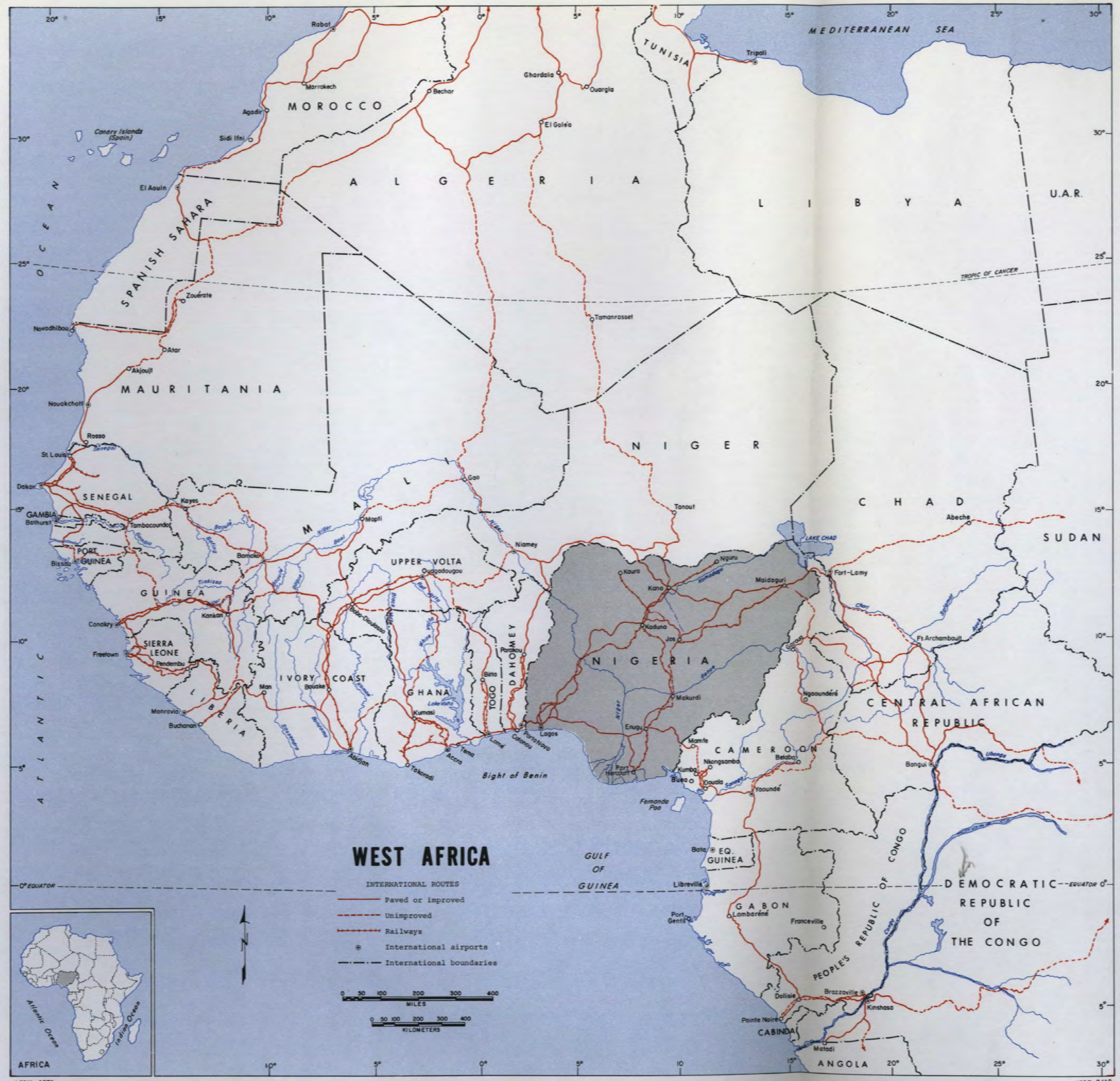
Related to what I have said is the question of the burden of debt servicing. To some developing nations the problem is not loans but the effect of the machinery of the Group lending which gives rise to debt burdens. Taking at random six major Group projects in Nigeria, a rise in the price of the original contracts is estimated to be, on the average, 25 per cent. In addition, there are the costs of consultants and excessive drains of foreign exchange which result from the contractors taking to their home countries a disproportionate amount of the foreign exchange made available. Such contractors invariably utilize local overdraft facilities and thusly add to the costs. This has arisen because a tripartite control of foreign contractors and consultants, in practice, poses enormous administrative problems as well as problems of responsibility. Usually, a rigid adherence to the legal format devised by the Bank Group raises fundamental, legal, and constitutional issues. The channeling of the Group funds to industrial sectors on the basis of rigidly held views leads to distortions where capital is diverted to expatriate interests. We suggest, therefore, a reappraisal in the conduct of the affairs of the Bank Group for the sole purpose of reducing distortion, disequilibria, and waste.

I now take up the question of IDA. While appreciating the enormous increase in IDA funds within the last two years, we urge that more effort should be made not only to increase IDA resources further but also to evolve a more equitable formula for their distribution. It is not the intention of my Delegation to urge that those countries who have benefited most from IDA should be deprived of their legitimate needs, but we do seriously urge that a large proportion of IDA funds should go to Africa and other developing countries which have hitherto benefited the least, by reviewing the principles governing their disbursement.

This brings me to another basic issue which has often been raised by the developing nations, namely, the question of studying a possible link between development finance and SDRs. My Delegation fully appreciates the arguments advanced for and against the proposals but we must nonetheless stress the need for such a study on the grounds that any way of ensuring increased development finance to developing countries is both desirable and healthy for the rich as well as for the poor countries. It is an accepted fact that the SDR system is now off the ground and, from all accounts, it is working satisfactorily. But this should not be merely a palliative. It must form a part of the cure for the serious ailment and malaise of the developing nations. Some of the objections to this link do not take into account the long-term political and economic stability of the developing nations. In the final analysis, when the demands of the developing nations are seen against the spectrum of world events, the link between the SDR system and development finance would be found to be desirable.

I now raise another basic issue, namely, the question of participation in the ownership and management of projects financed by the Bank Group. Reference has been made to this earlier. More and more developing nations wish to participate in both the management and ownership of businesses developed within their countries. It is a good sign that this concept is becoming increasingly acceptable to donor countries at public and private levels. The Bank Group should evolve a way of accelerating the development in this field by making foreign exchange available to foreign investors. In most cases such capital will be reinvested in the fields reserved for expatriates. The scheme itself will produce a climate of mutual confidence and reduce tension, and thus minimize take-over bids by governments. Without an indigenization of certain sectors of the economy of the developing nations there can be no long-term worthwhile satisfaction of a political and economic nature.

Finally, I come to the question of the effectiveness of the conduct of the Annual Meetings of the Bank and the Fund. It seems to me that this is a formal and official forum where the rich and the poor nations of the club meet to air their respective points of view. The meetings of regional groups and their informal consultations with the officials of the Bank Group and the Fund are highly desirable. But controversial issues seem to tear apart the rich and the poor member countries and all one hears are rumors from the corridors. It is the view of my Delegation that such an atmosphere does not generate mutual confidence. It may be necessary for informal meetings of the Big Five, with representatives of the poorer nations, to take place during Annual Meetings under the chairmanship of the President of the Bank or the Managing Director of the Fund to discuss matters of mutual interest with a view to understanding each other's point of view. It is not intended that decisions should be taken at such meetings nor that formal agenda should be drawn up. Even if the rich nations become only aware of our feelings, and vice versa, positive achievements would have been realized.



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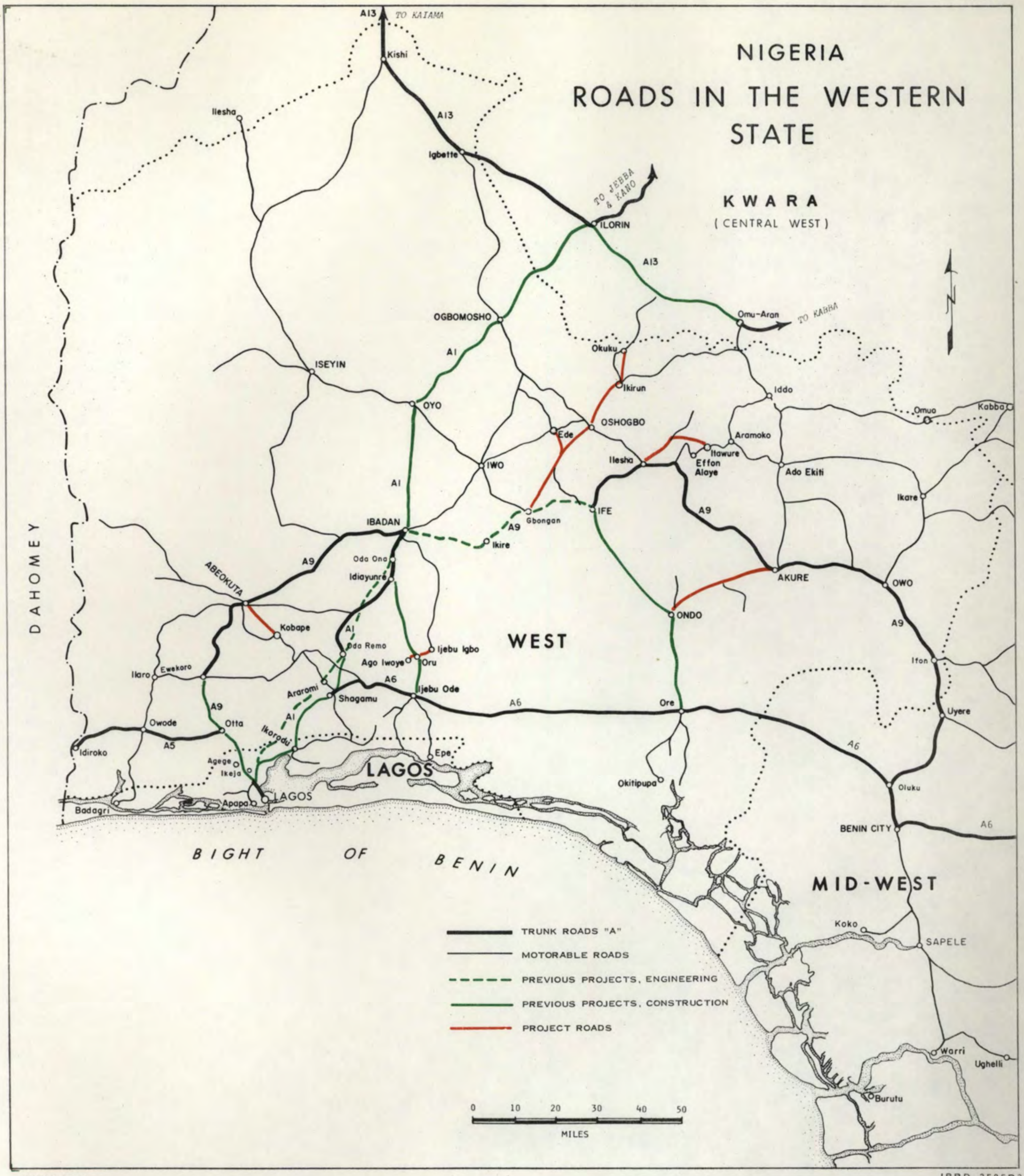

MARCH 1971

IBRD 2585R2

ECONOMIC RESOURCES

ANNEX 1

NIGERIA

BASIC DATA 1/

Area	924,000 square kilometers
Population (mid-1970)	66 million 2/
Current rate of growth	2.6% p.a.
Density of population	71 per square kilometer
GDP per capita	
(1969/70 at current factor cost)	About US$ 70
GDP at current factor cost, 1969/70	£N 1,639 million
of which:	
Agriculture	53.2%
Mining, manufacturing and crafts	13.2%
General government	3.4%
Other	30.2%
GDP at 1962 factor cost, 1969/70	£N 1,514 million
Rate of growth, 1965/66-1969/70	-0.5 p.a.
1962/63-1965/66	5.5 p.a.

Percent of GDP at current factor cost	1969/70	1968/69	1967/68	1964/65-1966/67
Gross domestic capital formation	n.a.	n.a.	n.a.	14.5
Gross domestic savings	n.a.	n.a.	n.a.	11.2
Balance of payments deficit on goods and services	4.9	4.5	3.0	4.6

Money and credit (£N million)	August 31 1970	End of period 1969	1968	1967	Average Annual Increase 1966-1969	1964-1966
Money supply	272.9	222.1	169.6	162.7	7.0%	11.3%
Quasi-money	147.8	107.7	91.7	65.6	9.9%	20.5%
Domestic credit	504.4	415.4	312.3	246.8	22.5%	28.8%
to government sector (net)	n.a.	293.4	198.3	99.9	69.0%	3/
to private sector	n.a.	122.0	114.0	146.9	-9.7%	16.5%

Consumer price index (1960 = 100)	November 1970	Annual Averages 1969	1968	1967	Average Annual Increase 1967-1969	1964-1967
	156	134	119	122	5.2%	2.9%

Government finance (£N million)	1970/71 4/	1969/70	1968/69	1967/68	Average Annual Increase 1966/67-1969/70	1964/65-1966/67
Current revenue - Total	n.a.	229.4	166.6	157.9	7.1%	3.4%
Collected by Federal Government	326.0	210.1	142.8	142.0	10.3%	3.8%
Current expenditure	n.a.	392.4	222.6	175.8	33.5%	5.1%
Current deficit	n.a.	163.0	56.0	17.9	5/	-7.2%
Capital expenditure	n.a.	72.7	68.7	65.7	-12.9%	13.5%
Overall deficit	n.a.	235.7	124.7	83.6	46.8%	22.5%
Internal sources	n.a.	225.0	117.7	64.4	60.5%	17.8%
External loans and grants	n.a.	10.7	7.0	19.2	-15.1%	44.3%

External public debt (US$ million)	1969	1968
Total debt (including undisbursed) as of Dec. 31	661.1	631.2
Total debt service	60.4	42.1
Debt service relative to foreign exchange earnings of Nigeria	9.1%	7.5%

Balance of payments (US$ million)	1970 4/	1969	1968	1967	1966-1969	1964-1966
Total merchandise exports including petroleum	1242	890.8	583.5	668.6	5.6%	15.3%
Non-petroleum exports sector	529	524.2	479.9	467.0	-1.2%	2.7%
Net foreign exchange receipts from petroleum/	316	156.5	80.6	136.4	8.8%	31.5%
Foreign exchange earnings of Nigeria	845	680.7	560.6	603.4	0.8%	6.6%
Total imports of goods and net services of non-petroleum sector	1270	945.3	760.5	730.0	2.3%	3.8%
Deficit on goods and services	425	264.6	199.9	126.6	6.8%	-4.8%

Commodity concentration of exports (Percent of domestic merchandise export earnings)	1970	1969	1968	1967	1964
Crude petroleum	57	41	18	30	15
Cocoa	15	17	25	23	19
Groundnuts and products	9	16	25	16	22
Palm produce	3	3	5	4	15

Official external reserves (US$ million)	1/31/71	1970	1969	1968	1967	1966
Central Bank 6/	151	146	131	115	109	208
Other official	63	107	22	28	34	50
Total	214	253	153	143	143	258

IMF position (US$ million)	End of January 1971
Quota	135
Drawings outstanding	15
Gold tranche position	11
SDRs	
Allocation	31
Holdings	31

Rate of Exchange £N1.0 $2.80

1/ Because of the civil disturbances, the coverage of the three Eastern States during the period 1966/67-1969/70 is uneven and incomplete.
2/ Official estimate. Other estimates are as much as 10 million lower.
3/ Credit to government sector (net) at the beginning of 1964 was virtually zero.
4/ Provisional and/or partly estimated.
5/ In 1966/67 there was a current surplus of £N21.4 million.
6/ Includes SDR's.

April 13, 1971

3

POLITICAL DEVELOPMENTS

3

After the tragic events of the pastten years, which almost balkanised Africa's most populous and promising country, Nigeria is beginning to consolidate its political unity. Early years of independence saw little political and economic progress due to weak Federal direction. The three powerful regions, distrustful of each other, struggled for the domination of the center, which swayed indecisively, trying to minimize tribal and provincial animosities, until in 1966 a coup ended the first republic. The coup which is said to have been motivated by a desire to curb nepotism and corruption, unfortunately turned into an effort by one ethnic group (Ibos) to take over the effective control of the administration. An effort of the coup leaders to do away with the regions and to create a unitary Government resulted in a second coup, this time organized by soldiers, mainly from the North (Hausa). In 1967, the military government, under General Gowon created the present twelve state structure in order to minimize the domination by and conflict between the three major ethnic groups - Hausa, Yoruba and Ibo -, and also to better protect the interests of smaller ethnic groups. Before Gowon's leadership and his intentions could be tested, Ojukwu, convinced of his role as a saviour of the Ibos, called the easterners to "fight for survival" and thus plunged the country in a long and expensive civil war. Ten months after the end of the three-year war, Nigeria has begun to give an impression of normalcy but it still suffers from deep wounds inflicted by the war and the ills which caused the near dis-memberment of the country. The Government under Gowon, however, seems to be determined to reconcile internal difference, to mobilize its material resources and thus create a "self-reliant egalitarian society". It is a tall order for the military government now and the civilian government when it takes over in 1976.

In spite of these obstacles Nigeria, with its resources, could become the first black African country to reach an economic "take-off point" within the next decade. Political leaders, economic planners and administrators have to think in national terms to be able to guide and direct the national effort for development - this has been lacking in the past.

The creation of the twelve-state structure has been the most significant development since independence. The increase in the number of states mean a substantial increase in expenditure on administration and is likely to create problems of coordinating efforts towards national economic/political progress. Creation of more states, has, however, given a sense of security to smaller ethnic groups by undermining the domineering posture of the old regions. How effectively it will be possible to administer smaller states with more homogenous groups than before will depend on how soon effective state administrations are set up, especially in new and backward states like River, South-Eastern, North-Eastern, and North-Western; the degree of Federal Government assistance and guidance in directing the states to formulate and implement their plans, within the framework of national priorities; and the ability of the Federal Government to allocate resources on the basis of the needs of the states rather than on the principle of derivation. It might indeed take several years before the states will look to the center as the guardian of their interests rather than as an unsympathetic authority. The center, itself has suffered from lack of trained staff and from bureaucratic jealousies. The recent re-shuffling of Permanent Secretaries and senior personnel should result in considerable improvement.

The National Plan (1970-74) launched on November 11, 1970 gives high priority to the mining industry, transport and communications, education, and agriculture. Implementation of the Plan (total £N1.6 billion public and private investment) will depend, among other things, on the executive and coordinating ability of the Federal and State administrations and on the degree of political stability. The success of the Plan (intended to move Nigeria out of the war economy and on an accelerated growth path by the mid-seventies) is crucial for political harmony. Nigerians are said to be obsessed with politics but they are also "little entrepreneurs", and, given the choice, they would not hesitate to give up the political pastime for improving their economic well-being.

Government's commitment to the Plan is the first constructive step towards political harmony. Implementation of the Plan will require re-organization and strengthening of Government machinery, streamlining of administrative procedures and effective leadership. Although national efforts so far have been spent in tackling provincial problems, the growing class of factory workers, wage earners (organized labour) in major cities and cocoa and groundnut farmers (suffering from the short-sighted pricing policies of marketing boards and wage freeze improsed during the war on the one hand, and rising price levels of agriculture inputs and consumer goods on the other) are challenging ethnic divisions and state boundaries to collaborate and to assert their rights. In an attempt to attain national stature, prominent politicians are openly preaching socialism as the answer to Nigeria's social ills. The Plan itself recognizes the need for the re-distribution of income, to create "a just and egalitarian society where the Government is guided by the true aspiration of the people". Organized labour is no serious threat so far, but if the farmer and the working class is not allowed its rightful share, localized unrest and strikes are bound to haunt the Government, as they have since just before the end of the war.

Yet another factor which will play an important role in Nigeria is the oil boom. Given the quality of its oil, nearness to European markets and little or no fear of nationalization within the next 7-10 years, Nigeria has become the most attractive source of supply for oil companies. It is important whether by 1974-75 Nigeria produces 2.5 million barrels a day or 3 million, but more important is the way the income from oil is spent - conspicuous consumption or investment to uplift the majority of Nigerians who live in remote areas in utter poverty. If Gowon and his close advisors have their way, everything will be done to help Nigeria become one country, with mobility of people and economic opportunities for all.

There are some who accuse the military generals and Gowon's close advisors (a few highly-placed civil servants) of retaining power by delaying the return to the civilian rule. Corruption, which probably was one of the strongest reasons for the January 1966 coup, still thrives and is regarded as the "cost of doing business". To shake down blatant corruption will mean the sacking of many senior military officers, civilian commissioners (both state and federal) and screening of civil servants. The best one can expect is to check corruption, especially in the light of increasing oil revenues which is attracting "carpet baggers" by the score. In spite of the disappointment on the part of politicians and vested interests, the masses support the Government in carrying out the program but their support will be conditional on the progress made in ensuing years. The next 2-3 years are crucial not only for rehabilitation of war affected areas but for establishing ground rules for future political and economic progress. The Government needs to concentrate its energies on domestic issues for a number of years to come, but the leaders of Africa's most populous and one of the richest countries are bound to play a leading role in African and international politics.

It is unlikely that Nigeria will involve itself directly in assisting independence movements in Southern Africa, but with its resources and a large army (200,000 estimated) it is bound to assume a leadership role in championing the cause of black Africa, through the UN, OAU and other international forums. Although closely associated with the West, in its political orientation and trade, it is trying to establish itself as a non-aligned force in Africa.

Support to the Federal Government during the war has given the Soviet Union a unique political advantage which surprisingly the latter has not apparently cashed in on. Soviet interests so far have been limited to supporting some trade union activities, one or two newspapers and easy access to the Head of State by Soviet diplomats. Relations with a number of other Eastern bloc countries are good and improving. UK continues to be the most influential Western Country because of its private investment and trade with Nigeria. Important as they are, relations with UK might suffer if the arms deal with South Africa is consummated. Relations with Canada, Netherlands, West Germany, Japan and the USA are good and relations with France are improving. The recent decision of the French Government to join the Consultative Group is the best manifestation of this. The French oil company, SAFRAP, has now reportedly reached agreement with the Federal Government which will permit it to resume its operations. The agreement is said to provide for the Government to receive immediately a 35% interest in its operations, rising to 50% when SAFRAP production reaches its pre-war production of 400,000 b/d. As the sensitivities of the civil war are diminished it is expected that relations with Western countries will improve. Nigeria has friendly relations with Arab countries and it maintains diplomatic relations with Israel.

Since the end of the war, Nigeria has made overtures of economic cooperation with Niger, Cameroun, Chad and Dahomey, planning regional development projects for roads and power. Relations with Ghana are still strained but reconciliation with four African countries (Ivory Coast, Gabon, Tanzania and Zambia) which supported Biafra is an example that frictions with other African countries should not be taken too seriously.

Conclusions

After ten years of frustrations, Nigeria is starting anew, to prove that the Nigerians can and should live together as a nation despite their great diversity. Low per capita income, lack of trained manpower, bribery and corruption, tribal and religious tensions, unbalanced development and lack of communications are some of the serious constraints that may continue to inhibit political stability and frustrate efforts to develop national resources. On the other hand, the size and the resources of the country, the twelve state structure and the Government's commitment to set the house in order are important developments which could yield handsome dividends. Although another attempt at secession can be discounted, localized unrest (because of social imbalance) and provincial conflicts can result in waste of resources. Generally speaking, people do not recall with affection the former civilian regime. They will judge the present military Government on its accomplishments in the next 2-3 years.

The Federal Government has a formidable task in carrying out effectively General Gowon's 9-point program (Annex 5A). The question is whether the General, who runs the Government as a chairman runs a corporation, is strong enough to lead Nigeria during peace time. He enjoys the support of senior civil servants and would need the backing of the army, and the full cooperation of states and of local leaders to concentrate national efforts on such thorny problems as taking a census, allocation of revenues, and organization of elections. He is the best compromise candidate and there seem to be no contenders. The Federal Government is taking its task seriously and one can look with some confidence to the next 3 to 4 years as a period of reasonable political stability during which time basic institutional changes necessary for effective administration would have been made.

Self-confidence, national resources and the promise of external help places Nigeria in a unique position to develop its resources rapidly. It must succeed, because the alternatives are not attractive. Failure of the present Government might mean a long period of political and economic stagnation with misuse of national resources. This might well take Nigeria back into the crisis of the past, with the prospect of political disintegration arising again.

GENERAL GOWON'S NINE POINTS

On October 1, 1970 Nigeria celebrated the 10th Anniversary of its independence and at that time, General Gowon addressed the nation and set out a nine point program of tasks to be achieved before the government can be handed over to civilian rule with a full sense of responsibility.

(i) Reorganisation of the armed forces;

(ii) Implementation of the National Development Plan and the repair of the damage and neglect of the war;

(iii) The eradication of corruption;

(iv) Settlement of the question of the creation of more states;

(v) Preparation and adoption of new constitution;

(vi) Introduction of a new revenue allocation formula;

(vii) Conducting a national population census;

(viii) Organization of genuinely national political parties;

(ix) The organisation of elections and installation of popularly elected governments in the states and in the centres.

Background Notes on the Nine Points

Point (i)

During the civil war, a small colonial army, 10 to 20 thousand strong, was expanded to an estimated strength of 200,000. The Navy and Airforce were also substantially expanded. During the Plan period, it is proposed to reorganise and redeploy the armed forces to maintain internal security, defend against external aggression and preclude future political interference with the armed forces.

Considerable sums are to be spent on barracks and equipment and large scale barrack building has already begun in several areas of the country.

Massive demobilization of the Army would serve only to aggravate the serious unemployment problem which exists, particularly in the urban areas.

Point (ii)

The General announced the draft Plan which envisages expenditures of £N1,595 million ($4,466 million) based upon five objectives:

(a) A united, strong and self-reliant nation

(b) A great and dynamic economy

(c) A just and egalitarian society

(d) A land of full and equal opportunities for all its citizens

(e) A free and democratic society

He emphasized the difficulties of implementation and the need for a higher level of domestic savings and stressed the need for more even development in the country as a whole, both economically and educationally.

Point (iii)

General Gowon spoke strongly of the need for observance of stringent moral standards and his refusal to tolerate abuse of office for personal enrichment. He promised to establish tribunals to deal speedily with corruption both in public service and in society in general and that the military government would set a new pattern before the return of civilian rule. Several tribunals to investigate alleged corruption have already been in operation. To combat an increase in violent crimes, the death penalty has been extended to robbery with violence. Since the end of the war, fifteen people have been publicly executed by firing squads in South Eastern State, and three persons, including a former Lieutenant in the Nigerian Navy were similarly publicly executed in Lagos in April. Executions have also taken place in other states.

Point (iv)

In 1967, the country was divided into twelve states - previously it had consisted of four regions and the federal capital (Lagos). The criteria applied for the creation of states were :

(a) No one state should be in a position to dominate or control the Central Government;

(b) Each state should form one compact geographic area;

(c) Administrative convenience taking into account the facts of history and the wishes of the people;

(d) Each state should be in a position to discharge effectively the functions allocated for former regional governments.

The applications of these criteria could have given rise to not less than eight or more than 14 states. In spite of certain grievances, the General is convinced that the twelve states established provide the basis for political stability and their creation has corrected the structural inbalance of the twelve states and it is not the intention during the next four years to consider changing the structure. The matter will be reviewed at the end of the Plan and if the need for more states should then be apparent, they will be created before handing over to an elected government. The General warned of the dangers of ethnic and clanish exclusivity and affirmed the right of every Nigerian to free mobility and to settle and work wherever he chooses, irrespective of ethnic origin.

Point (v)

Probably the most important and difficult task of the military government will be that of preparing a new constitution. A panel is to be set up to draft a constitution, to be followed by a Constituent Assembly.

The Federal Constitution will be maintained based upon the concept of ONE NIGERIA.

Point (vi)

The allocation of revenues has been a continouous problem since independence. It has been the subject of several especially established bodies and an interim formula was agreed upon in mid-1970. The problem has, of course, been further complicated by the fact that oil production to date is limited to the Eastern and Mid-West States.

A Fiscal Commission will be set up to review the present formula and recommend a new formula, taking into account the final distribution of functions between Federal and State Governments.

Point (vii)

The last Nigerian census, in 1963, was conducted amidst considerable acrimony and the political repercussions contributed to the political uprisings which led to the civil war.

General Gowon announced that the military government will conduct a national census, to be used for purposes of economic planning and the organisation of elections, before handing over to civil government.

Point (viii)

The old political parties and all political activities were dissolved by decree in 1966. General Gowon recognised the need to organise new parties, founded on the widest possible national basis, but only after consolidation of national unity and purpose. He precluded the organisation of parties based merely on state, regional or tribal blocks.

Point (ix)

When the objectives of the above eight points have been accomplished the military government will organise and supervise free and fair elections. The target year for completing the political program and returning the country to normal constitutional government is 1976.

FOREIGN POLICY

General Gowon pledged that Nigeria's first concern would be to contribute to the stability of Africa through the elimination of colonialism and racism, the fostering of African unity and the establishment of regional, economic unions in Africa.

Outside of Africa, Nigeria will work with all developing countries to sustain the independence of small countries and to remove obstacles to rapid development from economic domination, and trading practices of richer countries.

Nigeria will support the OAU and theUN and expects the developed nations to make a constructive effort in the Second Development Decade to promote world peace and economic development.

Nigeria's foreign policy is described as one of "active non-alignment" under which it will work with all countries willing to assist it in developing its resources and improving the well-being of its people.

THE ECONOMY

I. Background

Nigeria is one of the poorest countries in the world, with an estimated per capita income of about U.S. $70 in 1969. It is predominantly an agricultural economy. In recent years the agricultural sector contributed about 55% of GDP and employed 70% of the working population. In view of the rapid expansion of the oil industry, agriculture's share in GDP is expected to drop below 50% this year, although its contribution to total employment will remain high. A wide range of agricultural products are produced, the major food crops being maize, millet, cassava, yams and rice. Exports of agricultural products such as cocoa, groundnuts, palm oil and rubber accounted for about 45 percent of domestic exports in 1969. Within agriculture, subsistence production accounts for about half of value added.

Price and quantity fluctuations of agricultural exports have traditionally been responsible for income changes in the non-subsistence sector. Recent economic growth, however, is attrbutable primarily to development in the petroleum and manufacturing sectors, and will most likely remain so in the near future. Export of crude oil has resumed the rapid rate of growth maintained before the civil war and now represent more than 50 percent of total exports. This ratio is expected to continue to rise until at least 1975, but the direct impact of petroleum development on employment and private income will remain small. The mining sector, including the production of tin, columbite and other minor products as well as petroleum, accounted for only about 6 percent of GDP in 1970, and employed less than 1 percent of the labor force.

Manufacturing industries have also grown rapidly in recent years, with an average annual growth rate of over 15 percent from 1960 to 1967. Despite the loss of production in the Eastern States, manufacturing output actually increased during the civil war years as a result of import substitution induced by restrictive import policies. Manufacturing now accounts for about 10 percent of GDP, compared to only 4 percent in 1958, and employs about 12 percent of the active labor force.

Development prospects for the Nigerian economy are favorable. The country possesses substantial and diverse resources. Current land/labor ratio in agriculture is relatively high and considerable amounts of arable land are unutilized. Ecological conditions are favorable for the production of a wide range of tropical crops which tends to moderate adverse effects of commodity price fluctuations. In addition to petroleum, tin, coal and limestone exist in large deposits. Over the next five years, petroleum revenues will ease considerably the constraints that limited foreign exchange and savings traditionally impose on developing economies.

On the other hand, negative factors in future development are: (1) the lack of skilled manpower in both the public and private sector compounded with increasing unemployment of unskilled workers, (2) inflationary pressures resulting from frustrated consumption and investment demands over the civil war years, and (3) possible political instability due to the ethnic and economic diversity of the population. Social and political considerations are likely to be at least as important as economic considerations in the determination of the Nigerian Government's development strategy. The Government's strategy over the period 1970-74 is formulated in the Second National Development Plan which projects an average real GDP growth rate of 6.6 percent, with investment at 20 percent of GDP.

II. Recent Economic Development

Sustained Growth Prior to 1966

Between 1962 and 1965, GDP in real terms grew at an average rate of 4.4 percent annually, or about 2 percent per capita. Domestic capital formation averaged about 15 percent of GDP during this period, with private investment accounting for about two-thirds of the total. Domestic saving amounted to nearly 12 percent of GDP. The engines of growth were the production of export crops, petroleum and manufacturing. A sizeable surplus on government's current account was maintained throughout the period while government's capital expenditure increased at the order of 12-13 percent per annum.

Impact of the Civil War

The civil war caused major losses in production and investment, and serious damage to the country's infrastructure. Growth of GDP is estimated to have dropped to minus 6.6 percent in 1967/68, resuming an upward trend only in 1969. Investment, especially private foreign investment, declined sharply. Damage to infrastructure occurred not only in the war areas but also in the rest of the country as a result of over-utilization and insufficient maintenance particularly of transport facilities. Reconstruction costs in the public sector are put at about U.S.$850 million, while the corresponding private sectors costs are $650 million. The disturbances preceding the war and the war itself displaced a large number of Ibos who are now crowded in East Central State. On the other hand, industrialization was spurred by the wartime adoption of import restrictions initially designed to protect balance of payments.

Government's Financial Position

The budgetary cost of waging the war amount to virtually all of the Federal Government's current revenue during the war period. The foreign exchange component of this cost may be put at between $300 and $400 million. During the war period, the Government increasingly resorted to deficit financing, virtually all of which was covered by domestic borrowing. As a result, the Federal Government's internal debt nearly tripled.

External public debt increased by less than 10 percent over the period of the disturbances. All military imports apparently were paid for in cash. However, the Government had to resort to delaying payments for commercial imports and barring remittances of investment income. Short-term liabilities to the private sector representing approved applications for foreign exchange, primarily on account of merchandise imports, amounted to $400 million at the end of March, 1971. At the same time, foreign exchange reserves stood at $200 million excluding SDR's (equivalent to about 2 months merchandise imports) or $230 million including SDR's.

III. The Second National Development Plan 1970-74

Nigeria's Plan -- covering the period April 1, 1970 to March 31, 1974 but announced only in November 1970 -- postulates that the rate of growth of real GDP will rise from less than 5 percent in 1970/71 to 9 percent in 1973/74. Petroleum production and manufacturing are expected to be the major growth sectors, while agricultural output, still the mainstay of the economy, is projected to rise only 2.4 percent per annum, or at about the same rate as population. Total planned investment of $4.5 billion, roughly half public and half private, represents about 20 percent of GDP. The Government expects that nearly half of the private investment will come from abroad and much of this will be in the petroleum industry. Government investment, on the other hand, is to be financed primarily (70 percent) from public savings, while projected external capital aid during the Plan period is estimated at nearly 20 percent of planned public investment.

The emphasis in the first two years of the Plan period is largely upon reconstruction and rehabilitation with a view to restoring productive capacity and making good losses and damage suffered during the war. Roughly $840 million or three-fourths of planned public capital expenditures during 1970/71 - 1971/72 are for rehabilitation; these investments have an estimated foreign exchange component of about $335 million. The strategy underlying the Plan is sound. The concentration of planned investment on reconstruction and rehabilitation during the first half of the Plan period is fully justified to get the economy moving again. Public investment in 1970/71 almost certainly fell far short of the projected level, but may be higher than the Plan target in 1971/72. Some of the investment in Federal programs planned for 1970/71 will be carried out in 1971/72 and this, together with improving investment performance of the State administrations, could result in a peak of investment activity in 1971/72. On the other hand, investment may continue to rise if there is appreciable carryover from 1971/72, if executive capacity expands sufficiently fast as a result of steps now being taken to improve Plan administration and implementation, and if rising oil revenues are channelled to public investment.

Longer-term development priorities and growth strategy for the economy are yet to be formulated. A summary of the Nigerian Government's positions on a number of immediate issues relating to the financing and implementation of the Plan which was given to the Bank during negotiation of a program loan (February 1971) is attached as Annex-A of this section.

IV. Development Problems and Issues

In the wake of the civil war and the recent administrative reorganization of the country, Nigeria is beset by not only the usual constraints associated with low-income countries attempting to embark upon rapid development, but also by a host of other limitations directly attributable to the crisis of the past few years.

Major development problems and issues over the current Plan period are likely to be :

(1) Public Administrative Capacity

Administration has been weakened by recent events in Nigeria. The return of many Ibos to the East just before the outbreak of hostilities and the diversion of scarce administrative talent to running the war further weakened executive capacity in the area of development planning and project implementation. At the State level, administration suffered severly as a result of the break up of the four former regions into twelve new political entities. Some of the States have barely begun to create their own administrative structure and virtually all State governments have substantial staff shortages, especially at the intermediate and lower executive levels. In the North, expatriate officers and advisers are still employed extensively. The Nigerians recognize their weaknesses in this regard and are taking steps to remedy them (see Section F of attached Annex 6-A). In the meantime, however, public administrative capacity is likely to be the limiting factor in Plan implementation.

Implementation of the public investment program of the current Plan will undoubtedly require substantial technical assistance. The Nigerian Government appears to be sensitive, however, on the issue of external technical assistance, particularly foreign consultants.

(2) Economic Relations between the States and the Federal Government

The division of economic responsibility between the 12 new States and the Federal Government still remains to be defined. A specific issue is the distribution of fiscal revenues, particularly from petroleum, between the Federal Government and the States and among the States. A Constituent Assembly is expected to resolve these and other issues sometime before 1976, the date the present Government envisages for returning the country to constitutional government. The present firm control of the Federal Government over the economy may be expected to continue until then, but the diversity of economic interests among the different States will probably remain an obstacle to the national development effort.

(3) Inflationary Pressures

As a result of the heavy borrowing by the Federal Government, the money supply in Nigeria increased rapidly since 1967. During the first half of 1970, the money supply amounted to about twice the level two years before. Prices began to increase signficantly in early 1969 and the available data indicate that consumer prices rose by 12 percent in 1969, and by a further 13 percent during the first half of 1970. Since last summer, however, prices appear to have stabilized. The Government instituted price controls in 1970 which, however, appear to have been largely ineffective. Government's assurances of its intentions to control inflationary pressures have been given to the Bank (paragraph 11 of the attached Annex). The increase in oil revenue will make deficit financing unnecessary and strengthens the outlook for restoration of monetary stability.

(4) Manpower and Employment

Manpower development is one of the most serious problems in future development efforts. At present, the country is faced with a situation of a severe shortage of intermediate and senior technical and skilled personnel. On the other hand, there are large numbers of unemployed, and their situation is expected to deteriorate during the next four years. The majority of the new unemployed will be school dropouts and Government will have to make available technical and vocational education on a large scale to equip these people for employment. Wage employment will absorb only a fraction of the total labor force. The rest will have to be absorbed in agriculture and self-employment in services. The problem of unemployment will be more severe in some regions because of reduced labor mobility since the war, and the special problem of the many people in the war affected areas who used to work elsewhere. Unfortunately, the favorable development of the petroleum sector over the next few years will have virtually no direct impact on employment.

(5) The New Five Year Tax Agreement on Petroleum

The Nigerian Government has just negotiated a new five-year price and tax agreement with the major petroleum producers (April 1971). The new agreement increased the posted price (the artifical price on which profit taxes are computed) from US$2.42/barrel to $3.21, increased the profit tax rate from 50 percent to 55 percent, and eliminated substantially the time-lag in payment of oil revenues. As production has now reached a level of 1.5 million barrels/day (about half of Venezuela's current output), the net foreign exchange impact of oil is expected to be £N400 million or $1.1 billion in FY 1971/72. This is about $550 million above the estimate contained in the Plan and about $660 million greater than actual net receipts in 1970/71.

The increase in oil revenue should greatly strengthen the Government's ability to implement the Plan's public investment program and to achieve other policy targets. At the same time, the increase in oil revenue should enable the Government to provide more incentives for agriculture (e.g. by reducing export taxes and increasing producer prices) and to strive for a better agricultural growth rate than the 2.4 percent foreseen in the Plan.

(6) Balance-of-payments

The Nigerian Government estimates that net foreign exchange receipts from oil (including both Government revenue and net petroleum company spending in the country) will rise steeply to £N400 million (or some US$1.1 billion) in the current fiscal year (ending March 1972). These revenues will permit the Government to follow a policy of continued import liberalization in support of the rapid recovery of the private sector and to accelerate repayment of the commercial backlog. Imports are projected to increase to £N480 million (or US$1.34 billion compared with US$1 billion last year). The commercial backlog currently amounts to £N180 million.

Assuming that the normal credit float of Nigeria is about £N100 million (equivalent of some $2\frac{1}{2}$ months imports), elimination of the backlog will require a net reduction of £N80 million in short-term liabilities this year.

The accompanying balance-of-payments table suggests that Nigeria will require official capital inflow of about £N100 million, or some US$280 million in 1971/72 to achieve its objectives. This estimate is, of course, provisional, based on our best judgment and the data provided by the Government. Prospects are good that official assistance will reach this level. Disbursements from existing commitments - bilateral and multilateral - are likely to be around US$80 million, while the IBRD rehabilitation program loan will provide another US$80 million. This leaves a residual gap of US$120 million to be provided from new commitments, some of which are already in sight. Part of this residual is likely to be provided by IMF drawings. The Nigerians propose to ask the IMF for a drawing through the second credit tranche which together with SDRs could provide up to US$110 million. Given present policies and prospective domestic resources (which make deficit financing unnecessary), Nigeria and the IMF should be able to agree on the necessary conditions for a standby credit.

From the statements at the Consultative Group meeting, it seems likely that bilateral programs will cover whatever balance remains after the IMF credit. The bilateral donors all took a positive attitutde towards Nigeria's problems and generally recognized its current need for quick disbursing aid.

We were informed that General Gowon wishes to ask the IBRD for a further program loan. Given the present outlook for foreign exchange resources and the plans of bilateral donors, there seems, however, no strong case for continued IBRD program lending. In the near-term, through December 1972, Nigeria is likely to have sufficient resources from existing commitments and additional commitments indicated during the Consultative Group meeting. This judgment will, of course, need to be reviewed by the economic mission this fall. For the balance of the plan period 1972/73 - 1973/74, there is a strong need for technical assistance and institution building in the public sector which will improve the Government's ability to make use of the very substantial increases in available foreign exchange resources. This objective will be served better by sector or project loans with a reasonable disbursement pattern than by continued program lending.

BALANCE-OF-PAYMENTS 1971/72

		(Millions of Nigerian Pounds)
Current Account		
	Imports (non-oil) 1/	- 480
	Exports (non-oil) 1/	190
	Net services (non-oil) 2/	- 120
	Net petroleum impact 2/	400
(1)	Current balance	- 10
Capital account		
	Private capital - non-oil	15
	Debt service	- 25
	Short-term capital	- 80
	Reduction of arrears	- 180
	New trade credits	100
(2)	Public long-term capital (existing commitments)	57
(3)	Balance of Capital	- 33
(4)	Additional Disbursements Required (1 + 3)	43
	Total Official Capital (2 + 4)	100

1/ Bank/Fund estimate

2/ Nigerian estimate

MEMORANDUM ON ECONOMIC POLICY ISSUES

A. Settlement of commercial arrears

1. The Nigerian Government is currently preparing a scheme for the settlement of the commercial arrears. This will involve adopting a system which would isolate the existing pipeline of foreign exchange applications and henceforth providing foreign exchange in respect of all imports within either 90 days or 180 days of the arrival of the goods in Nigeria, depending upon the category of the items involved. The Government would review its import policy periodically with the purpose of keeping payments within the limits of available resources.

2. At the end of February 1971, applications accepted by the Central Bank for foreign exchange in respect of merchandise imports amounted to nearly £N100 million. In the Government's view some £N50 million of this may have represented claims that had been in the pipeline for more than 90 days and were, therefore, due and payable. This amount the Government plans either to settle immediately or to refinance; and over the balance of the Plan period this amount will be fully liquidated. The remaining applications, also amounting to approximately £N50 million, are in the nature of normal commercial credit and can be shifted to the private sector once the new system for import payments has been initiated. These claims together with all new applications, will be honored promptly as they become due, i.e. within 90 or 180 days of the arrival of the goods in Nigeria.

3. Approximately 90 percent of those exchange applications currently considered due, i.e. pending more than 90 days, is on account of a relatively small number of importing firms. Part of these arrears would be settled from current export earnings and from the use of existing reserves during the first few months after the introduction of the new system. The Government is currently exploring the possibility of funding a substantial portion of the remaining arrears by obtaining new credits from sources in supplying countries. The Government will also consider an approach to the IMF in connection with its balance of payments problem.

B. Import Policy

4. The Government has provided detailed information on Nigeria's 1970 imports and exports. This information is summarized below:

	1969	1970	Percentage change
	(£N million)		
Imports	248.7	376.2	51.3
Non-Petroleum	237.6	353.0	48.6
Petroleum sector	11.1	23.2	109
Exports	318.2	443.6	39.4
Non-Petroleum	187.2	188.9	0.9
Petroleum	131.0	254.7	94.4

Of the ₤N130 million increase in imports in 1970 more than 50 percent was accounted for by machinery and transport equipment and another 33 percent by items in the manufactured goods (SITC 6) category. The Government believes that much of the increase in imports last year -- which substantially exceeded Plan estimates -- may be attributed to special needs associated with relief, rehabilitation and reconstruction and to the rebuilding of inventories. Imports are expected to rise further in 1971, but not as much as during the past 12 months.

5. With a view toward improving the implementation of import policy and providing better management of the country's foreign exchange resources, Government is considering establishment of an Inter-Ministerial Committee on Foreign Exchange Allocations composed of representatives of the several departments exercising responsibilities in this area.

C. Reserve Policy

6. During CY 1970 Nigeria's official reserves rose by about ₤N25 million (including ₤N6 million equivalent in the first SDR allocation). However, during the same period official short-term obligations (largely comprising payments due for commercial imports) increased by a greater amount so that the country's net international financial position actually deteriorated. Anticipated settlement of some portion of the payments arrears at the end of the current fiscal year may result in a substantial drawdown of reserves. For the financial year 1970/71 as a whole there is likely to be little change (improvement) in Nigeria's official reserves. The Government's policy is to maintain reserves at about this level through 1971/72.

D. Official Capital Inflows

7. During the two years 1970/71 - 1971/72 the Government now anticipates that foreign official capital receipts (including the Bank's proposed rehabilitation program loan) will amount to ₤N87 million. This estimate is based on an analysis of existing and prospective aid. Prospective official capital inflows fall short of Nigeria's total aid requirements, estimated at ₤N120 million over the first two years of the Plan if the country is to implement the public investment program anticipated by the Plan and capital budget. The Government is approaching other lenders with a view to obtaining additional financing for its rehabilitation program.

E. Fiscal and Monetary Policy

8. The Federal Government has recently adopted a two-year capital budget for 1970/71 and 1971/72 which -- in both level and composition -- conforms closely to the estimates presented in the Second National Development Plan. For these two years, financing sources for capital expenditures are the Federal current account surplus (₤N120 million), internal loans (development loan stock) (₤N60 million), external loans and grants (₤N87 million). The Government also has authority to issue up to ₤N15 million in additional Treasury certificates.

9. The Government expects to issue development loan stock of ₦N30 million at the end of the FY 1970/71 and another ₦N30 million in 1971/72. A portion of these securities is expected to be taken up by savings institutions. However, it is likely that a part of the issue will be absorbed by the Central Bank.

10. The current account position of the Federal Government has improved over original estimates because of higher than expected receipts from customs and excise and from income taxes (including the petroleum profits tax). Total revenues collected by the Federal Government are estimated at ₦N326 million in 1970/71 compared with ₦N218 million in 1969/70. The strong upward trend is expected to continue in 1971/72 when revenues may reach ₦N475 million (assuming a continuation of present tax rates and petroleum prices). The Government will exercise restraint in recurrent non-development expenditures, so that public savings will be available to finance an increasing share of rehabilitation and development outlays in line with Plan projections which anticipate that by 1973/74 public savings will exceed public investment. Continued improvement in the Government's fiscal position is expected to eliminate the need for Central Bank financing of capital expenditures during the second half of the Plan period.

11. The Government is aware of the existing inflationary pressures and will manage its monetary and fiscal policies to keep them under control. As indicated above, however, the Central Bank will almost certainly be called upon to provide some financing for the public investment program next year. Government intends to continue its present policy with respect to permissible rates of expansion of credit to the private sector. Priority is being given to productive activities in agriculture, manufacturing, construction and transportation. Thus, monetary policy will be made compatible with the execution of the rehabilitation program, the requirements of growth in key sectors of the economy and the need of gradually eliminating inflationary pressures. GDP is expected to expand by some 7 percent in real terms in the year ahead. In view of the existing liquidity, prices are expected to continue rising in 1971/72 at about the same rate as last year. Thereafter price increases are expected to be mitigated by improved availability of imported and domestic commodities and, more generally, by improvements in public services (particularly transportation) resulting from the rehabilitation program.

F. Improving Plan Administration and Implementation

12. The Nigerian Government has, from experience of the 1962-68 Plan, recognized the need to improve its machinery for the administration and execution of the programs and projects in the new Plan. To this end it has embarked on reviews of the functioning and staffing of its various ministries and agencies with a view to making them more effective.

13. Already, far-reaching reorganization proposals have been approved and implemented in respect of the Federal Ministry of Economic Development and Reconstruction and the Federal Ministry of Finance -- the two Ministries most concerned with the administration of the Plan. The erstwhile small

Economic Planning Unit in the Ministry of Economic Development and Reconstruction has been expanded into a much larger Central Planning Office with a large cadre of professional planning staff who will not be subject to movements to other administrative duties. This change will permit the allocation of projects and programs to specific officers whose responsibility will include the constant prodding of executing agencies and the identification of bottlenecks in the implementation procedures.

14. The Federal Ministry of Finance, which has responsibility for harnessing and managing the financial resources for implementing the Plan, has now been completely reorganized to make it more effective and to facilitate quick decision making. More high calibre personnel have been provided for and the Ministry rearranged in a manner that will facilitate quicker action. For example, an additional Permanent Secretary has been provided to take charge of External Financing and matters concerning the oil industry and the public corporations. The External Finance Division has been strengthened to ensure more effective use of external finance, by closer follow-up of progress of projects and quicker disbursement of loan finance. In addition, Government has decided that all funds approved in the Capital Budget should be released en bloc at the beginning of the financial year to remove the delays caused in executing projects by piecemeal release of funds. The Federal Ministry of Works and Housing is now authorized to enter into contracts for executing projects as soon as such projects are approved by Government instead of awaiting release of funds. These procedures should lead to quicker execution of projects.

15. Proposals for the reorganization of the Federal Ministry of Works and Housing with a view to ensuring quicker execution of public works projects are being considered by Government as well as proposals in respect of the Ministry of Industries and other Agencies of Government concerned with implementation of the Plan. To back up these reorganizations, provision has been made for additional staff and operational expenses for the ministries in the Recurrent Budget for 1971/72.

4

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The following is a summary of Bank loans and IDA credits to Nigeria as of April 30, 1971.

Loan or Credit Number		Year	Borrower	Purpose	Amount (US $ million) Bank	IDA	Undisbursed
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	326	1962	Nigerian Ports Authority	Apapa Wharf	13.5		
	372	1964	Electricity Corp of Nigeria	Transmission	30.0		
	383	1964	Niger Dams Authority	Kainji Multi-Purpose Project	82.0		
	72	1965	Republic of Nigeria	Education		20.0	17.9
	73	1965	Republic of Nigeria	Northern Roads		15.3	
	426	1965	Republic of Nigeria	Apapa Road	17.5		7.5
	427	1965	Republic of Nigeria	Western Roads	14.5		4.9
	572	1968	Niger Dams Authority	Kainji Multi-Purpose Project Supplementary	14.5		1.3
	588	1969	Nigerian Industrial Development Bank	Industry	6.0		2.4
	640	1969	Republic of Nigeria	Highway Rehabilitation	10.6		10.6
	694	1970	Republic of Nigeria	Transport Rehabilitation	25.0		25.0
	705	1970	Nigerian Industrial Development Bank	Industry	10.0		10.0
2/	732	1971	Republic of Nigeria	Rehabilitation Program	80.0		80.0
3/		1971	Republic of Nigeria	Western State Cocoa	7.2		7.2
			TOTAL (Less cancellations)		338.8	35.3	
			TOTAL Undisbursed		148.9	17.9	166.8

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2/ Approved April 20, 1971 - Not yet effective

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The Bank envisages an annual lending program of about $100 million for the next five years, all on a project basis. To establish a pipeline the Bank has taken the following actions in the last six months :

1. C.D.C. has provided a livestock mission to the Northern and Western States.
2. A Project Preparation Mission, in conjunction with C.D.C., has assessed the possibilities of rehabilitating tree crop plantations in South Eastern State.
3. A possible pulp-wood project in the East has been identified.
4. A UNESCO Sector Survey Mission completed its field work in April.
5. A Bank Agriculture Sector Mission is now completing its field work.
6. A Bank Transportation Sector Mission is now in the field.

All of these sector missions have been specifically project identification oriented. They are expected to advise the Bank on projects from which the Bank can formulate a lending program best suited to foster development in Nigeria over the next 5 - 10 years. It is likely that considerable technical assistance will be needed, particularly at the State level, to assist in preparation and evaluation of the projects which will be identified.

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The Bank, by supporting Nigeria financially during the latter stages of the war and subsequently, is, at present, unquestionably in the position of the most favoured lender. Their acceptance, at the urging of the Bank, of the reconstitution of the Consultative Group is tangible evidence of this.

The Government is fully aware of the need for substantial technical assistance if their plan is to be implemented but their sensitivity gives rise to inhibitions. Perhaps the most valuable contribution the Bank could make would be to ensure that this assistance is obtained or provided in a timely and adequate manner acceptable to Nigeria.

Now that Nigeria's most pressing problems of rehabilitation and need for a rapid inflow of foreign exchange are being substantially met, thanks largely to increased oil revenues and the Bank's efforts through the Rehabilitation and Program Loans, and the Consultative Group, the Bank's strategy must be one of encouraging the establishment of a pipeline of projects, within the context of the Plan, suitable for external financing over the next 2 - 5 years. This will entail close and extensive consultation (frequently frustrating) with Nigeria to ensure that adequate planning machinery (most likely aided by consultants) is set up, at both Federal and State levels, to provide for sound project preparation. A continuing coordination effort through the machinery of the Consultative Group will be of great importance, and the Bank's Resident Mission will also play an important role.

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The Bank, by supporting Nigeria financially during the latter stages of the war and subsequently, is, at present, unquestionably in the position of the most favoured lender. Their acceptance, at the urging of the Bank, of the reconstitution of the Consultative Group is tangible evidence of this.

The Government is fully aware of the need for substantial technical assistance if their plan is to be implemented but their sensitivity gives rise to inhibitions. Perhaps the most valuable contribution the Bank could make would be to ensure that this assistance is obtained or provided in a timely and adequate manner acceptable to Nigeria.

Now that Nigeria's most pressing problems of rehabilitation and need for a rapid inflow of foreign exchange are being substantially met, thanks largely to increased oil revenues and the Bank's efforts through the Rehabilitation and Program Loans, and the Consultative Group, the Bank's strategy must be one of encouraging the establishment of a pipeline of projects, within the context of the Plan, suitable for external financing over the next 2 - 5 years. This will entail close and extensive consultation (frequently frustrating) with Nigeria to ensure that adequate planning machinery (most likely aided by consultants) is set up, at both Federal and State levels, to provide for sound project preparation. A continuing coordination effort through the machinery of the Consultative Group will be of great importance, and the Bank's Resident Mission will also play an important role.

During the remaining three years of the Plan, we envisage Bank lending in the fields of agriculture, education, power, transportation and industry, including Development Bank. Many of our prospective operations remain unidentified and their amount is necessarily notional. These proposed operations are explained in more detail in the sector papers which follow.

Population: 54 m
GNP Per Cap: $90

P & B 3/10/71

IVa. NIGERIA - 5 YEAR OPERATIONS AND LENDING PROGRAMS
(By Fiscal Year - Amounts in $ millions)

..ERATIONS PROGRAM

			1971	1972	1973	1[illegible]
7-NIR-AC-01	Agricultural Credit	IBRD			5.0	
7-NIR-AC-02	Agricultural Credit II	IBRD				
7-NIR-AL-01	Livestock	IBRD		5.0		
7-NIR-AL-02	Livestock II	IBRD				10
7-NIR-AL-03	Livestock III	IBRD				
7-NIR-AP-01	Cocoa - Western State	IBRD	7.2			
7-NIR-AP-02	Cocoa - Western State II	IBRD				15
7-NIR-AP-03	Tree Crops	IBRD			10.0	
7-NIR-AX-01	Agriculture Unidentified	IBRD				
7-NIR-AX-02	Agriculture Unidentified II	IBRD				
7-NIR-DD-02	DFC - NIDB II	IBRD	10.0			
7-NIR-DD-03	DFC - NIDB III	IBRD			12.0	
7-NIR-DD-04	DFC - NIDB IV	IBRD				
7-NIR-EE-02	Education II	IBRD		10.0		
7-NIR-EE-03	Education III	IBRD			25.0	
7-NIR-EE-04	Education IV	IBRD				
7-NIR-PH-03	Power V	IBRD				25
7-NIR-PP-02	Power IV	IBRD		35.0		
7-NIR-GG-01	Rehabilitation Program Loan	IBRD	80.0			
.IR-II-01	Small-Scale Industry	IBRD			3.0	
-NIR-IX-01	Industry Unidentified I	IBRD				1[illegible]
7-NIR-IX-02	Industry Unidentified II	IBRD				
7-NIR-TH-05	Roads - Federal & State	IBRD	17.5			
7-NIR-TH-06	Roads VI	IBRD		20.0		
7-NIR-TH-08	Roads VII	IBRD			20.0	
7-NIR-TX-01	Roads - Unidentified I	IBRD				
7-NIR-TX-02	Roads - Unidentified II	IBRD				
7-NIR-TA-01	Airports	IBRD				
7-NIR-TP-02	Ports II	IBRD			15.0	
7-NIR-TR-02	Railways II	IBRD				40.
7-NIR-XX-01	Unallocated	IBRD				

	1964-68	Total 1969-73	1972-76		1971	1972	1973	
IBRD	144.0	330.8	457.0	IBRD	114.7	70.0	90.0	10[illegible]
IDA	35.5							
Total	179.5	330.8	457.0	Total	114.7	70.0	90.0	1[illegible]
.	6	19	27		4	4	7	5

..ENDING PROGRAM (11/23/70)

IBRD	144.0	309.2	454.5	IBRD	98.6	65.0	89.5	10[illegible]
IDA	35.5							
Total	179.5	309.2	454.5	Total	98.6	65.0	89.5	1[illegible]
No.	6	16	27	No.	3	3	6	

POWER

BACKGROUND

There has been rapid growth of both consumption and generation of electricity in Nigeria since Independence in 1960. At that time, total maximum demand was 73.2 MW but this had risen to 195 MW in 1966. Demand fell during the civil war but has picked up rapidly to 227 MW in March 1971. Installed capacity in 1960 was approximately 180 MW, almost entirely produced by Electricity Corporation of Nigeria (ECN). This increased to 307 MW with the commissioning of Kainji Dam in 1968. Today, the effective installed capacity is approximately 671 MW.

Nigeria's immediate problem, therefore, is to reduce costs by the full utilization of existing excess capacity and, in the longer term, to provide for load growth, estimated to be about 15 - 20 percent per annum, which would increase maximum demand to about 835 F W by 1978/79. Failure to use existing capacity and provide for load growth would be a major constraint on the achievement of the overall Plan objectives.

The present system whereby both Niger Dams Authority (NDA) and ECN own and operate separate generation and transmission facilities but only ECN markets power to consumers, has created difficulties and duplication of assets. The Federal Government has therefore decided to merge ECN and NDA into a single entity for the generation, distribution and marketing of power.

The Canadian Government is financing a consulting group now reviewing the sector with a view to recommending a plan of action and a proposed organizational structure for a new corporation which would be responsible to government through the Ministry of Mines and Power. The Bank strongly supports this proposal.

Under the Plan, capital expenditures totalling £N45.3 million ($127 million) are proposed. Of this, £30.3 million ($85 million) would be spent on rehabilitation of the power system in the East, extension of the grid system, the expansion of distribution in the densely populated industrial areas, the electrification of some 225 grid connected townships and rural electrification, all designed to increase the effective use of the excess installed capacity and greater utilisation of existing facilities.

The remaining £15 million ($42 million) is provided for the installation of two additional 80 MW units at Kainji, the erection of additional 330 KV transmission lines and substations at Benin and Onitsha, all currently under the jurisdiction of NDA. The installation of the two additional units at Kainji is based upon forecasts which indicate the need for additional capacity by about 1975/76.

Bank Activities and Proposed Lending Program

The Bank has been financially associated with the power sector since 1964 when it made a loan (372 UNI) of $30 million to ECN. Two other loans (383 UNI and 572 UNI) for the construction of Kainji followed and total Bank lending to the sector is now $126.5 million (34 percent of total Bank Group lending to Nigeria). The Bank has followed closely developments in this sector and expects to be asked to provide a substantial loan to the new authority when it is established. As of now, we expect to be in a position to make a project appraisal in November for a loan of $35 - 40 million in FY 1972 (medium probability). It is likely that such loan would provide the foreign exchange for the two additional units at Kainji, together with funds for the extension of transmission lines, erection of substations, expansion of distribution in industrialized areas and possibly for distribution to grid connected townships and for some rural electrification. Apart from the provision of foreign exchange financing, such a loan would have as an objective the establishment of a well-structured, efficiently managed power authority which could provide, at reasonable rates, the power to implement Nigeria's Plan objectives. If the demand for power grows as per forecasts, it is conceivable that further financing would take place some two or three years later.

An interesting facet of the power sector is the proposal to provide power from Kainji Dam to Niger and Ghana. Studies of the proposed Niger connection have been conducted by consultants on behalf of both Niger and Nigeria and arrangements are being made for engineering by consultants. The price to be paid for the power is likely to be the most difficult problem to settle, but it should be possible to arrive at a price which would benefit both countries.

The proposed Ghana interconnection is still in the early stages of discussion since Ghana will not require additional sources of power until about 1978. Indications are that at that time, the cheapest way to solve Ghana's problem would be to import power from Nigeria, most likely at low load factor.

There has been a recent announcement that Western State has arranged for a foreign exchange loan from Hungary for rural electrification in the State. According to the sketchy reports received, it appears that a foreign contractor will install the distribution system under State plans and direction, for hook-up to ECN's grid with little, if any, consultation with ECN. This piece-meal approach could aggravate Nigeria's power problems, particularly if similar action should be taken elsewhere in the country. It is important that power development should be carried out under a centralized, well coordinated plan and the proposed power authority should be the vehicle for developing and carrying out such plan. The early establishment of an efficient, well-structured authority would therefore appear to be of highest priority.

TRANSPORTATION

BACKGROUND

Nigeria has an extensive road, rail, and water network, a national shipping line and a national airline. In 1965, the most recent "normal year", about 61 percent (ton/miles) of goods were transported by road, 27 percent by rail and 12 percent by water.

The sector was severely affected by the civil war. Although military action was largely confined to small areas in the East, repercussions were felt country-wide. With the closing of Port Harcourt and the Eastern Railway Line, all export and import traffic was diverted through Lagos and Western Nigeria resulting in overloading of road and rail capacities.

Nigeria has about 9,500 miles of paved roads and 46,000 miles of unpaved.

Vehicle fleet is estimated to be 75,000 cars, 30,000 trucks and buses and 35,000 motor cycles, with heavy concentration in Lagos and in the south.

NIGERIAN RAILWAY CORPORATION (NRC) has 2,200 miles of single line track of 3 feet 6 inch gauge. Its rolling stock consists of 89 diesel and 214 steam locos, and 6,700 freight cars, 35 percent of which have been in service over 35 years. Steam locos are being replaced by diesel and Canada has recently granted a no-interest twenty-year loan of $20 million for the purchase of 54 1500 H.P. diesels.

NRC has serious deficiencies of management, operation, staffing and fiscal control, in addition to the war damage. Canada has also provided a substantial team of experts to assist in the rehabilitation and reorganization.

NIGERIAN NATIONAL SHIPPING LINE, fully government owned, owns thirteen vessels, eleven of which were purchased for over £N11 million between 1962 and 1969. The Company suffers from serious over-investment, poor management and rapid personnel turnover.

NIGERIAN PORTS AUTHORITY, an autonomous corporation, operates the ports at Lagos (8 berths), Port Harcourt (3 berths), Calabar (3 berths), Warri (1 berth), and Koke (1 berth). Pre-War, Lagos and Port Harcourt handled 70 percent of total imports and exports. Serious congestion existed at Lagos during and for some time after the war as a result of the closing of Port Harcourt.

NIGERIAN AIRWAYS owns six F.27's and leases one F.28 and one Boeing 707. Accounts have not been published since 1966 and losses are apparently substantial. Nigeria has thirteen airports, two (Lagos and Kano), being international terminals operated by the Aviation Department of the Federal Ministry of Transport. Runways at both Lagos and Kano are below international standards and Lagos suffers from inadequate terminal buildings. The Federal Government recognizes the urgent need for substantial investment in these areas.

TRANSPORT PLANNING AND COORDINATION, the responsibility of the Ministry of Transport, needs improvement particularly vis-a-vis Federal and State Governments and the Federal Ministries of Transport, Economic Planning and Finance. This is being actively pursued by the Government and initially a Transport Planning Unit has been established in the Ministry of Transport, manned by a team from Robert R. Nathan Associates, financed by a USAID grant.

Under the Plan, investment of £N243 million ($679 million) is proposed for public investment in transport, which is 26 percent of all public investment, as follows:

PLANNED PUBLIC INVESTMENT IN TRANSPORTATION, 1970-74
(In millions of £N)

	1970/71	1971/72	1972/73	1973/74	Total 1970/74	Share %
TOTAL	62.8	72.7	61.7	45.5	242.6	100
Roads - Total	42.3	50.8	41.9	31.3	166.3	69
Roads - Federal	29.3	32.3	19.8	12.5	93.9	39
Continuing projects	(13.5)	(10.6)	(1.9)	(1.5)	(27.6)	(11)
Rehabilitation projects	(11.0)	(14.0)	(6.8)	(1.1)	(32.8)	(14)
New projects	(2.9)	(5.3)	(9.9)	(8.8)	(26.9)	(11)
Planned and engineering design	(1.9)	(2.4)	(1.3)	(1.1)	(6.7)	
Roads - States	13.0	18.5	22.1	18.1	72.4	30
Railways	6.5	7.2	5.0	3.2	21.8	9
Airways & civil aviation	5.6	7.8	7.3	4.9	25.6	11
Ports	6.6	4.4	4.1	2.8	18.0	7
Maritime services & inland waterways	1.5	1.9	2.5	3.2	9.1	4
Miscellaneous federal projects	0.3	0.5	0.8	0.1	1.7	-

Note: Differences due to rounding.
Source: Second National Development Plan 1970-74, Chapter 19.

Bank Group Activities in the Nigerian Transport Sector

The Bank Group has made six loans and one credit for the development of transport in Nigeria, and has made two technical assistance grants. Brief details are as follows:

193-UNI (1958) - Railway Loan

A US$28 million loan to help finance a five-year development program of the Nigerian Railway Corporation. The loan provided for the supply of diesel locomotives, rolling stock, workshop plant and track equipment.

326-UNI (1963) - Apapa Wharf Improvement

A US$13.5 million loan to the Nigerian Ports Authority for a wharf extension at Apapa Quay in the Port of Lagos, completion of warehouses, and provision of port equipment. The loan was intended to be the first of a series of port development loans; a further port development loan is tentatively foreseen for FY 1973.

Credit 73-UNI (1965) - Northern Roads

A US$15.5 million credit for the construction of 220 miles of main roads and 50 miles of feeder roads, and equipment for vehicle control, in the north of the country. The project, which is now completed, was executed satisfactorily, but difficulties have been experienced with base failures on the 14 mile Gumel-Maigatari road. Remedial measures for these failures are being discussed with the Kano State Ministry of Works and Survey.

426-UNI (1965) - Apapa Road

A US$17.5 million loan for the construction of about 4 miles of 4-lane expressway, partly elevated, leading to the Port of Lagos; for highway feasibility studies of Federal roads and the detailed design of some sections; and for a study of the classification of major roads and of the distribution of road use revenues. The Apapa Road project has been delayed, partly as a result of changes in FMWH's design, necessitated after a review by consultants revealed weaknesses in the original design. The cost of the re-designed project (essentially an elevated structure resting on piled foundations, as against the original ground level pavement on sandfill) has increased from £N8.7 million as estimated at appraisal, to some £N13-14 million, and the project is not likely to be completed until 1973. Concern over escalating costs led the Federal Military Government to appoint a Tribunal of Enquiry in May 1970; this tribunal has now made its report, the main recommendations of which are:

- i) complete the construction works, and provide the necessary funds;
- ii) limit the scope of work by omitting certain items previously added by FMWH;
- iii) retain the same contractor, but negotiate new unit prices with him; and
- iv) retain the same consultants to assist in supervision.

The recommendations have been accepted by the Federal Government.

427-UNI (1965) - Western Roads

A US$14.5 million loan for the construction of three roads totalling 100 miles in length; for detailed engineering of a further

300 miles of roads;for technical assistance to advise the Western State MWT on maintenance operations; and for the procurement of road maintenance equipment. The roads constructed under the loan are now open to traffic, but claims arising from the war activities in the area are still to be settled. Nevertheless, final costs are expected to be within the estimates at appraisal. The detailed engineering under this loan forms the main basis for the loan now proposed. The technical assistance operation, including 5 maintenance advisers, is complete, but implementation of recommendations has been slow. The purchase of maintenance equipment will probably be completed by the extended Closing Date, October 1, 1971.

640-UNI (1970) - Highway Rehabilitation

A US$10.6 million loan for the rehabilitation of 204 miles of the Lagos-Ilorin and Lagos-Ewekoro trunk roads; for detailed engineering of the 70 miles new Lagos-Ibadan expressway; for a feasibility study of an improved road connection between Ibadan and Daura on the Niger border; and for a preliminary study of improving the Benue River crossings near the Cameroon border. There were lengthy delays in awarding the road rehabilitation contracts under this loan. These works and the final engineering for the Lagos-Ibadan expressway are now under way, but a contract for the Ibadan-Daura feasibility study has not yet been awarded. The project will not be completed by the Closing Date of the loan, June 30, 1972.

694-UNI (1970) - Transport Rehabilitation

A US$25 million loan to assist in urgent rehabilitation works, namely:

Ports - Repair of sheds and warehouses in Port Harcourt, and acquisition of port handling equipment for all ports.

Railways - Acquisition of rolling stock, motive power and track equipment and materials.

Roads - Rehabilitation of up to 500 miles of trunk roads, including bridges, and provision for consultant services.

This loan was made, after very brief appraisal, shortly after the end of the civil war. There have been difficulties in getting this project going, mainly because of disagreements with the Government, in principle on the Bank's requirements on economic justification for works under this loan, in practice on the selection of roads for Bank financing. Thus far the equivalent of about US$11 million has been allocated for roads, US$5 million for railway equipment and US$3.3 million for port equipment. The project will not be completed by the loan's Closing Date of December 31, 1972.

Bank Technical Assistance Grants

In 1963, a technical assistance grant of US$125,000 was made for feasibility studies of twelve Trunk B roads feeding into the Bornu railway extension, and for 25 other road projects in the Northern Region. The construction of three of these roads, Maiduguri-Baga, Biu-Gombe and Gumel-Maigatari formed the basis for Credit 73-UNI. Certain others of these roads are being studied under Phase II of the Northern States Road Development Survey (see below).

In 1965, a US$240,000 technical assistance grant was made for a comprehensive study of regional and local authority roads in the Eastern

Region, to assess the existing transport system, to identify future needs, and to make recommendations for road construction, road maintenance and highway administration. The study, which was completed shortly before the outbreak of the civil war, identified 14 priority projects totalling 295 miles which should be constructed or reconstructed by 1973. The priorities listed by the consultants now need revision in the light of present conditions.

UNDP-Financed Studies for Western and Northern Roads

In addition to the Bank financed projects listed above, the Bank also acted as Executing Agency for UNDP-financed regional road studies in the west and north, similar in scope to the Eastern Roads Study. The Western Nigeria Road Development Survey has identified about 300 miles of priority road projects, and the final engineering for most of them has been carried out under Loan 427-UNI. Field work for the Northern States Road Development Survey started in October 1968, and the report on Phase I was submitted in October 1969. Phase II, which is to comprise detailed engineering of 273 miles of high priority roads identified in Phase I, is now being prepared.

Proposed Bank Lending Program - Transport Sector

Nigeria's 4-year Plan investment is likely to involve foreign exchange requirements for the transport sector of about $400 million, of which the Bank may wish to lend $150-160 million. Of this amount $60 million is committed through the undisbursed balance of Apapa Road loan (426-UNI), the two 1970 Rehabilitation Loans (640-UNI and 694-UNI) and the Fifth Highway Loan for which negotiations were recently completed. This leaves a balance of $90-100 million which accords with the $95 million provided for transport in the Bank's proposed lending program for FY 1972 through 1974.

In view of the recent social and economic changes brought about by the war, and of the uncertainty about the Government's transport policies, it is not possible to identify the most urgent investments suitable for Bank Group financing, other than those covered by the Rehabilitation Loans. A port project to expand the facilities of Lagos is likely to merit high priority. The requirements of the railways are not known; their main priority now is for technical assistance. The four-year highway program could probably absorb US$110 million, but the investment priorities for roads are not clear. A Bank loan to assist the development of internal air service in Nigeria may deserve serious consideration.

One of the objectives of the Transport Sector Mission, now in the field, will be to try to identify and assign priority to projects which could form the basis for the Bank's lending program in this sector.

The Federal Government of Nigeria should encourage the new Transport Planning Unit and associate Nigerian officials with its work. On the basis of its studies, and of the advice received from the various consultants working on the highways, railways, airways, ports and waterways sub-sectors, the unit should recommend transport policies and investment programs suitable for Bank Group participation. Until the necessary studies are carried out, the Government should try to confine its commitments in the transport sector to rehabilitation work and to completion of ongoing programs.

AGRICULTURE

BACKGROUND

Agriculture will remain the main-stay of the Nigerian economy and the source of livelihood of most of the population for many decades.

Of Nigeria's 231 million acres, about 1/3 is arable land and land under permanent crops. A further 40 percent of the country, over 90 million acres, is presently not used for any specific purpose, thus more than half the potential agricultural land is at present unutilised.

Over the last two decades, Nigeria's economic growth can largely be attributed to agriculture which provided the foreign exchange for the importation of capital goods, in addition to generating domestic income. In 1961, agricultural exports of $375 million represented 89 percent of all exports.

With the advent of petroleum, the contribution of agricultural exports fell to 64 percent in 1965 but rose again during the war when petroleum activities were restricted. Although the proportionate contribution has fallen again since the end of the war, agriculture is still a major foreign exchange earner and is counted upon to provide the foreign exchange to finance a significant part of the development plan.

Under Nigeria's First Development Plan 1962/68, the agriculture sector grew at an average rate of only 2 percent and the agricultural share of GDP dropped from 61 percent to 55 percent. These disappointing results stemmed largely from the lack of effective planning in the Federal and Regional Ministries of Agriculture which resulted in only half of the expenditure programmed for the plan being made.

Nigeria's agriculture suffers from low productivity resulting from poor techniques and low imputs. Infrastructure, marketing, storage facilities and the credit system all need reform, as do pricing policies. Nigeria recognises these problems and has accorded high priority to agriculture under its Second Development Plan for 1970-74.

Agriculture is the basic responsibility of State Governments but the Federal Government proposes to provide active leadership and financial support to the States to increase the historic and present low growth rate, with the objective of rehabilitating its export crops (cocoa, ground nuts, palm oil and rubber) and ensuring that supplies of food crops keep pace with population growth and urbanisation, with particular emphasis on increasing protein and calorie intake, especially in urban areas.

To achieve these objectives, the Federal Government proposes to provide funds and technical assistance; to encourage the States to institute land tenure reforms; to promote and coordinate irrigation and soil conservation schemes in the Northern States; to establish a national Agriculture Credit Bank with centralized control but decentralized field operations. (£N 6 million - $16.8 million) has been ear-marked for this Bank); to rationalise, revise and adapt technical education to meet the requirements of a modernized agriculture; to restructure and expand the training of extension workers; to reform and coordinate agricultural research through Federal Research Centres and Universities under the supervision of a National Agricultural Council; to establish planning units at Federal and State levels which will facilitate, coordinate and improve project identification, preparation and evaluation.

The Government also proposes to encourage, by subsidy, the increased use of fertilizers and pesticides; provide grants, loans and technical assistance, to encourage the establishment and expansion of Producer Cooperative Marketing Societies; to establish research programs; to develop simple motor powered and animal drawn implements which can be produced domestically and establish a National Seed Multiplication scheme for the multiplication and distribution of improved varieties of sorghum, maize, rice, pulses and assava.

During the four years of the Plan, total projected capital expenditures by the government on agriculture are $300 million. This amount represents about one-fourth of total public investment in the economic sectors.

Proposed Bank Lending Program

The loan of $7.2 million for cocoa rehabilitation in Western State, approved by the Board on May 4, was the Bank's first lending for agriculture. However, we expect that a significant portion of the Bank's lending to Nigeria during the Plan period will be in support of agriculture.

The Bank's lending program through FY 74 envisages projects for tree crops in the East, livestock in the West and North, a second stage cocoa rehabilitation project in the West, and a possible loan for the proposed National Agriculture Credit Bank. A notional total of $45 million has been assigned to these projects.

As in other sectors, project identification/preparation and assignment of priorities are serious restraints. In an effort to build a pipeline of projects the Bank has taken the following positive steps over the last six months.

1. A team of consultants provided by CDC has recently completed a review of the livestock sector, ranching, ranch management, tese-tese fly eradication, meat processing and cold storage transportation in the North and West. We expect that projects will be identified leading to loans ranging from $5 - 15 million in each of FY 72, 74 and 76.

2. A mission, assisted by CDC personnel, has completed identification of a tree crop project in the East involving the rehabilitation of estates formerly operated by the Eastern Nigerian Development Corporation.
3. A possible pulpwood plantation project in the East has been identified.
4. On the basis of a proposal made by the Bank, the Federal Government will approach UNDP for technical assistance which would result in the establishment, and management during its formative years, of a National Agriculture Credit Bank. The Bank has indicated its willingness to act as Executive Agency for this project and it may be assumed that Bank financing for the institution will be requested, although probably not before FY 73 or 74.
5. Funds have been provided in the Western Cocoa Loan for equipment for a survey unit to obtain the data necessary for a second phase of the cocoa rehabilitation program being developed by Western State. This and the improved management, credit facilities and agricultural techniques which could arise from the present project should provide the basis for a second expanded project in about 2 - 3 years.
6. An Agriculture Sector Mission is now completing its field work designed primarily to identify projects for preparation which could form the basis for a meaningful Bank lending program over the next 5 - 10 years.

For the effective management of agricultural projects, substantial institution building within the states will be necessary. For the Bank to make a meaningful contribution in this field, some financing of local currency costs will continue to be necessary.

The need for substantial technical assistance, more fully explained under Item 9, is of particular importance in agriculture.

EDUCATION

BACKGROUND

Nigeria's education system made modest progress during the 1960s. Enrollment in primary schools grew by some 2 percent p.a. and in secondary schools by about 1.5 percent p.a., compared to a 2.5 percent annual population growth. Enrollment in technical and vocational schools doubled in the 60s and university enrollment tripled, both from low base figures. About 3.2 percent of G.D.P. was spent on education in 1970. This percentage has remained relatively constant since 1963, is low compared to similar African nations, and is not projected to increase during the Plan period 1970-74. The States have primary responsibility for financing education but receive considerable Federal grants for capital expenditure. Education expenditure takes from one-third to one-half of the State Governments' recurrent budgets and one-fifth of the Federal's.

One primary objective in the education sector of the current Plan is the restoration of facilities and services damaged or disrupted by the civil war. The other major objective is the development and expansion of education at various levels in order to achieve higher enrollment ratios, improved quality, and reduction in the educational inequalities among the States by "levelling upwards". Aside from the rehabilitation needs, the following are the major problems of the education system and Plan proposals for their solution.

(a) Low level of enrollment and geographical imbalances

Universal primary education remains the aim, but only some 30% of the primary school age-group attends school. On the secondary level only 4% of the age-group attends school. Furthermore, serious imbalances exist among different areas of the country. Enrollment ratios at the primary level range from a low of 4% in some States to a high of 70% in others. At the secondary level the range is between 0.4% and 12%. The six Northern States are at the lower end of both scales. The Development Plan objective is to achieve a national minimum enrollment ratio of 50% at the primary level by the mid-1970s and 25% at the secondary level by the end of the 1970s. The Plan puts a premium on equalizing educational opportunities among the States and most Federal education assistance will therefore go to the North.

(b) Qualitative defects

Even though there has been no sharp increase in enrollment, wastage at the primary level is over 60% and one of the highest in the world. Inadequate facilities and poor quality of teaching, reflecting poor financing, are the main deficiencies. These deficiencies are common to all levels of education in Nigeria, although wastage is lower at post-primary levels.

(c) Outdated curriculum

The present secondary school curriculum is geared to university entrance and biased towards the arts. It has not been able to supply sufficient numbers of science trained students for higher studies in science and technology, nor enough middle-level manpower with vocational training. In recognition of these shortcomings, science is now being strengthened and practical shop work introduced in the curriculum (comprehensive or multilateral schools).

(d) Uncoordinated expansion

The expansion in primary education has not been accompanied by a proportionate expansion in secondary education. This has resulted in serious unemployment and frustration among primary school leavers. At the same time, there is a serious shortage of skilled and middle-level technical manpower. The Plan aims at expanding secondary education, especially technical and vocational training, to absorb an increasing number of primary school output and remedy the manpower shortage, reducing the level of unemployment among primary school leavers.

(e) Shortage of teachers

Serious shortage of qualified teachers is one of the major constraints to the development of primary and secondary education. The Emergency Teacher Training Program introduced in the late 1960s is a recognition of the serious nature of the problem. The Program has high priority and is being continued during the present Plan period.

(f) Lack of technical education

Technical education has received insufficient emphasis. Lack of middle-level manpower from technical institutes and colleges of technology relative to university output has led to uneconomic use of high-level manpower and a growing demand for foreign middle-level technical personnel. Federal assistance to expansion of technical education has received high priority in the Plan.

The wider provision of educational facilities has been a matter of priority with all the Governments within the Federation. But ambitious educational development policies, like free primary education, have not always received proper government financing and quality has suffered. In the 1960s education budgets were thinly spread in an effort to extend education to as many as possible. The Plan rightly emphasises that in the 1970s high priority should be given to consolidation, rationalization and quality improvement rather than quantitative expansion.

BANK ACTIVITIES AND PROPOSED LENDING PROGRAM

The Bank group's only lending for education has been IDA Credit 72 for $20 million made in 1965, of which $17.9 million remains undisbursed. Initially, delay was encountered in the appointment of consultants and executive architects. The civil war and the constitutional changes under which the twelve states replaced the four regions resulted in further delays and complications. Planning and design work in the areas outside the former Eastern region continued during the war but the portion of the credit ($2.6 million) allocated to the East was frozen by action of the Federal Government.

Since the end of the war, considerable progress has been made outside of the Eastern States. Over 80 percent of the contracts for construction, furniture and equipment have now been awarded and some construction has already started. It is expected that all contracting will be completed by the end of July.

With a view to its reactivation a Bank mission has reviewed the part of the project in the three Eastern States, in the light of the area's urgent rehabilitation needs, current costs, and the revised educational policies of the governments which place greater emphasis on vocational and teacher training facilities. A revised project has now been agreed with the Federal and State Governments concerned and as soon as the legal complications arising from the constitutional changes are clarified, a proposal for the reactivation of this part of the project will be submitted to the Executive Directors. The adoption of standards, designs and plans prepared for the rest of the country will speed up construction and disbursement but it is unlikely that full disbursement of the $2.6 million allocated to the three Eastern States will be achieved by the present Closing Date, December 31, 1972.

As a result mainly of increased construction costs, this IDA Credit will now only represent about half the cost of the project instead of the two thirds it was originally intended to cover. The Federal Government requested a supplementary credit to maintain the Bank's percentage of participation. Rather than provide supplementary financing for the project the Bank has appraised an additional project for the reconstruction of 20 secondary schools and 7 primary teacher training colleges in the three Eastern States. This project, for which an appraisal is being prepared, combines reconstruction with reform and would result in the expansion of the project institutions into viable comprehensive schools and regional teacher training colleges. The estimated cost of the proposed project is $22.6 million and it is likely that the proposed Bank loan ($13 million) would finance the foreign exchange component or 57 percent of total project cost. This operation is scheduled for Board consideration during the first half of FY 72.

A UNESCO mission has recently completed the field portion of an educational sector study and it is expected that this will lead to larger country-wide projects. Projects have been tentatively included in our five year lending program for fiscal years 1973 and 1975 and notional amounts of $25 million and $20 million respectively have been applied.

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara DATE: May 11, 1971

TO: Mr. Robert S. McNamara DATE: May 11, 1971

FROM: William Diamond

SUBJECT: Nigeria: NIDB

Attached is a brief on the Nigerian Industrial Development Bank, in connection with your forthcoming visit to Nigeria.

Attachment:

£N 1 = $2.80

BRIEF ON

NIGERIAN INDUSTRIAL DEVELOPMENT BANK (NIDB)

Origin

1. The Nigerian Government approached the Bank Groupin 1961 for assistance in establishing a national development finance institution. NIDB came into being in January 1964 following three years of preparatory work in which the Bank Group played a leading role. NIDB is a reconstruction of the Investment Company of Nigeria (ICON), founded in 1959 before Nigeria's independence, under sponsorship of the Commonwealth Development Corporation (UK). NIDB's share capital is £N 2 million ($5.6 million) with IFC and the Central Bank each holding 25%, private Nigerians another 1%, and foreigners making up the rest.

Relations with Bank Group

2. Relations with the Bank Group have been close. Upon the Bank's initiative, ICICI in Bombay agreed to release Mr. James Raj as NIDB's first General Manager, a post which he held until 1966 before joining the management of IFC. In 1966, a Nigerian General Manager, Mr. Silas Daniyan, was appointed. At that time, the Bank Group seconded Mr. P.M. Mathew as Advisor; he was with NIDB until mid-1967 before becoming Deputy Director of the DFC Department. Since NIDB's establishment, IFC has been represented on NIDB's Board, first by Mr. J. Beevor and since June 1967 by Mr. A.A. Khosropur.

3. Negotiations for a first Bank loan took place in 1966 but were not completed at that time because of the outbreak of civil strife. As the situation became more settled in large parts of Nigeria, as business prospects improved and as NIDB had survived the civil war with its organization intact, the Bank made a first loan of $6 million in 1969, followed by a second for $10 million in August 1970. The balance of NIDB's resources (now totaling $35 million) comes from its own equity and from Government loans made on concessional terms.

Operations and Role in the Economy

4. In each of its first two years (1964 and 1965), NIDB approved loans and investments totaling somewhat less than £N 1 million. The pace dropped considerably - to about £N 0.3 million - in 1966 when the civil war slowed down all activity in the country. However, since then, and despite the civil war, approvals totaled £N 1 million in 1967 and increased practically every year, reaching over £N 3 million in 1970. This increase in activity was due to several factors: one was the growth of the industrial sector favored by import restrictions imposed during the war; NIDB became an attractive financier through access to scarce foreign exchange resources, i.e. Bank loans;and finally NIDB gradually became better known to potential investors particularly Nigerians. Indeed, NIDB is at present the only long-

term lending institution with a Nigerian image in the country and operating on a nationwide basis. Even with its sizeable business growth in recent years, NIDB's investments account for only 3% of total private industrial investment in Nigeria at present; NIDB hopes to increase this share to about 6% by 1975, meaning that its business would have to grow annually by more than 25%.

5. Foreign capital and management continue to play a predominant role in Nigerian manufacturing. In its early years much of NIDB's financial assistance went to foreign controlled enterprises. NIDB faced severe criticism, both from Government officials and from the public, that it was not doing enough to help indigenous entrepreneurs. To answer these justified criticisms, NIDB has made efforts, especially recently, to finance Nigerian-sponsored projects. These efforts have begun to pay off. Thus, while 85% of approved investments in 1968 were for foreign-owned projects, this proportion went down to 70% in 1969 and 40% in 1970. Now about 80% of the applications before NIDB represent Nigerian-sponsored projects. Other points of concern stemming from NIDB's operations were its heavy concentration on textiles (nearly half of its end 1970-portfolio) and in the area of Lagos (nearly 70% of portfolio). NIDB is now making efforts and has had success in moving away from these concentrations.

Portfolio

6. NIDB's loan and equity portfolio outstanding at December 31, 1970 amounted to nearly £N 5 million ($14 million). Due to the war, the Bank had been concerned about the quality of NIDB's portfolio, particularly its Eastern investments, now accounting for about 10%. A mission visited NIDB in March 1971 and found that potential losses on NIDB's portfolio, including those arising from the war, are at present more than covered by NIDB's reserves. As a general remark, NIDB's portfolio is still quite young and it will still have to stand the test of time against the operating results of client companies.

7. In comparison to other development banks, NIDB holds a high proportion of its assets in equity investments. They accounted for 28% of the consolidated loan and equity portfolio of NIDB and a subsidiary. Due to the high profitability of many Nigerian manufacturing enterprises largely as a result of protection and the high earnings from some of NIDB's investments, NIDB's equity portfolio has had a good yield, nearly 13% in 1970.

Financial Results

8. NIDB's portfolio still has to catch up with the increase in operations approved. NIDB's profitability is still modest and net profits after taxes as a percentage of NIDB's year-end share capital amounted to 10.5%. Also, its administrative costs are high due to a large staff and high living costs in Nigeria. NIDB just declared its first dividend on 1970 results, i.e. 6.5% of share capital.

Management

9. NIDB's General Manager, Mr. Silas Daniyan from the north of Nigeria, has been with NIDB since August, 1964 as Deputy General Manager. Mr. Daniyan had held several senior positions in the Northern Nigerian and Federal Civil Services. He has done a good job of keeping NIDB together and of coping with drastic changes in NIDB's surroundings. However, there were also incidents of error in judgment. Mr. Mathew Adejoro has been NIDB's Deputy General Manager since January of this year after a career with the Central Bank of Nigeria where he was Deputy General Manager prior to joining NIDB. (He had also been on NIDB's Board for the past five years). In early 1970, the Bank seconded one of its staff members, Mr. Z.R. Ahmed as Advisor to NIDB.

Outlook

10. NIDB's outlook is good. It expects to approve in 1971 as much as £N 4.5 million (nearly $13 million) of loans and equity investments; it projects increases by about 25% in its business through the mid seventies. These goals are ambitious, but attainable in view of the prospective demand for capital and NIDB's growing project pipeline. NIDB's processing capacity seems to be the real constraining factor for NIDB in stepping up its business without suffering a deterioration of standards. To achieve its goals, further staff strengthening of NIDB is needed. This is a necessity recognized by NIDB's management.

11. On the basis of present forecasts, NIDB will need additional foreign exchange resources by June 1972. (This need will be reassessed by a Bank mission in December 1971). NIDB's foreign exchange commitments through June 1974, which are not covered by resources are now estimated at approximately $20 million. Our present forecast for a third Bank loan provides for $12 million in FY 1973.

Summing Up

12. NIDB is a company operating in a large economy with attractive growth prospects. Its evolution has suffered setbacks due to the Nigerian civil war which affected both the normal development of NIDB's organization and of its business volume. However, NIDB has been able to survive these difficulties. Since more settled times have arrived in Nigeria, NIDB has consolidated its organization further. NIDB is now facing a situation in which it can expect a considerable growth of its operations. Still, organizational improvements will be needed both as to processing of new operations and keeping track of the growing portfolio. NIDB is aware of these needs. The process of strengthening of NIDB has had substantial assistance from the Bank Group, both as to staff deployment to Lagos and through training outside Nigeria including in the World Bank. NIDB no

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longer seems to be a problem company; but close supervision, and technical assistance from the Bank Group addressed to specific areas of weakness, are still needed. Since NIDB is becoming a significant factor in the economic development of Nigeria and its importance is likely to grow, such assistance, as well as continued financing, will be provided within the Bank's lending program and technical capacities.

Attached for convenience is a summary of basic data on NIDB.

Development Finance Companies Department
May 11, 1971.

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Development Finance Companies Department
May 11, 1971.

Basic Data On
Nigerian Industrial Development Bank (NIDB)

Resource Position - Consolidated basis, (as of December 31, 1970) (in £N million)

Equity	2.89
1st Government loan	2.00
2nd Government loan	1.93
1st IBRD loan	2.14
2nd IBRD loan	3.57 1/
Total Resources	12.53
Loans outstanding	3.45
Equity investments	1.16
Resources available for disbursement	7.92

Approvals of Loans and Investments (in £N million)

	1967	1968	1969	1970
Long term loans (more than 5 years)	0.49	0.34	0.93	2.01
Medium term loans (up to 5 years)	0.20	0.31	1.14	0.88
Equity investments	0.32	0.07	0.36	0.28
Total	1.01	0.72	2.43	3.17

Earnings Record (percentages)

	1967	1968	1969	1970
Profit before tax 2/ and provisions to average total assets	3.82	4.28	4.47	4.06
Profit before tax and provisions to average equity	8.7	9.9	10.4	10.5
Net profit to year-end share capital	(-2.2)	9.7	12.0	10.3
Dividends paid to year-end share capital	5.5 3/	5.5 3/	5.5 3/	6.5

Financial Position (as of December 31, 1970)

Total debt/equity ratio	1.62:1
Conventional debt to equity plus quasi-equity	0.58:1
Reserves and provisions to loan and investment portfolio	17.5%

1/ Effective as of February 26, 1971.

2/ NIDB is exempt on profits transferred to reserves up to a total of £N 2.0 million from tax. Taxes are however due on dividends and certain disallowable items.

3/ 5.5% on preference shares totalling £N 250,000 only.

Interest Rates and Charges on Loans
(as of December 31, 1970)

(a) Interest on existing portfolio ranges from 7 1/2%-9%; presently NIDB charges 9%.

(b) Commitment charges 1 1/4%-1 3/4% per annum.1/

(c) Finance Negotiation Fee 1/4.2/

Basic Data on Bank Group Loans and Investments

I. Bank Loans

	588 UNI	705 UNI
a) Amount	$6 million	$10 million
b) Rate of interest	6 1/2%	7%
c) Commitment charge:	3/4% from date of crediting each project	3/4% 60 days after signature
d) Date approved	February 18, 1969	July 21, 1970
e) Date effective	May 29, 1969	February 26, 1971
f) Free limit	$100,000	$200,000
g) Aggregate free limit	-	$2,500,000
h) Terminal date for project submission	September 30, 1971	December 31, 1972
i) Closing Date for disbursement	December 31, 1972	March 31, 1974
j) Foreign exchange risk assumed by:	End borrower	End borrower
k) Status of loans (March 31, 1971)		
Amount credited	$5,999.184	$353,000
Disbursed	$3,365.062	-
Balance available for Commitments:	$816	$9,647,000

1/ Commitment Charge, at 1 1/4%, is calculated on the undisbursed part of the approved Loan, beginning one month after acceptance of approval by the client. An additional 1/2% Commitment Charge may be levied if no part of the Loan is disbursed six months after acceptance of approval by client.

2/ A Finance negotiation fee of 1/4% of 1% is charged as a compensation for appraising projects. This is payable by the promoter when submitting the letter of acceptance.

II. IFC Investment:

A. Basic Facts

Date approved:	September 10, 1963
Date paid in:	January 22, 1964
Number of shares subscribed:	499,827 Class A Ordinary Shares
Par value of share	£N 1
Price paid per share:	PAR
Total amount paid in:	£N 499,827 (US$1,399,516)
Share sales:	NONE
Investment now held:	499,827 Class A shares.

B. Special Agreements and Arrangements with IFC.

Restriction on Sales: IFC and the Central Bank of Nigeria have pledged, in an Agreement dated January 22, 1964, to sell all of their shares to Nigerian private investors. IFC's shares and the Central Bank's shares are to be sold, in equal proportion, at prices not less than par to be agreed upon from time to time.

Directorship: Since NIDB's establishment on January 22, 1964, IFC has been represented in NIDB's Board, first by Mr. J.G. Beevor and since June 21, 1967 by Dr. Ali A. Khosropur. Dr. Khosropur has been proposed by IFC for re-election in 1971.

Joint Operations IFC/NIDB: NONE

THE MANUFACTURING SECTOR AND THE STRUCTURE OF INDUSTRIAL PROTECTION IN NIGERIA - February 1971

SUMMARY AND CONCLUSIONS

i. This report analyzes recent developments in the manufacturing sector and the most important government policies affecting industrialization in Nigeria. Moreover, it represents the first attempt at defining the structure of industrial protection in Nigeria in terms of effective rates of protection, based on data for 42 industries in 1968. The findings have important implications for industrial policies in general. Considerable study remains to be done before detailed policy recommendations for specific industries can be developed.

Recent Developments in the Manufacturing Sector

ii. The manufacturing sector's contribution to GDP is still small - about 10 percent in 1969/70; but rapid rates of growth - estimated at close to 10 percent per annum - have been achieved over the 1965/66 to 1969/70 period despite disruptions by the civil disturbances. Nigerian manufacturing is characterized by low value added industries, this being the case both for the export industries engaged in semi-processing primary products and import substituting industries putting final touches to imported inputs.

iii. There has been a pronounced shift from manufacturing in the early 1960's based largely on processing traditional primary products for export towards processing imported materials for the domestic market. As a consequence, industrial activity has become geographically more concentrated in areas with easy access to imported raw materials and large urban consumer markets.

iv. The limits of import substitution have been reached for a number of consumer goods including beer, soft drinks, cigarettes, matches, bakery products, confectionery, soap and cosmetics and footwear. There remains extensive scope for further import substitution in textiles, especially in intermediate products (grey baft). Of intermediate goods, only cement, paints and tires and tubes have reached advanced degrees of import substitution.

v. Foreign capital and expatriate management play a predominant role in the Nigerian manufacturing sector. Over two-thirds of paid up capital in manufacturing firms with ten or more employees is held by private non-Nigerians. There has been no decline in the importance of foreign capital or expatriate management in the three-year period from 1965 to 1968.

vi. The reliability of statistics on manufacturing in Nigeria is open to question on several accounts. In particular, the concept of value added used is not appropriate for showing the value of output at factor cost; and adjustments made to account for small scale production, non-reporting firms and price increases tend to overstate manufacturing production in real terms.

Government Policies

vii. Since Independence, Nigeria has moved from a relatively open economy towards a highly protected domestic market. This trend has been reinforced by tariff increases and quantitative restrictions imposed during the war for balance of payments reasons.

viii. In order to raise additional government revenues export taxation on processed raw materials was substantially increased during the war, from a basic rate of 10 percent to 15 percent for most commodities.

ix. Special fiscal incentives to industry were widely used in the 1960's. These incentives have been used more stringently in the last three years and will be employed in the future only in support of high priority industries or to allow less than (economically) optional location of industries where differences in profitability are marginal. Tariff rebates on imported inputs into manufactured exports have been used as an export incentive but long delays in obtaining these rebates are common.

x. A wartime super-tax on profits in excess of 15 percent of paid-up capital and capitalized earnings has been retained up to the present (fall 1970). Its effect is to increase the rate of taxation on profits from 45 percent to a rate approaching 65 percent.

xi. Excise taxes are an important feature of the Nigerian tariff-tax system, accounting for an expected 20 percent of Federally collected revenue in 1970/71. Since 1964, the policy has been to increase excise taxes on domestically produced commodities in line with tariff increases, thus reducing protection afforded import substituting industries.

xii. A quota system for expatriate technicians and skilled workers is used to encourage the employment of Nigerians in the foreign controlled industrial sector.

xiii. An enlarged role for the public sector is envisaged in the 1970-74 Development Plan. This will take the form of significant government participation (either at least 55 or at least 35 percent of equity investment) in a wide range of large scale industries.

xiv. Priorities in the industrial sector have been redefined with greatest emphasis given to agro-based, producer goods and export-oriented industries and with reduced emphasis on further import substitution in the consumer goods industries.

Structure of Industrial Protection

xv. The present study of industrial protection is based on data for 42 industries in 1968. It involved large scale data collection and processing in which the Federal Statistical Office actively cooperated by making available the raw data of the 1968 industrial census and other pertinent information. The data underlying the calculations of the effective rates of protection are presented in the Industry Notes appended to this report. They represent an important first step in deriving a detailed input-output table for Nigeria.

xvi. On the whole, the structure of industrial protection in 1968 favored low value added industries thus encouraging the growth in low priority final touch assembly plants as opposed to industries better integrated with the local economy.

xvii. There is a considerable difference in the degree of protection afforded different processing activities in Nigeria as defined by the effective rate of protection calculated for a 42-sector breakdown of industry. The structure of industrial protection discriminates heavily against export processing activities and in favor of import substituting industries. In 1968, the average effective rate of protection was minus 24 percent on the former and plus 85 percent on the latter. Import substituting industries processing domestically produced inputs enjoyed greater protection than those processing imported inputs.

xviii. The structure of industrial protection also discriminates against intermediate and capital goods industries relative to consumer goods industries, the effective tariff rate on the latter industries being 55 percent higher than on the former. This is also the case for the more recently established industries in Nigeria.

xix. Excise taxation has had a pronounced effect in reducing the protection afforded import-substituting industries, the degree of protection that would otherwise exist being reduced by over 45 percent for the potable spirits, matches and candles, tobacco, travel goods, beer and stout, cement, soft drinks, drugs and medicines, and textiles industries.

xx. Among the major industries, protection is highest for textiles and metal products. If adjustment is made for excessive profits in the textiles industry the level of its processing cost relative to world prices is not excessive. The benefit of further growth of the textiles industry would appear to compare favorably with most other import substituting industries. The metal products industry would require even higher protection if a high cost domestic steel producing complex were established.

xxi. Profits on capital of 18 percent or higher could be maintained under world market conditions in the beer and stout, tires and tubes and textiles industry. The metal products industry would barely make profits without protection.

Policy Implications

xxii. The policy implications of this report are centered on the strategy for import substitution followed in Nigeria; the tax system with specific reference to export taxation, excise taxation, and the super tax; and the need for further research and data improvement.

xxiii. Import substitution. A large part of import substitution has developed behind tariffs and quotas imposed for revenue and balance of payments purposes. For these commodities, there is a rough tendency for nominal rates of protection to be similar. This leads to a higher degree of effective protection to industries with low ratios of value added to gross output and thus encourages the bias towards final touch assembly industries.

xxiv. Protection is designed to permit the domestic producer to earn a 15 percent net rate of return on investment. Tariff policies designed to equalize the rates of return on capital among industries will prevent the market from allocating factors of production between industries. Along with this restriction of market forces, industries facing international competition will tend to seek increased protection from the government rather than to increase the efficiency of their own operations. Moreover, the potential export market will be neglected since it is more profitable to produce for the highly protected domestic market.

xxv. A more rational approach is to give the same degree of protection to different processing activities, thus permitting market forces to influence the allocation of resources between industries. While exceptions to this principle might be advisable due to special aspects of certain industries, the adoption of such a general guideline would stop the discrimination in favor of low value added industries which now benefits the assembly type consumer goods industries relative to the intermediate and producer goods industries, accorded high priority in the 1970-74 Development Plan.

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xxvii. To be consistent with the priorities established in the 1970-74 Development Plan, the degree of protection accorded intermediate goods industries should be increased relative to that afforded consumer goods industries. However, raising tariffs on intermediate goods and/or lowering tariffs on consumer goods would tend to reduce the profitability of the consumer goods industries, many of which are high cost and inefficient. Preference should be given to industries processing domestic inputs as opposed to imported inputs.

xxviii. Quantitative restrictions entail administrative costs and monopoly profits for those fortunate in obtaining import licenses. In the interest of administrative efficiency and increased government revenues quantitative restrictions should be replaced by tariffs designed to have an equivalent protective effect, except where they are felt to be temporary emergency measures.

xxix. Taxes. The heavy penalization of export industries processing primary products in conjunction with protection of high cost import substituting industries is unfortunate. The benefit is additional government revenue, the more important loss is an inefficient allocation of resources and an income transfer from domestic consumers not only to the government but also to predominantly expatriate producer groups. More moderate export taxation and heavier excise taxation of import substituting industries obtaining very high levels of protection would lead to a more efficient allocation of resources between industries and would be consistent with the priorities established in the 1970-74 Development Plan.

xxx. There appears to be some potential for exporting manufactures to other African countries even without preferential treatment. Two obstacles to this are the high profitability of the domestic market and delays in receiving tariff rebates on imported inputs used in producing export manufactures. The tariff rebate scheme should be modified so that rebates are either received in a reasonable time or are waived subject to verification that the final products have been exported. Excise taxation should also be eliminated on manufactured commodities for export.

xxxi. Given the revenue constraints facing the government, the system of high tariffs with corresponding high excise taxation is an efficient way of generating revenue. Consumers lose through higher prices of imported goods but most of this loss is in the form of transfers to the government via import and excise duties collected. The high level of excise taxation greatly offsets the distortion in production that would otherwise result from high tariff protection. The loss in consumers' surplus due to the consumption distortion may well be an acceptable cost for generating, in recent years, almost 50 percent of Federally collected revenue.

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xxxii. The super-tax encourages the capitalization of earnings but discourages new investment by raising the rate of profits tax on new firms which typically have attempted to maintain low ratios of equity to debt capital in the early years of operation to minimize risk.

xxxiii. Further research and data improvement. The present study of effective rates of protection could be refined by further efforts to (a) derive satisfactory data on comparisons of ex-factory and c.i.f. prices, (b) indicate more reliably the extent to which an industry's effective rate of protection reflects the level of factor costs or the existence of excessive profits, (c) calculate a 'net' effective rate of protection which adjusts the rates calculated here for possible exchange rate over-valuation as compared to the free trade equilibrium and (d) carry out industry studies designed to isolate special aspects of particular industries that would justify special treatment.

xxxiv. In addition to the effective rate of protection, it would be useful to calculate an alternative criterion to evaluate domestic industries. This is the domestic resource cost measure which indicates the cost of a unit of foreign exchange earned in an export industry, or saved in an import industry in terms of the domestic resources used in producing this earning or saving.

xxxv. The industrial statistics should be adjusted so as to show value added at factor cost as usually defined. Surveys should be undertaken to improve the adjustments made for small scale industries and non-reporting firms. Appropriate price indexes for manufacturing inputs and outputs should be constructed in order that manufacturing production and value added can be accurately measured in real terms.

IFC OPERATIONS IN NIGERIA

Existing Investments

Arewa Textiles Limited. IFC has invested a total of $1.6 million in Arewa. After sales to participants and repayments, IFC now holds $48,480 under the loan and $0.5 million under the equity investment. The company has been an outstanding success, largely due to the excellent management provided by the Japanese sponsors and the shortage of textiles in Nigeria.

Because of Nigeria's foreign exchange problems, IFC has experienced substantial delays in receiving exchange control clearance for its dividends. Dividends awaiting approval by the Ministry of Finance are now as follows:

Declaration Date	Form A Submitted to Exchange Control Office in Min. of Finance	Amount Due IFC (in Nigerian £) Original	Received	Balance
9/18/69	10/17/69	65,191-4-0	26,076-8-10	39,114-15-2
2/18/70	2/18/70	88,268-5-4	17,653-12-0	70,614-13-4
11/12/70	12/2/70	128,410-8-0	-	128,410-8-0
			Total	238,139-16-6
			(equivalent to $666,792)	

IFC is actively following this matter with Mr. Ayida, Permanent Secretary of the Ministry of Finance.

Nigerian Industrial Development Bank. IFC has invested $1.4 million in the equity of NIDB, representing approximately 25 percent of the outstanding shares. In addition, the Bank has made loan commitments for $16 million and has seconded advisors over the years -- James Raj, P.M. Mathew, and now Mr. Z. Ahmed from Pakistan. Dr. Khosropur represents IFC on NIDB's Board. The Board has recently recommended a first dividend of

$6\frac{1}{2}$ percent on the common shares for calendar 1970. NIDB has been criticized by the Government for failing to play a more active role in promoting and financing Nigerian enterprize; NIDB is taking steps to improve its performance in this regard.

Projects under Discussion

Automobile Assembly Plant. The Government proposes to set up three automobile assembly plants to produce a total of 30,000 vehicles per year. A number of foreign firms that have submitted proposals have approached IFC for possible financing. The Government has not yet decided which proposals to accept.

Liquified Natural Gas. Shell and BP are considering an LNG project that would call for total investments in Nigeria of $500 million. IFC is reviewing a preliminary report and is awaiting further information.