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McNamara Papers

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NIGERIA

TOPICS FOR DISCUSSION

1. This note outlines a few topics for Mr. McNamara's discussions with Nigeria authorities on Thursday, November 3, 1977, in Lagos.

Macro Economic Issues

2. Recent economic developments that have led Nigeria to again become a capital absorbing country, and related policy issues, are discussed extensively in the green cover Report No. 1690-UNI entitled "Nigeria - Recent Economic Development and Short-Term Prospects" dated July 27, 1977 (see Section F-3). This report was reviewed with the Nigerian delegation during the last Annual Meetings when the Nigerian authorities stated that the Federal Government is in general agreement with the report's findings and recommendations. This was later confirmed by the Commissioner for Finance in his discussions with Mr. McNamara on September 27, 1977 (see para. 3 of "Memorandum for the Record" dated October 10, 1977 contained in Section G-4).

(a) Fiscal Control

3. Of most immediate concern is the Federal Government's ability to tighten fiscal controls in order to contain overall spending and to allocate expenditure cuts both within and between the recurrent and capital budgets 1/. Since the five-year period under consideration also includes part of what would normally be Nigeria's Fourth Plan period, this concern also extends to the quality of resource allocation in the Fourth Plan. A related fiscal policy issue is the current pervasiveness of Federal Government subsidies. These include: direct consumer and producer subsidies; Government coverage of public corporation deficits; and the cost discrepancy between high commercial interest rates and the lower public sector interest rates.

(b) Borrowing and Public Debt Management 2/

4. In light of Nigeria's new capital requirements, it is important that the Government formulate a rational long-term domestic and external borrowing strategy. Elements of such a policy already exist, of which the recent borrowing of US$1 billion from a group of banks led by Chase Manhattan is an element. Equally important is a policy designed to attract large amounts of private investment. Both foreign and Nigerian lenders and investors are sensitive to Government policies in this area 3/. Thus, the amount of private investment flows which can be stimulated, and the amount of loans which the Government can attract, will depend on the

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1/ A paper summarizing the more salient provisions of Nigeria's current Third Development Plan (1975-1980) is also included in Section F-3.
2/ See Paper on "Foreign Assistance and Debt" contained in Section F-4.
3/ See Paper on "Nigeria's Indigenization Policies" attached at Annex I.

extent to which economic policy recognizes lenders' and investors' legitimate interest. There is, in particular, the need for streamlining administrative procedures, such that the Government will be able to meet its financial obligations promptly 1/. Formulation and implementation of such a program is a significant prerequisite for filling likely resource shortfalls.

(c) Pricing and Incentive Policies

5. Nigeria's economic policy-makers must also concern themselves with providing a better incentive framework for encouraging directly productive activities in the non-petroleum sectors, principally in agriculture and industry. While the Government has several options in this respect, a devaluation of the Naira would be the most effective way of tackling the problem. Gradual depreciations of the Naira would appear to be politically acceptable and, if realistically done to take account of differential price movements in Nigeria and its trading partners, could be effective in restoring non-petroleum exports. In fact, the Naira has been depreciating slowly over the last year 2/. The added benefit of a more realistic exchange rate would be a marked improvement in the Federal Government's Naira revenues from the oil sector. If a devaluation policy is not acceptable, the Government would have to consider indirect measures such as the introduction of import taxes and export subsidies.

6. Another significant and beneficial macro policy change would be to raise interest rates, in particular Government's on-lending rates, to reflect the growing scarcity of financial resources, to encourage savings, and to reduce the danger of resource misallocation. Further, consumer subsidies and most agricultural producer subsidies should be gradually reduced and eventually removed. In addition, Government should raise tariffs in order to make the major Federal Corporations (in particular NEPA, the Ports Authority, the Railway Corporation and the Airways Corporation) largely self-financing, and creditworthy for both internal and external borrowing.

Bank Assistance to Nigeria

(a) Lending Program

7. The Federal Government's request for an expanded program of assistance is expected to dominate Mr. McNamara's discussions with the Nigerian authorities. The tentative 5-year lending program envisages a level of commitments of US$1.2 billion which the Region considers prudent, although the program could be expanded further is suitable projects become available. (See the Region's confidential paper entitled "Nigeria - Issues, Objectives and Strategies for an Expanded Bank Lending Program" attached as Annex II).

1/ See para. 19 on late payments discussed below.

2/ The Nigerian delegation to the Annual Meetings indicated that the Federal Government is agreeable to periodic adjustments of the exchange rate of the Naira (which they claim is already being implemented), but appeared reluctant about the merits of a huge devaluation at this stage.

8. The issue of an expanded lending program was discussed during the last Annual Meetings and it is fairly certain that the Nigerians will pursue the discussions further, in order to ascertain the size and composition of the Bank's lending program for the next five years. In the discussion of this issue during the Annual Meetings, no specific total figure or annual commitments were disclosed. The Nigerians are expecting US$500 million annually in commitments by the Bank. This figure was not discussed and the question of the size of the lending program was therefore left open. We understand that the Nigerian delegation to the Annual Meetings was extremely disappointed about the reluctance of the Bank to give any indicative figures of annual and total commitments over the next five years.

9. We should leave the matter open and not tie ourselves to a specific level, neither for the period as a whole, nor for individual years. US$500 million appears highly unrealistic, at least for the next three years. However, we are simply not in a position at this point in time to determine how fast projects in sectors other than agriculture can be identified and prepared. There is, moreover, the question of both macro and sector policy issues which would need to be resolved, as discussed in para. 2-6 above and para. 21-65 of Annex II. Substantial sector work and studies, as well as intensive policy discussions with Government would be necessary, before we can firm-up a more realistic and meaningful program.

10. In the meantime, and for the purpose of the discussions in Nigeria, we should emphasize that we are prepared to increase our lending very significantly, but that the expansion of the program will depend on the speed with which projects can be prepared (for which the Bank is willing to provide substantial staff input), and the extent to which policy issues are resolved.

(b) Lending Objectives and Strategy

11. The broad lending strategy is to support Government policies at the macro level in order to reverse some of the imbalances in the economy, and to restore appropriate incentives for agricultural and industrial development. The principal issues as we see them are those summarized in para. 2-6 above, and elaborated in Report No. 1690-UNI (see Section F-3) and also, in Annex II.

12. In addition to our overall strategy, we should convey to the Nigerians the importance we attach to the pursuit of sector objectives and the need to agree on minimum sector policy conditions, at the earliest stage of any lending operation, which would be a prerequisite for Bank involvement in any given sector (see para. 21-65 of Annex II).

(c) Streamlining of Administrative Procedures

13. In view of the complexities of the Federal structure of Nigeria, and the relatively high rate of attrition and resulting turnover of public officials both at the Federal and State levels in recent years,

there appears to be an urgent need to streamline administrative procedures at all levels. This issue has direct implications for both our on-going and future operations.

14. Government's final approval of negotiated draft loan documents is invariably tardy. In the case of some countries, the Borrower's negotiating team is often empowered to give Government's final approval of the draft negotiated loan documents at the conclusion of negotiations, thereby permitting Board presentation to proceed shortly after negotiations. While this may not be possible in the Nigerian context, given the necessity to have such documents reviewed and approved by the respective State and Federal Executive Councils, we nevertheless believe that there is ample room for improvement. Recent innovations introduced by the Region such as agreeing in advance the draft legal documents required for effectiveness and also, a time-table of actions to be taken (target dates and by whom) leading up to Board presentation, would seem to confirm this view, and will be repeated in all future cases. We should continue to impress upon the Nigerian authorities at the highest level, however, the importance the Bank attaches to a timely approval of negotiated draft loan documents, given its planning and budgetary implications.

15. Substantial problems are also often experienced in the completion of effectiveness conditions for each loan. Apart from land acquisition which the Region is now treating as a condition of the issuance of Invitation to Negotiate (e.g., the proposed Rivers State oil palm project), inordinate delays are always experienced in the conclusion and submission to the Bank of the Federal and State Legal Opinions and Subsidiary Loan Agreements. Under existing Nigerian procedures, it is understood that the Federal Attorney General retains exclusive powers to sign <u>all</u> Federal Legal Opinions relating to Bank loans, and it is here that we invariably run into difficulties. Given the many demands on his office and his frequent absences from Lagos, there have been numerous instances when the completion of the conditions of effectiveness of a loan has been delayed because of the unavailability of the Federal Attorney General to sign the Federal Legal Opinion. We believe that it is possible, as a normal constitutional device, to permit the Solicitor-General (or other designated person) to act on the Atrorney General's behalf on those occasions when he is not available to sign a Federal Legal Opinion. We discussed this issue with the Nigerian delegation at the Annual Meetings, who saw no difficulties with this proposal. However, we believe that this issue should be raised at the highest level because of its constitutional implications, the embarrassment it creates for both parties, and the additional cost to Nigeria, through the payment of commitment charges resulting from such delays. 1/

1/ Nigeria incurred commitment charges totalling US$406,854 in respect of Loan No.1183-UNI, Bendel State Oil Palm project, which became effective on October 14, 1977, some 662 days after loan signing.

16. Substantial delays, attributable to administrative bottlenecks, are also often experienced in the staffing and funding of project entities.

17. The placement of key internationally-recruited staff is often impeded by delays in obtaining the necessary entry visas from Government. Even where such visas are obtained, it had taken several months to obtain Government's signature of the relevant contracts of service. Similar problems have been encountered in the release of local staff for attachment to project entities. While most States find it relatively easy to make available the services of junior staff, they have found it difficult to release the services of more senior staff because of the States' own priority claims on such personnel. This problem is further exacerbated by the recent creation of seven new States and the reluctance of some States to offer key appointments to fellow Nigerians from other States. It would be helpful if this issue could be discussed with the Nigerian authorities because of its implications for the training of Nigerians to assume responsibility for the continued future development of such projects, particularly after their current investment periods.

18. In all but two of the eleven agricultural projects funded by the Bank, local financing, whether Federal or State, has caused the projects major management problems and resulted in the cutting back of important project activities. Local contributions are commonly tardy and insufficient to satisfy budgeted requests. The Funtua Agricultural Development Project, for example, is now $1.6 million in debt, has had to cut back on the important development of new-style cotton markets, and is unsure that it can meet monthly staff committments. Despite assurances to improve the situation, there has been little or no improvement and the situation will have a detrimental effect on the present low disbursement rates of Bank funds and on future lending activities in the agricultural sector. Furthermore, Federal re-imbursements for the difference between the price paid by the three northern agricultural development projects (Funtua, Gusau, Gombe) for fertilizer on the world market and the subsidized farm-gate price at which the projects are authorized to sell fertilizer to farmers, have not been forthcoming. Consequently, the three projects are owed about $15 million for their first three seasons purchases and the projects' revolving trading accounts to finance future fertilizer purchases, have no funds. This issue has been raised several times with the respective Nigerian authorities and we would suggest that it be raised at the highest level.

Late Payments

19. Late payments of amounts due under various Bank loans have always been an issue with Nigeria, but have become a real problem over the past 12 months. Amounts payable have remained outstanding on average, for 2-3 weeks after the due date, and over the last 6 months, late payment due from Nigeria have been reported on three occasions to the Board.

20. The delay in making such payments does not reflect any lack of liquidity or foreign exchange, but is again mainly attributable to administrative bottlenecks in Nigeria.

21. This issue was extensively discussed with the Nigeria delegation during the last Annual Meetings when the officials present appeared visibly embarrassed. A number of arrangements and options to facilitate timely payments were agreed with the delegation, and we expect some improvement in future. However, late payments in respect of five loans outstanding since July 15 and August 15, 1977, respectively, were reported to the Board on October 17, 1977, which suggests the need for the issue to be raised once more, at the highest level.

Population Issue

22. The Nigerian authorities have expressed interest in possible Bank assistance in the population sector. This has been a sensitive issue with past Governments in Nigeria and is gratifying to note that some interest is now being expressed for possible Bank intervention in the sector. Included in Section G-3 is a brief on recent developments and the assistance which we think the Bank can give to Nigeria, at this stage, in support of the Federal Government's objectives.

23. Mr. McNamara's deep interest as regards the population issue are well known and respected in Nigeria, and we would suggest that this issue be raised at the highest level, as the Nigerian may not be fully aware of the advantages Nigeria could derive from Bank assistance in the Population sector.

Attachments

NIGERIA

INDIGENIZATION POLICIES

1. The indigenization policies aim primarily at transferring the ownership, management and staffing of firms operating in Nigeria from foreigners to Nigerians. A subsidiary issue concerns the distribution of newly acquired ownership amongst different income classes, different States, and to the private versus public sectors within Nigeria. Two Decrees (The Nigerian Enterprise Promotion Decrees of 1972 and 1977) deal specifically with ownership transfers. Nigerianization of staff openings is mainly effected by the Ministry of Internal Affairs, which establishes expatriate quotas for firms operating in Nigeria.

2. The 1972 Decree categorized activities into three Schedules with activities listed in Schedule I reserved exclusively for Nigerians, and activities listed in Schedule II requiring at least 40% Nigerian equity participation. All other activities, consisting mainly of those involving large amounts of capital and/or technology, were relegated to Schedule III and exempted from Nigerian ownership requirements. To implement the Decree, the Nigerian Enterprises Promotion Board (NEPB) and the Capital Issues Commission (CIC) were created, the first with overall responsibility for indigenization, and the second with the responsibility of establishing selling prices for the shares of those firms to be sold publicly on the Lagos Stock Exchange. The Decree was implemented, with a few revisions and exemptions, between 1972 and 1974.

3. In November 1975, and Industrial Enterprise Panel, consisting of a diverse group of Nigerians, was established to evaluate the implementation of the First Decree and to suggest the contents of a Second Decree. The Panel's findings led to the issuance of another Nigerian Enterprise Promotion Decree in January 1977. The major significance of this later Decree is to substantially increase the requirements regarding Nigerian participation. Schedule II activities are to be 60% rather than 40% Nigerian owned and Schedule III enterprises, formerly exempt, must now have 40% indigenous participation. Additionally, many activities formerly listed in Schedules II and III were moved into either Schedules I or II, the Schedules requiring greater amounts of Nigerian participation. The 1977 Decree also contains provisions for forcing greater public sales of shares and for limiting individual share ownership, both aimed at evening out the distribution of newly transferred ownership.

4. The transfer of ownership from foreigners to Nigerians has been orderly and relatively successful. During implementation of the 1972 Decree, about 60% of Schedule I and 90% of Schedule II enterprises complied with the Decree. It appears that even greater percentages of affected enterprises will comply with the 1977 Decree. If this later Decree can be effectively implemented, it will also succeed, where the earlier Decree failed, in improving the distribution of ownership of newly transferred shares amongst individual Nigerians. The 1977 Decree says little about the regional distribution of shares, nor does it resolve the question of how much of the ownership is to be

placed in Federal or State Government hands. However, its implementation is likely to allow a more equitable regional distribution of new issues. Two other problems raised by the Nigerian Enterprises Panel, the gaps that exist between ownership and control, and between ownership and Nigerian staffing of upper echelon jobs, remain to be settled. However, these are more likely to be influenced by the operation of the expatriate quota system.

5. The aims of indigenization policies are such that some costs in terms of short-term growth and investment levels must be expected. In Nigeria, it appears that even-handed implementation of the policies has contained such costs so far. Foreign investment has undoubtedly been repressed somewhat. The Capital Investment Commission under-priced publicly sold shares, while the 1977 Decree, coming so soon after the first, created expectations that soon everything will have to be 100% Nigerian owned. Foreign investors have tended to seek investment opportunities or modes of business operation which result in very rapid recovery of investment costs. Furthermore, foreigners now appear more interested in signing management contracts and selling machinery and/or processes which will give them an export market for the inputs they produce. The expatriate quota system has hurt efficiency and, along with the insecurity regarding likely increases in Government ownership, has dampened private productive activity, foreign and Nigerian. Whether or not these costs are transitory or not depends on how the Nigerians implement the current indigenization policies. They must also assuage fears regarding further increases in required Nigerian and/or Government ownership.

NIGERIA

THE THIRD NATIONAL DEVELOPMENT PLAN (1975-80)

1. The Third National Development Plan covers the five-year period 1975-1980. The Plan was revised in 1976 in order to reflect the division of the country into 19 as opposed to 12 States, to up-date cost figures and to reflect the new regime's intention to place greater emphasis on agriculture and the provision of social services. This revision resulted in an increase in total Plan allocation from ₦30 billion to ₦43.3 billion, but left unchanged the physical and macro economic dimensions of the Plan.

2. Economic growth, in real terms, is projected to be on the order of 9.5% per annum, with per capita income increasing to about ₦300 by 1980. Gross capital formation is projected to increase from 21% of GDP to over 29% over the Plan period, and to be financed entirely by national savings. Implementation capacity is expected to represent the major determinant of the actual size and effectiveness of the investment program, and development is not expected to be constrained by shortages of savings and foreign exchange. In fact, the Plan projects a substantial accumulation of external reserves during the Plan period, the exact magnitude depending primarily on the economic conditions prevailing in the world oil market. But the surplus of investable funds is expected to decline over the Plan period, and resource deficit to recur in the near future. Fiscal and monetary policies of Government will aim primarily at moderating the inflationary pressure in the economy. An incomes policy will be pursued to ensure an equitable distribution of income in the country. The Plan also pledges increased economic cooperation with other African countries, including the offer of aid for economic and humanitarian reasons.

Table 1: THIRD NATIONAL DEVELOPMENT PLAN PROJECTED GROWTH RATE

	Annual Growth Rate (at constant 1974/75 prices) 1975/76-1978/80 (percent)
Agriculture	5.0
Mining	5.3
Manufacturing	18.0
Utilities, construction and transport	19.5
Services	15.8
Gross Domestic Product	9.5
Consumption	13.6
Investment	16.7
Exports	5.0
Imports	19.8

Development Strategy and Programs

3. The core of the Third Plan is the public sector investment program. Total allocations for the program amount to ₦43.3 billion, but the effective program is projected to be only ₦26.5 billion because of the substantial slippages expected. This represents about 73% of total projected investment expenditures in the economy over the five-year period. The program may be summarized as follows:

distortions because of unrealistic planning?

Table 2: THIRD NATIONAL DEVELOPMENT PLAN
Public Sector Investment Program

	Nominal Program /1	Effective Program /2	Sectoral Allocation of Nominal Program
Agriculture	3,252	211	7.5
Mining	2,646	1,517	6.1
Manufacturing	6,262	3,713	14.5
Power	1,285	776	3.0
Transport and Communications	13,207	7,850	30.4
Social Services and Amenities	11,046	7,152	25.5
Administration and Defense	5,616	3,332	13.0
	43,314	26,457	100.0

why such a heavy short fall in agri. invest.

/1 Sum of approved programs.
/2 Nominal program less expected slippage.

4. Public sector investment in agriculture under the Third Plan is aimed primarily at providing the infrastructure and incentives necessary for private, particularly smallholder, development. Planned direct public investment in the sector, amounting to almost $5.5 billion, includes the development of several major river basins for large-scale as well as smallholder farming; an accelerated food crop development program aimed at adopting and disseminating modern farming techniques to smallholder farmers; programs to improve input distribution and marketing of food and export crops; and the several agricultural development projects with which the Bank is associated. While the allocation is considerably smaller, in financial terms, than the allocations for capital intensive sectors such as transport and industry, it is nevertheless a very ambitious program in the context of the low-technology and smallholder-oriented nature of Nigerian agriculture, and represents a sevenfold increase over the previous Plan's allocation for the sector. The growth of the agriculture sector is projected to be about 5%, about twice the rate of population growth. This is about the same rate of growth achieved in the 1950's and early 1960's, but growth is expected to be based on food, rather than export, crop production.

5. The program to promote rural development is based mainly on complementary investments in infrastructure and social services. The Plan includes programs to electrify 500 rural towns and villages at a cost of ₦370 million and to construct 20,000 km of secondary and feeder roads serving agricultural areas, including 6,000 km to open currently inaccessible areas, at a total cost of ₦1.38 billion. A large proportion of the water supply, health and other social service programs are also planned for the rural sector. Furthermore, recognizing that "about 70% of the Nigerian population live in the rural areas and have benefitted relatively little from the rapid economic growth of the past few years" and that "improvement in the welfare of the average Nigerian will require a substantial increase in rural incomes", the Plan also stated that "in the allocation of scarce resources in the course of Plan implementation, priority will be given to those programs and projects directly benefitting the rural population, particularly projects to increase the income of smallholder farmers and to improve the economic and social infrastructure in the rural areas".

6. Increased supply of public social services at subsidized prices is viewed as the major means of distributing the immediate benefits of oil revenues to the bulk of the population. The core of this program is the Universal Primary Education Scheme, aimed at achieving 100% free and compulsory enrollment for children of primary school age by the end of the Plan period. This will involve increasing primary school enrollment from the 4.7 million in 1973 to 11.5 million by 1980, and a total estimated capital expenditure of ₦600 million. In health, the major objectives are to increase the number of hospital beds by 30,000 (a 60% increase), and to establish health centers and clinics with a total of over 20,000 beds. The Plan also includes programs to increase water supply capacity in the major urban centers by 172 million gallons per day, and to construct about 200,000 housing units for low- and middle-income urban households. In addition, a total of ₦637 million has been allocated for urban development projects, including town planning, improvement of urban transport, as well as construction of roads, markets and shopping centers.

7. Planned investment in transport, which received the largest single allocation (₦9,678 million), power and communications (about ₦1.3 and ₦3.5 billion, respectively) reflects to a large extent the Government's strategy to create "in the relatively short time that the economy will enjoy a surplus of investable resources, the economic and social infrastructure necessary for self-sustaining growth in the longer run, when resource scarcity may recur". In these sectors, "investment leading to what may appear to be excess capacity will nevertheless be undertaken in the expectation that demand would catch up much earlier than the historical trend indicates". To this end, the Plan includes programs to construct or improve 31,000 km of major roads; the first phase of a program to construct a new railway system on an entirely new road-bed and track system at standard gauge; the development of 16 airports, including 5 to be capable of serving intercontinental aircraft; the development of 6 new berths at the Apapa (Lagos) Port and 4 each at Warri, Calabar and Port

Harcourt; the installation of 500,000 additional (to the present 52,000) telephone exchange lines; and the expansion of electric power generating capacity from the present 690 MW to 1,050 MW by 1980.

8. The Plan's major objective in the industrial sector is to diversify the petroleum industry into downstream operations and to establish basic industries in order to stimulate the further industrialization of the economy. Petroleum-related industries account for 44% of total public investment in the sector, including two liquified natural gas plants with 10 billion cubic meters annual capacity each; two oil refineries with a total capacity of 175,000 barrels per day for domestic consumption; two refineries with a capacity of 300,000 barrels per day for export purposes; nitrogenious fertilizer plants to produce 450,000 tons of ammonia and 260,000 tons of urea annually; and a large petro-chemical complex. Basic industry projects in the Plan include an iron and steel complex with capacity of 1.5 million metric tons; cement factories with total annual capacity of about 1.5 million metric tons; and pulp and paper mills to produce 60,000 tons of industrial paper, 60,000 tons of cultured paper and 100,000 tons of newsprint annually. Most of these large-scale projects will be implemented with foreign technical partners, with Government retaining majority equity ownership. The Plan also includes a program to promote small-scale industrial development through the development of Industrial Development Centers and Industrial Areas and Estates, the establishment of a National Extension Training Institute and expansion of the existing Small-Scale Industries Credit Scheme. Projects of the State governments are mainly in the agro-allied and building materials industries.

9. Of the total planned investment of ₦36.5 billion (private and effective public) during the Plan period, the private sector is expected to account for 27%. Private investment is projected to concentrate mainly on construction (27% of total private investment), medium- and small-scale industry (20%), agriculture, mining, distribution and services (roughly 10% each). Only in the construction and distribution sectors is the private sector expected to account for the major share of investment expenditure.

Mr. Roger Chaufournier
(through Mr. André Gué)

September 27, 1977

Pieter Bottelier

NIGERIA - Economic Report Discussions

1. Although we have not finalized our discussions on the draft report it is perhaps useful to summarize my preliminary impressions.

2. It is evident that the draft (green cover) report has received attention at the highest levels in the Federal Government. Our analysis and macro-economic projections have not been seriously challenged and most, if not all of our policy recommendations have been accepted.

- New revenue measures are being taken to improve the Federal Government's fiscal performance.

- Serious efforts are being made to reduce Federal Government recurrent expenditures and Mr. Musa Bello indicated that recurrent expenditures will be frozen for two years at the 1976/77 level. That is even better than we had recommended and I fear that they may have set themselves an impossible target in this regard.

- Many capital projects are being scaled down to reduce the Federal Government capital budget. Among the more important projects mentioned are iron and steel (reduced from 3 to 1 projects as we had recommended) and fertilizer (reduced in size as we had recommended).

- The Federal Government will no longer guarantee domestic borrowings by State Governments. This is a significant step aimed at forcing the State Governments to keep their expenditures within their revenues. This must have been a difficult step politically and I regard it an important indication of the Federal Government's commitment to restore fiscal sanity. The State Governments had budgeted an overall deficit of ₦ 1.9 billion for 1977/78. Without a Federal Government guarantee it is doubtful that they will be able to borrow more than trivial amounts, and they will therefore have no choice but to reduce expenditures.

- In recent weeks electricity tariffs and other public service rates have already been increased by stiff margins. These are important steps in the right direction.

- The Government has accepted our recommendations on interest rates (a gradual upward revision of the entire rate structure) but they indicated that agricultural credit may be excepted from this movement for the time being. It has also accepted our recommendations on the gradual removal of most consumer and producer subsidies and regarding private foreign investment.

- The Government has formulated an external borrowing strategy for the next three years as recommended. The amounts (and the distribution between private and public borrowing) aimed at are remarkably close to what the report calculates as their likely needs under a stiff austerity program.

- There is some uncertainty with regard to the Government's reaction to our exchange rate policy recommendations. Indications are that the Government is rejecting the idea of an outright devaluation but accepting a de-facto crawling peg system (as recommended in the report) by slowly depreciating the Naira against the currencies of Nigeria's major trading partners.

3. All indications so far suggest a highly favorable response to the draft report. The policy measures taken or contemplated all point in the right direction but I still feel apprehensive about the sheer magnitude of the fiscal and BoP problem that will undoubtedly emerge if the actions taken are not drastic enough. Still, I feel we have already more than we could have hoped for in the very short period since the re-opening of our economic dialogue.

cc: Messrs. Thalwitz, Reitter, de Azcarate, Taylor-Lewis, Myers, Senf

NIGERIA

FOREIGN ASSISTANCE AND DEBT

Past Trends

1. External grants and loans have not been a very significant part of Nigeria's post-independence development efforts. Projections in the First Plan (1962-68) that 50% of capital costs could be met by external funding were woefully inaccurate and left Nigerians frustrated and sceptical regarding the dependability and desirability of foreign finance. During the war years (1967-70), with reserves almost depleted, considerable use was made of short-term credits as a means of purchasing military supplies and essentials. These credits were quickly repaid, leaving Nigeria with a modest indebtedness (end-1971) of $586 million. Most of this (85%) was held by multilateral and bilateral agencies, with the World Bank and IDA holding 37% of Nigeria's total indebtedness. The largest bilateral lender at the end of 1971 was the United Kingdom, which held 18% of the total debt.

2. Since 1971 Nigeria's indebtedness (in current dollars) has risen at the very low annual average of 8.5%. Debt levels increased through 1974, and then declined to $953 million at the end of 1976. Multilateral and bilateral lending still constituted 85% of the total debt, but the World Bank and IDA share increased to 42%.

Future Trends

3. Nigeria's decision to attempt to maintain her growth rate in the face of stagnating oil production implies the need for heavy external borrowing. Required capital inflows from loans over the next five years could be $6-$9 billion, with $7 billion being a most likely estimate. Indications are that this is a supportable amount of borrowing and that, providing debt servicing requirements are properly managed, Nigeria will be able to attract such levels of lending. Arrangements are expected to be completed shortly for a $1 billion syndicated loan which Nigeria has negotiated on relatively favorable terms. Further large amounts from commercial banks are expected over the next few years. The Japanese, British, Germans and Americans have expressed interest in initiating substantial eximbank credits, although indications from recent Berne Union meetings suggest that the loan maturities may be somewhat short. Soft loans or grants from bilateral or multilateral aid agencies are not envisaged, although large technical assistance projects mounted by USAID and the EEC are in the offing. The Nigerians are known to be anxious to have large World Bank involvement in order to obtain technical assistance and the built-in checks and balances which accompany Bank financing. Interest has also been expressed by some lenders in co-financing arrangements with the World Bank.

Table 1 - NIGERIA

External Public Debt Outstanding Including Undisbursed as of Dec. 31, 1976
Debt Repayable in Foreign Currency and Goods
(In Thousand of U.S. Dollars)

Type of Creditor Creditor Country	DEBT OUTSTANDING Disbursed	 Undisbursed	 Total
Suppliers Credits			
Belgium	45	-	45
France	284	-	284
Italy	216	-	216
Netherlands	4,497	-	4,497
Sweden	790	242	1,032
United Kingdom	4,984	-	4,984
Yugoslavia	5,200	-	5,200
Total Suppliers Credits	16,016	242	16,258
Private Bank Credits			
Netherlands	4,268	157	4,425
United Kingdom	400	-	400
United States	6,240	-	6,240
Total Private Bank Credits	10,908	157	11,065
Publicly Issued Bonds			
United Kingdom	2,128	-	2,128
Total Publicly Issued Bonds	2,128	-	2,128
Nationalization			
Multiple Lenders	119,849	-	119,849
Total Nationalization	119,849	-	119,849
Multilateral Loans			
African Dev. Bank	4,690	6,057	10,747
IBRD	365,337	311,885	677,222
IDA	36,497	2,558	39,055
Total Multilateral Loans	406,524	320,500	727,024
Bilateral Loans			
Canada	58,600	10,773	63,373
Czechoslovakia	-	14,000	14,000
Denmark	1,847	1,609	3,456
Germany, Fed. Rep. of	94,873	14,511	109,384
Hungary	-	21,220	21,220
Italy	11,204	-	11,204
Japan	44,507	31,565	76,072
Netherlands	25,215	57	25,272
Poland	-	30,400	30,400
United Kingdom	59,222	18,008	77,230
United States	100,164	-	100,164
USSR	2,655	3,680	6,335
Total Bilateral Loans	398,287	145,823	544,110
Total External Public Debt	953,712	466,722	1,420,434

October 17, 1977

Read

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G. BANK GROUP OPERATIONS

STATUS OF BANK GROUP OPERATIONS IN NIGERIA

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as at August 31, 1977)

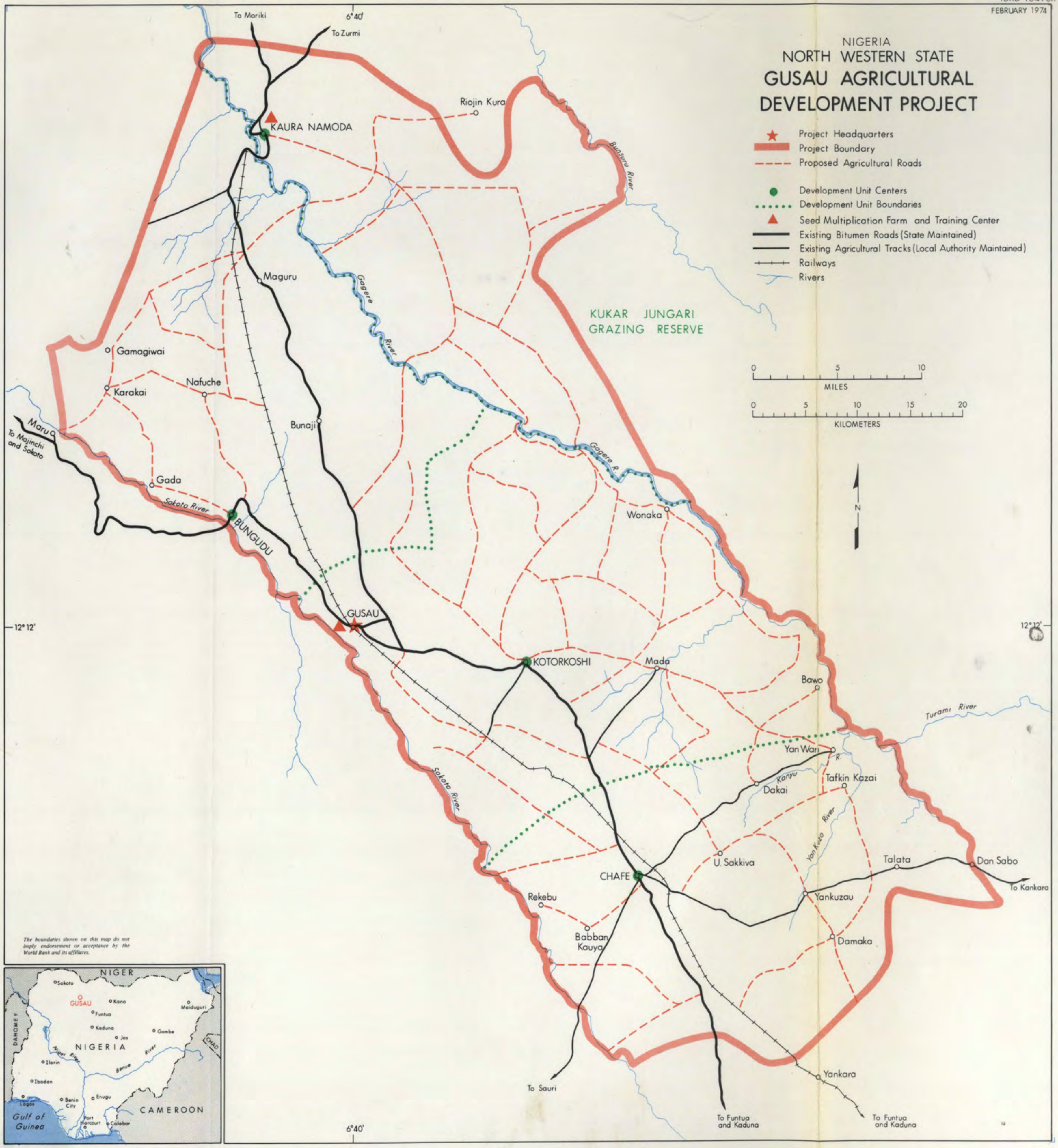
Loan or Credit Number	Year	Borrower	Purpose		US $ million Amount (less cancellations) Bank	IDA	Undisbursed
Ten loans and one credit fully disbursed					292.1	15.5	
72	1965	Nigeria	Education			20.0	1.0
427	1965	Nigeria	Roads		14.5		2.5
694	1970	Nigeria	Transport		25.0		0.7
764	1971	Nigeria	Cocoa Development		7.2		0.1
814	1972	Nigeria	Education		17.3		13.4
838	1972	Nigeria	Roads		26.3		13.8
847	1972	NEPA	Power		76.0		3.4
922	1973	NPA	Port		55.0		25.6
929	1973	Nigeria	Education		54.0		54.0
1045	1974	Nigeria	Cocoa Development		20.0		20.0
1091	1975	Nigeria	Livestock		21.0		19.0
1092	1975	Nigeria	Agr. Dev. Funtua		29.0		15.1
1099	1975	Nigeria	Agr. Dev. Gusau		19.0		6.1
1103	1975	Nigeria	Rice Development		17.5		16.3
1164	1975	Nigeria	Agr. Dev. Gombe		21.0		14.1
1183/1	1975	Nigeria	Bendel State Oil Palm		29.5		29.5
1191	1976	Nigeria	Imo State Oil Palm		19.0		18.5
1192*	1976	Nigeria	Ondo State Oil Palm		17.0		17.0
1454*	1977	Nigeria	Agr. Dev. Lafia		27.0		27.0
1455*	1977	Nigeria	Agr. Dev. Ayangba		35.0		35.0
		Total			822.4	35.5	332.1
		of which has been repaid			92.4	1.0	
		Total now outstanding/2			730.0	34.5	
		Amount sold		16.8			
		of which has been repaid		13.9	2.9		
		Total now held by Bank and IDA /3			727.1	34.5	
		Total undisbursed			331.1	1.0	332.1

B. STATEMENT OF IFC INVESTMENTS (as at August 31, 1977)

Fiscal Year	Borrower	Type of Business	Amount in US$ Million Loan	Equity	Total
1964, 67, 1970	Arewa Textiles Ltd.	Textile Mfg.	1.0	0.6	1.6
1964	Nigerian Industrial Development Bank, Ltd.	Dev't Finance Co.		1.4	1.4
1973	Funtua Cottonseed Crushing Ltd.	Veg. Oil Crushing	1.6		1.6
1974	Lafiagi Sugar Estates	Sugar		0.1	0.1
1973	Nigerian Aluminum Extrusion Ltd.	Aluminum Processing	1.0	0.3	1.3
	Total Gross Commitments		3.6	2.4	6.0
	Less cancellations		0.3		0.3
	Less sold or repaid		1.5	1.5	3.0
	Total commitments now held by IFC		1.8	0.9	2.7
	Undisbursed		0.5	0.1	0.6

* Not yet effective.
/1 Declared effective October 14, 1977.
/2 Excluding cancellations of $4.4 million.
/3 Prior to exchange rate adjustments.

WA1DA
10-15-77



IBRD 10490R
FEBRUARY 1974
NIGERIA
NORTH WESTERN STATE
GUSAU AGRICULTURAL DEVELOPMENT PROJECT
Project Headquarters
Project Boundary
Proposed Agricultural Roads
Development Unit Centers
Development Unit Boundaries
Seed Multiplication Farm and Training Center
Existing Bitumen Roads (State Maintained)
Existing Agricultural Tracks (Local Authority Maintained)
Railways
Rivers
0 5 10
MILES
0 5 10 15 20
KILOMETERS
N
KUKAR JUNGARI GRAZING RESERVE
To Moriki
6°40'
To Zurmi
Riojin Kura
KAURA NAMODA
Bunsuru River
Gagere River
Gagere R.
Maguru
Gamagiwai
Karakai
Nafuche
Bunaji
Maru
To Majinchi and Sokoto
Gada
Sokoto River
BUNGUDU
GUSAU
12°12'
KOTORKOSHI
Wonaka
Mada
Bawo
Turami River
Yan Wari
Kanyu R.
Dakai
Tafkin Kazai
Yan Kuzo River
U. Sakkiva
Talata
Dan Sabo
To Kankara
CHAFE
Rekebu
Babban Kauya
Yankuzau
Damaka
Yankara
To Sauri
To Funtua and Kaduna
To Funtua and Kaduna
6°40'
The boundaries shown on this map do not imply endorsement or acceptance by the World Bank and its affiliates.
NIGER
Sokoto
GUSAU
Kano
Funtua
Maiduguri
Kaduna
Jos
Gombe
DAHOMEY
NIGERIA
Niger River
Benue River
CHAD
Ilorin
Ibadan
Lagos
Benin City
Enugu
Port Harcourt
Calabar
CAMEROON
Gulf of Guinea

NIGERIA

GUSAU AGRICULTURAL DEVELOPMENT PROJECT

Loan 1099-UNI $19.0 million

Approved:	December 19, 1974
Signed:	April 4, 1975
Effective:	January 5, 1976
Closing Date:	July 1, 1982
Disbursement as of Sept. 30, 1977:	$13.2 million (110% of appraisal est.)
Total Project Cost at Appraisal:	$37.4 million
Appraisal estimate of internal rate of return	16%

Project Description

- On farm development on 67,000 family farms (435,000 people)
- Staffing and equipping an extension service
- Staff and farmer training
- Provision of farm inputs
- Seasonal and medium-term loans for farm inputs
- Development of seed multiplication farms and registered seed growers
- Infrastructural development including administrative center, staff housing, training center, and farm service centers.
- Marketing services
- Construction of 660 km of all weather surfaced feeder roads
- Construction of 60 earth dams
- Establishment of a project evaluation unit (PEU)

Project Area

The project is centered around Gusau in Sokoto State, covering an area of 4,250 sq.kms., supporting a rural population of 435,000 people. Pertinent data are as follows:

Rural population	435,000
Farm families	67,000
Average family size	6.5
Average farm size	4.1 ha
Per capita income	$41 (1974 prices) (Appraisal estimate)
	the world 40?

Land Ownership is not unduly skewed:-

50% of farms are	2.8 ha
10% of farmers' control	32% of the land
Average land per person	0.22 ha for lowest 50%

Eighty-six per cent of the farmed land in 1976 was cropped with five main crops - sorghum, millet, cotton, groundnuts and cowpeas or mixtures solely of these five crops.

Project Concept

The project is an area specific development project designed to raise farmers' incomes by providing them with technical advice and assuring the timely availability of improved farm inputs (the Basic Services Package) within ten kilometers of each farmer. Distribution points are farm service centers which are low cost stores managed by extension and commercial services (credit and marketing) officers. Underlying the activities of the project is an attempt to involve local participation in the running of the project; to allow farmers to determine their own future; and to reduce as far as possible, Government's burden of providing services to the rural sector. For this reason, those operations that can function as autonomous, self-financing, commercially viable operations are encouraged to do so. Farm service centers are to be leased to local businessmen and a seed growers' association to supply improved seeds will be set up. This should significantly reduce the burden on the State Government and release its limited manpower resources to extend the project concept to other areas of the State.

Project Progress

The project, operational since April 1975, is making excellent progress despite the rather difficult circumstances prevailing in Nigeria. Farmer response has been very enthusiastic which is reflected in participation rates. By the second season of the project, 25 per cent of project area farmers are estimated to use one or more of project supplied inputs and 24 per cent received some extension advice. Eighty-one per cent of farmers receiving extension advice used project inputs. Fertilizer usage, a key input, is expected to increase from 500 tons/annum before the project to 6,500 tons/annum by the third year of the project (see Table of Key Indicators attached which compares the actual situation with appraisal estimates). Considerable success has been achieved through group farms and there has been a phenomenal purchase of ox plows for land preparation. Comparison of actual yields and production as estimated by PEU with appraisal estimates shows:-

 Agri prodn per capita in the State has been stagnant for yrs

Average Yields (kg/ha)

	Appraisal Estimates		Actual
	PY0	PY2	PY2
Sorghum	600	686	790
Cotton	225	255	200-380
Maize	700	1,025	-
Groundnuts	425	480	350-480 ?
Cowpeas	200	275	90-160 ?

Production (metric tons)

	Appraisal Estimates		Actual
	PY0	PY2	PY2
Sorghum	45,000	49,000	89,500
Cotton	9,400	10,800	21,000
Maize	700	2,000	0
Groundnuts	15,700	18,400	17,500
Cowpeas	500	950	8,000

The infrastructural program has proceeded on schedule due to energetic project management using local contractors. The network of farm service centers is virtually complete so that 65 per cent of project farmers are within 5 kilometers of a center and 98 per cent within 10 kilometers. The feeder road program with 460 kilometers of road constructed and all farm service centers connected, has been very well received, opening up an area in which movement had previously been difficult and time consuming.

Management and Training

Senior management has been of the highest quality, being principally recruited internationally due to the dearth of senior Nigerians; the reluctance of Sokoto State to second their own staff who are in critically short supply (the State is said to have only four agricultural graduates); and the State's unwillingness to hire Nigerians from other States in the Federation. In a period of high internal inflation, total costs of the project, as originally conceived, are not expected to be more than 25 per cent over appraisal estimates over the five year development period.

The project has appointed a senior training officer who is counselled by the Senior Training Officer of the Central Monitoring and Evaluation Unit of the Federal Department of Rural Development. In-service training of junior staff in all departments is carried out. A most successful training program for agricultural extension agents has been instituted consisting of six months field practical during which the trainees run demonstration farms, followed by a three-month theoretical course.

Key Staff

Chairman of the Project Executive Committee	:	Alhaji Ahmadu Sokoto
Permanent Secretary, Ministry of Agriculture	:	Alhaji Isa Abubakar
Project Manager	:	Mr. Jan Gordijn (Dutch)
Chief Administrative Officer	:	Alhaji Nahuche
Chief Technical Officer	:	Mr. Mike Bullen (British)

Note: The Project Manager assumed duties only in August 1977, replacing the previous Project Manager who has transfered to the Lafia Agricultural Development Project. Mr. Bullen is to be replaced by M. Isa Abdullahi within two months.

Issues and Problems

1. Other areas of the State are pressing for an extension of the geographic coverage of the project and the State Government is anxious to meet this request. The technical, organizational, manpower and financial implications are being considered in the course of the preparation of a second stage project which will be submitted to the Bank for financing.

2. Shortage and quality of local staff continues to be a major problem at all levels.

3. Federal Government contributions to the project have borne no relationship to the approved budget requests and although presently at an adequate level, have been made so irregularly as to cause the project major financial problems. Furthermore, the project account has not yet been reimbursed for fertilizer subsidies (totalling about $3.5 million) which are required to build up the Revolving Credit Fund. This has hampered efforts to set up the farm inputs distribution service as a self-financing operation.

4. The high subsidy levels on inputs such as fertilizer and insecticides are a significant drain on Government finances. Furthermore, the fixed nature of these input prices, coupled with the administrative difficulties inherent to the administration of subsidies are a stumbling block to the desirable commercialization of the input distribution service. Low and inflexible interest rates hamper the development of rural credit institutions which cannot retain an interest spread to cover costs.

Mr. Yudelman's observations on his visit to northern Nigeria earlier this year are attached as Annex 1.

Key Indicators

	Unit	1975/76 Cropping Season No. Units	% 1/	1976/77 Cropping Season No. Units	% 1/	1977/78 2/ Cropping Seaso No. Units	% 1/
Estimated Farmer Participation	%	-	-	28%	155	-	-
Registered Project Farmers	number	3,200	107	11,000	-	36,000	·105
Service Centers Operaional	number	6	60	25	100	40	-
Farmers in groups	number	120	-	2,000	-	6,000	-
Cropped Area							
Improved Cotton	ha	578	77	12,000	366	-	-
Improved Maize	ha	10	-	200	40	-	-
Improved Sorghum	ha	2,200	110	2,000 3/	37	-	-
Improved Groundnuts	ha	980	98	1,000	-	-	-
Improved Cowpeas	ha	0	-	375	-	-	-
Yields - Average							
Cotton	kg/ha	1,000 4/	-	380-200 6/	129	-	-
Maize	kg/ha	650	-	N/A	115	-	-
Sorghum	kg/ha	600	-	790	-	-	-
Groundnut	kg/ha	N/A	-	480-350	86	-	-
Cowpea	kg/ha	1,140	-	160-90	45	-	-
Credit							
Seasonal	N	60,000	96% recovered	34,000 5/	Groups 98%		
Medium/Long term		1,600	-	27,000	Individuals 54%		
Inputs							
Fertilizer	tons	2,400	450	2,500	-	6,500	156
Insecticides	liters	4,300	21	9,500	21	50,000	43 ?
Sprayers 7/	No.	171	19	440	15	1,190	13
Ox Plows 7/	No.	100	100	2,100	500	2,950	197
Infrastructure							
Roads Constructed (surfaced) 7/	km.	-	-	185	102	402	122 8/
Dams Constructed 7/	No.	-	-	2	8	14	31 ?
Project Staffing							
Project Administration & Accounts	man years	-	-	66	87	-	-
Technical Department	man years	-	-	176	114	-	-
Engineering Department	man years	-	-	33	85	-	-
Commercial Services	man years	-	-	67	65	-	-
Evaluation Department	man years	-	-	55	85	-	-

1/ As a percentage of appraisal estimates.
2/ Current estimates or actuals.
3/ A considerable amount of fertilizer is to be applied to the traditional millet and sorghum mixed crop, and the area can only be estimated after evaluation by PEU.
4/ Seed farm yields; no estimates of farmers' yields were made.
5/ Credit for fertilizer to individual farmers was stopped after lower fertilizer prices were annonced.
6/ Provisional estimates from PEU for farm yields. Ranges represent yields under different inter-crops.
7/ Cumulative.
8/ Assuming 2 km. unsurfaced = 1 km. surfaced.

June 1977

NIGERIA

AGRICULTURAL PROJECT LENDING STRATEGY

1. We are lending in two main areas:

   (a) Crop/animal commodity specific projects, such as oil palm, cocoa, livestock and rice. These projects include commercial estates/ranches and outgrower components.

   (b) Integrated agricultural/rural development projects that provide a range of services for development of a mix of annual crops.

Results to date

2. (a) Commodity Specific Projects. Where reasonable management is available the crop specific projects are working well, but others where management has been inadequate, e.g. Cross River Rice, Bendel Oil Palm, and Livestock, the results have been extremely disappointing. Since the initiation of these commodity specific projects there has been a radical change in importance of the associated subsistence food crops normally grown under the same farming system. These food crops are now significant income generators (cash crops) and compete, often to the detriment of tree crops, for farm labor and other resources. Thus in future serious consideration will need to be given to the farming system as a whole, which under Nigerian agronomic conditions is extremely complicated.

3. (b) Integrated Projects. These are being developed in selected areas of northern Nigeria. In order to impact quickly on the local population, and to circumvent unduly inefficient Government bureaucracies, the projects were given considerable managerial and financial autonomy, and are paving the way for major reform on a statewide basis, of the agricultural service industry. They are designed to provide the minimum needs (basic service packages) to allow farmers to increase production, i.e., improved extension roads, farm inputs, water supplies and training. In some instances, advanced development packages (detailed farm planning, etc.) are also provided. So far, nearly 1/4 million farmers have been affected by ongoing integrated projects, and a similar number will be involved in new projects to be implemented or appraised. These are: Funtua, Gusau, Gombe; Lafia, Ayangba; Bida and Ilorin. To date the first three projects have been successful and have full farmer and Government support. The success reflects good management and the ability to overcome the numerous logistical problems that occur in Nigeria. Development has been rapid and new problems have emerged as the projects outpace services provided by other agencies, for example, research and new technologies.

4. For the first time, large programs have been planned and implemented on target (without excessive cost-overruns), incomes have been improved and people feel part of the new development. Under the well-managed northern integrated projects, as at August 31, 1977, 92% of estimated target appraisal

disbursements had been achieved. Our remaining projects have only disbursed 13%! The low disbursement rate of the latter reflects primarily the standard of management and financial control of the projects, and substantial delays in completing conditions for loan effectiveness.

5. In the future, we must take account of past achievement and expand these projects to cover greater areas and other agencies. To do so with a reasonable chance of success means firm Government commitment and greater dependency on a number of associated agencies that are not always particularly well managed. It also means Government and the Bank agreeing on some major sectoral issues, such as subsidies for farm inputs, and interest rates. However, it is also a reflection of constraints outside the control of the project management units including the inability of State and Federal Governments to process Loan, Project and Subsidiary Agreements, legal opinions, etc., in a timely fashion; the creation of new States which has had a devastating effect on manpower availability; and the reduction of State and Federal budgetary funding to the projects, which in turn reduces the Bank's inflow of compatible funds. This latter problem could seriously affect the continued rate of development at Funtua, Gombe and Gusau, unless Government can made the necessary financial commitment to the projects.

6. (c) Project Management. An analysis of agricultural projects indicate that there is a direct correlation between project success and the quality of senior project management. Generally, the projects are conceptually simple, using unsophisticated tested technology. Where management is good and fully supported by a committed State Government, success is generally assured. Nigerian management has proven adequate on the Cocoa Project and the Imo and Ondo Oil Palm Projects, but has been less successful on the more complex projects. In the North, the Bank has assisted greatly, through the West Africa Region Agricultural Project Management Unit (APMU) in providing expatriate technical assistance to supplement inadequate local staff. Expatriate management, where utilized, has had the added advantage of providing a degree of protection to Nigerian staff, thus enabling the latter to develop their skills within a reasonable management and operational environment.

7. (d) Training Programs for Nigerian project staff are included in all our projects and in the last year or so we have intensified training particularly in the North by recruiting experienced trainers. Furthermore, we have under active appraisal a project to establish an Agricultural Management Training Institute that would be available to all sectors of the agricultural industry for training staff in management skills. Even so, no short term solutions can be found to the management problem apart from employment of expatriates.

Future Bank Operations

8. Because of special technical requirements we are likely to have to continue with tree crop specific projects, such as cocoa and oil palm in the tree crop sector but in closer association with with farming system as a whole. It is doubtful whether specific second phase livestock and rice projects will

be considered, but Bank livestock investment may be possible through a line of credit to the Nigerian Agricultural Bank, and rice development as a component of Regional agricultural projects such as proposed for the Bida Agricultural Development Project.

9. The ongoing integrated agricultural development projects will be expanded statewide, starting with Kaduna State. Project staff in Funtua, Gusau and Gombe along with State officials are now preparing initial plans for statewide projects for Kaduna, Sokoto and Bauchi States. The provision of Basic Service Packages on a statewide basis is considered essential prior to more capital intensive investments. For example, large scale irrigation projects in northern Nigeria are economically viable, particularly in the drier areas, but are only likely to be successful where other development needs exist. Similarly, successful implementation of a nationwide agricultural credit project through the Nigerian Agricultural Bank would depend on the availability of the Basic Service Packages. To support our ongoing projects and to improve management of associated agencies, the Bank will also assist in establishing a special Agricultural Management Training Institute and will continue to provide the services of high quality expatriate management and technical staff.

how? in how many States?

10. A more complete review of the agricultural sector will be undertaken in mid-1978 to identify projects at State and national levels, suitable for Bank lending during the next decade.

NIGERIA - PROPOSED LENDING PROGRAM FY1978-82

	Commitments in $ million				
	FY 78	FY 79	FY 80	FY 81	FY 82
Rivers Oil Palm	30				
Imo Oil Palm II				30	
Ondo Oil Palm II					30
Bida Rural Development	20				
Ilorin Rural Development		40			
Funtua Rural Development II			20		
Gusau Rural Development II				20	
Gombe Rural Development II					20
Cocoa III			25		
Forestry		30			
Agricultural Management Training Institute		10(S)			
Agriculture Unidentified (I + II)				30	30
Feeder Roads				30	
Road Maintenance				40	
Ports III				80(S)	
Kaduna Urban Water		25			
Onitsha Urban Water					30
Makurdi Urban Water					20
Rural Water				30	
Urban Development			40(S)		40
Power Distribution			100		
Power Unidentified					100
NIDB III and IV (DFC)		50			50
NBCI I (DFC)				50	
Fertilizer Project			100(S)		
Industry Unidentified					80
Totals	50	155	285	310	400
Numbers of Projects	(2)	(5)	(5)	(8)	(9)

Total FY 1978-82: $1.2 billion

9/19/77

NIGERIA

RICE PROJECT

Loan 1103-UNI $17.5 million

Approved:	December 1974
Signed:	April 1975
Effective:	October 1976
Closing Date:	December 1980
Disbursement as of Sept. 30, 1977	$1.2 million
Status:	Problem Project

Project Description

Development of 8,900 ha of swamp rice, of which 1,850 ha would be irrigated for a second crop. Land is to be allocated in plots of 1.5 ha (rainfed) or 1.25 ha (irrigated). Direct beneficiaries will be about 6,000 farm families (40,000 family members).

Funds are included for:

- land clearing and development; construction of irrigation, diversion and distribution systems
- construction of rice mills, with associated parboiling and storage facilities
- rehabilitation of 186 km existing feeder roads; construction of 117 km new all-weather roads
- provision of credit, extension and seed-multiplication services
- programs of evaluation and training; feasibility studies for further development.

The project is being implemented as two entirely independent sub-projects, one in Anambra State and Imo State, the other in Cross River State.

Rice Sector Issues

Estimates of Nigerian rice production in recent years vary widely. The 1975 crop (paddy basis) was estimated at 368,000 metric tonnes by FAO, 600,000 tonnes by USDA. Urbanization and rising spending power have led to demand increasing beyond the capacity of local production. Imports are mostly of US long grain, parboiled rice.

Rice Imports	(Metric Tonnes)
1975	6,700
1976	45,300
Jan-May 1977	65,100 (U.S. exports only)

The combination of high domestic inflation and a pegged exchange rate currently threatens the financial viability of Nigeria's export and import-competing crops, including rice. Since appraisal, the cost of hired farm labor has risen by over 250%, while farmgate paddy prices have risen only 120%. Unless incentives are restored, project area farmers may well find traditional crops like cassava and yam more profitable than rice. The production problems of this project are typical of a more general pattern in Nigerian agriculture, characterized by high cost production unmatched by high productivity. Thus, with increases in labor, and land development costs in particular, the profitability to the farmer decreases. Government has endeavored to counteract this by heavy subsidization of farm inputs, but since over 80% of production costs are in the form of labor, subsidies have had little impact and no significant increases in output have occurred. Thus, Nigerian agricultural products are becoming less competitive on the world market, and the need for exchange rate adjustment arises. Likewise Nigerian products, particularly rice, are not competitive with imported products. The Government is in a dilemma, since it is anxious to keep domestic food prices from further escalation, particularly in the urban areas, and can do this by importing cheap rice but at the same time, it wants to encourage much greater production of home grown rice. The macro-economic implications of the Government's exchange rate policy and inflationary public expenditure policies (issues extending far beyond the rice sector) are the subject of continuing dialogue between the Bank and the Federal Government.

ANAMBRA-IMO SUBPROJECT

ANAMBRA-IMO RICE PROJECT
(formerly East Central Rice Project)

Targets (appraisal)	4,790 ha swamp rice 1,410 ha irrigated rice
Targets (revised)	No change
Costs (appraisal)	$21.5 million
Costs (revised)	$50.0 million

Key project personnel

R. N. Achike	Project Manager
K. O. Ikonte	Deputy Project Manager (responsible for Imo State development)
C. I. Okechukwu	Accountant
G. S. Schokman	Irrigation Engineer (born Sri Lanka, Australian citizen)

Project Implementation

Land Development. While land development is still behind appraisal targets, this essentially reflects the delayed start-up of the project. Little land development was accomplished before the rains of mid-1976. However, the 1976-77 season saw excellent progress on the land development front, and there are good prospects of making up some of the backlog during 1977-78. The most advanced site is at Uzo Uwani, where 80 ha of swamp rice and 220 ha of irrigated rice have been successfully established.

Land Development (hectares)		1977 (Cumulative)	
	Appraisal	Actual	%
Swamp	2,060	460	22
Irrigated	900	414	46

Yields. The appraisal projected rice yields on swamp land to be 1.0 ton/ha in the first year and rise to 2.5 tons/ha over a four-year period. These targets are being substantially bettered, and the latest supervision mission estimates average yields at between 2.0 and 3.0 tons/ha. This is in spite of the delay in recruiting a project agronomist, and the consequent weakness of the project team regarding fertilizer recommendations, disease control, etc.

Roads. A civil engineer has only recently been appointed, and has not yet taken up his post. As a result, no progress has yet been made on the road component.

Mills. The original milling engineer resigned for personal reasons; his replacement will take up his post shortly. Tender specifications for three mills were recently approved by the Project Coordinating Committee. Modern rice mills will represent a major financial commitment for the project (about $5.5 million at current prices). If efficiently operated and guaranteed an adequate throughput of paddy, they should reduce processing costs below those of small-scale 'bush mills'. But while uncertainty about price incentives for farmers remains there is understandable caution in making such a heavy investment. In any case, given that at lease 18 months will elapse between the invitation to tender and the mills becoming operational, the project faces the problem of making interim milling arrangements for the season's harvest. At present, the project has only one very small rehabilitation mill operational at Uzo Uwani.

Project Costs. Revised estimated project costs show a very substantial increase, and although the Anambra Imo Project is expected to remain viable, the 18% economic rate of return estimated at appraisal will not be achieved.

Other Project Issues

State Control. Since appraisal, the former East Central State was divided into two separate states, Anambra and Imo. The former state capital of Enugu is in Anambra, as is the project headquarters. Hence, while the project continues as a unified entity, the Imo state authorities have pressed for an early division of the project. With Bank assistance, a notional division of assets has been arrived at. It should be possible to preserve unity during the life of the present project, but any follow-up project will have to proceed on a state-by-state basis.

CROSS RIVER SUBPROJECT

CROSS RIVER RICE PROJECT
(formerly South Eastern Rice Project)

Targets (appraisal)	2,270 ha. swamp rice 440 ha irrigated rice
Targets (revised)	1,700 ha swamp 300 ha irrigated (unofficial - mission estimates)
Costs (appraisal)	\$13.5 million
Costs (revised)	\$25.1 million

Key project personnel

M. Uttah	Project Manager
F. E. Una	Accountant
G. G. Chowdhury	Irrigation Engineer (Bangladesh)
G. Raju	Deputy Irrigation Engineer (Sri Lanka)
Dr. H. Singh	Agronomist (India)
R. V. Mag-iba	Civil Engineer (Philippines)

Project Implementation

While the Anambra-Imo Project has not been without its difficulties it is the limited progress in Cross River State that led to the designation of the Rice Project as a Problem Project. This lack of progress has arisen through political, managerial, financial and technical limitations.

In retrospect, it is clear that at appraisal the difficulties of land clearing and development in the project area were underestimated. The main focus of the appraisal team was to ensure that water supplies would be adequate at the various sites for development. In the process they failed to take full account of the problems that topography and, more importantly, existing vegetation cover would pose at the land clearing and development stage. Some of the areas designated for the project are densely infested with oil palm or raffia palm. The appraisal assumed an average land clearing cost of ₦ 220/ha, but in the event even contracts offered at ₦ 1,000/ha have found virtually no takers due to the adverse physical conditions.

Inability to agree over compensation, valuation of "economic" trees for land acquisition for development prior to redistribution to farmers led to the abandonment of the scheduled sites at Nkari and Oniong-Ono, and disputes persist concerning other areas. Against Bank advice, project resources were spread thinly in an attempt to develop sites on both sides of the Cross River simultaneously. The political support given by the State has been hesitant, for example in the area of filling the chronic shortages of middle level manpower on the project. It must also be said that both general and technical management of the project have been well below the standards in Anambra and Imo States.

Land development (hectares)		1977 (Cumulative)
	Appraisal	Actual
Swamp	1,300	75
Irrigated	260	

To summarize, the present position is that land development has been proceeding at an extremely slow pace, and at a cost that throws the viability of the project into question. What prospects of improvement exist? Firstly, recent changes in senior personnel within the State Ministry of Agriculture may lead to better relations between State and project leadership. Secondly, the project team has been strengthened on the technical side by the arrival this year of an assistant irrigation engineer and a civil engineer. The project staff are exploring technical possibilities for reducing land development costs, and attempting to locate new sites where vegetation clearance will prove more tractable. Development at Ubium, the most difficult of all sites, is to be limited to 110 hectares (appraisal 400 hectares). This will permit greater concentration of technical specialists and equipment on the mutually adjoining sites of Adim, Idomi and Assiga.

Close and frequent Bank supervision of the Cross River Project is considered crucial. The situation will be reviewed in November when project viability will be reassessed. However, unless a solution can be found to the high cost of land clearing and other problems, the economic rate of return is expected to fall even below the marginal 9% estimated at appraisal for the Cross River Project.

CONFIDENTIAL

NIGERIA

ISSUES, OBJECTIVES AND STRATEGIES
FOR AN EXPANDED BANK LENDING PROGRAM

Introduction

1. In May 1976, discussions were held with the Nigerian Government on current and future relations with the Bank. They resulted in a redefinition of the Bank's lending and technical assistance programs and established Nigeria's primary interest in continued Bank lending for agricultural and rural development projects combined with technical assistance in these and a few other sectors. The Nigerian Government saw, at the time, the principal role of the Bank as supporting projects where we had a major contribution to make in terms of technological know-how, organization, management and training, as in agriculture. In other areas, such as infrastructure, industry and education, they felt that results could be achieved more quickly without Bank participation, given Nigeria's resource position as then envisaged, which appeared to permit the financing of its development program without recourse to external borrowing. As a result, the Bank lending program for the next few years contemplated on the average a level of about $100 million per annum.

2. However, by the time of the 1976 Annual Meetings in Manila, following a reassessment of the country's prospects, the Government requested the Bank to substantially increase its lending to Nigeria. This request came as a result of a far more rapid and drastic turnaround in Nigeria's resource position than had previously been expected, triggered by significantly higher public sector spending and lower oil revenues than assumed in the 5-year Development Plan. A rapidly widening resource gap is projected in the coming years, which is forcing Nigeria once again to resort to external borrowing on a much larger scale than before the oil boom.

3. In response to the Nigerian request, and in order to examine the "case" for increased Bank lending, an economic mission visited Nigeria in April/May 1977. The draft economic report 1/ which reviews recent economic developments and prospects and focuses on major policy issues was submitted to the Government in August, and its conclusions and recommendations will be discussed with the Nigerian delegation at the forthcoming Annual Meetings. A copy of the report is attached. Because of its sensitive nature, distribution of the report within the Bank has been strictly limited.

4. As part of the economic review, we have assessed the "case" for expanded Bank lending in terms of overall economic and sector objectives, policy criteria and lending strategy. On this basis, we have identified potential sectors or projects, in addition to agriculture and rural development, and have drawn up a tentative lending program.

1/ Report No. 1690-UNI: "Nigeria: Recent Economic Developments and Short-Term Prospects", dated July 27, 1977.

5. The purpose of this paper is to submit the Region's position and recommendations to Senior Management for consideration and decision, so as to enable us to discuss the Bank's posture with the Nigerians during the Annual Meetings.

I. ECONOMIC OVERVIEW

A. Recent Economic Developments and Prospects

6. The Nigerian economy is currently facing the turnaround situation which was originally projected to occur about 1980. Earlier economic projections had created overly optimistic expectations by overestimating oil revenues and underestimating the growth of public expenditures, as well as internal and international inflation. Currently in Nigeria there is considerable overspending by the public sector, serious domestic price inflation, stagnation in agriculture, cost/price and sectoral distortions, and a rapidly widening resource gap.

7. Nigeria's reaction to the re-emergence of a resource gap has been to opt for a "high growth-large borrowing" strategy intended to keep the economy growing at about 6-8% per year. This strategy can be justified, for the present, given Nigeria's low indebtedness and ability to borrow abroad, and its success is likely to be limited by Nigeria's administrative capabilities rather than by lack of financing.

8. The performance of Nigeria's economy over the next years depends significantly on her choice of incentive policies and the extent to which fiscal control is imposed. The economy's heavy dependence on the oil sector to provide export earnings (92% of which are from sales of oil) and government revenues (82% of which are from the oil sector) will not diminish over the next 5 years. However, since oil output will probably stagnate, around 2.2 m barrels per day, and oil prices rise only slowly, growth will have to come from other sectors and will rely heavily on continued Government spending (recurrent and capital) and continued ability to import intermediate and capital goods. The Government is currently facing a situation where it has exhausted its domestic bank balances accumulated during the first two years of the oil boom. At the same time, international reserves which stood at a peak of US$6.2 billion in mid-1975 have fallen to US$4.7 billion at the end of July 1977 (the equivalent of five months' imports). The Government has decided not to allow a further decline in reserves below current levels but is committed to maintain a rate of growth of about 6-8% p.a. while minimizing inflation. Although Nigeria is aiming at reducing the rate of inflation to 10% p.a., it is unlikely to drop below the current rate of 25-30%. Under these circumstances, it is evident that Nigeria has no other option than to resort to external borrowing to meet its objectives.

B. Major Policy Issues

9. Of most immediate concern is the Federal Government's ability to tighten fiscal controls in order to contain overall spending and to allocate

expenditure cuts both within and between the recurrent and capital budgets. Since the five-year period under consideration also includes part of what would normally be Nigeria's Fourth Plan period, this concern also extends to the quality of resource allocation in the Fourth Plan. A related fiscal policy issue is the current pervasiveness of Federal Government subsidies. These include direct consumer and producer subsidies as well as Government coverage of public corporation deficits and the cost discrepancy between high commercial interest rates and the lower public sector interest rates. The subsidy precedent tends to distort relative prices and exempt increasingly large portions of public revenues from the allocation processes undertaken during the planning and budgeting exercises.

10. Nigeria's economic policy-makers must also concern themselves with providing a better incentive framework for encouraging directly productive activities in the non-petroleum sectors, principally in agriculture and industry. While the Government has several options in this respect, a devaluation of the Naira would be the most effective way of tackling the problem. Gradual depreciations of the Naira would appear to be politically more acceptable than a single massive devaluation. The added benefit of a devaluation would be a marked improvement in the Federal Government's Naira revenue from the oil sector. If a devaluation policy is not acceptable, the Government would have to consider indirect measures such as the introduction of import taxes and export subsidies instead.

11. In light of Nigeria's investment and borrowing requirements, it is important that the Government formulate a rational long-term domestic and external borrowing strategy. Equally important is a policy designed to attract large amounts of private investment. Both foreign and Nigerian lenders and investors are sensitive to Government policies in this area. Thus, the amount of private investment flows which can be stimulated and the amount of loans which the Government can attract will depend on the extent to which economic policy recognizes lenders' and investors' legitimate interests. There is, in particular, the need for streamlining administrative procedures, such that the Government will be able to meet its financial obligations promptly. Formulation and implementation of such a program is a significant prerequisite for filling likely resource shortfalls.

C. Resource Gap

12. Projections for the next five years have been based on the assumption that Nigeria will maintain fairly rapid growth and curtail public expenditures to a prudent level. Should this be accomplished it is likely that the accumulated current account deficits for 1977 through 1981 will total about US$10.5 billion. Direct foreign investment in Nigeria could total about US$3.5 billion during this five-year period if the recently introduced oil exploration incentives are successful and if the investment climate favors joint Nigerian-foreign productive endeavors in other sectors. This implies a need of about US$7 billion of net external borrowing over the five-year period and an even higher level of loan commitments. In making these projections, it has been assumed that Nigeria will obtain sizeable amounts of quick disbursing loans which will be, of necessity, of fairly short maturity and mainly from commercial sources. In fact, Nigeria

has already agreed with an international syndicate of private banks to arrange a US$1 billion general purpose loan, repayable over seven years at one percentage point over the London interbank rate.

D. Creditworthiness

13. Nigeria's creditworthiness is not in question. Nigeria's outstanding external public debt at the end of 1976 stood at a very modest US$953.7 million and the debt service ratio has, in recent years, been below 1%. The World Bank's share in Nigeria's public external debt at the end of 1976 was 41% of the disbursed portion and 48% of the total including undisbursed. These exposure ratios will drop rapidly in the next few years as Nigeria begins to borrow heavily from other external sources.

14. Our projections indicate that net external borrowing to the tune of US$7 billion over the period 1977-81 would raise total annual debt service to about US$2 billion by 1982, equivalent to about 13% of projected export earnings. On the assumption of an increase in Bank lending over the period as proposed in this paper, the Bank's share of public debt outstanding and disbursed would decline to about 8%, or about 14% including undisbursed, by 1982.

II. ISSUES AND OPTIONS FOR INCREASED BANK LENDING TO NIGERIA

15. As the preceding analysis suggests, there can be little doubt that in the absence of major oil price increases, Nigeria will have to borrow abroad on a substantial scale in the years to come in order to maintain recently achieved investment levels, and thus an acceptable pace of economic growth. Net capital inflow requirements over the next five years have been projected at about US $7 billion. The level of Bank lending in the last five years has averaged slightly over US $70 million p.a., with net disbursements amounting to around US$20 million p.a. It is evident, therefore, that even a significantly expanded Bank lending program can fill no more than a relatively small portion of Nigeria's projected resource gap.

16. Nigeria's modest external debt and negligible service burden, moreover, will not only enable it to borrow abroad on a substantial scale, but to exercise various options in respect of the sources of external finance and the terms and conditions on which it is provided. Access to "unconditional" loans, like the US$1 billion financing package presently being arranged through an international syndicate of private banks, in fact raises the question as to what advantages Nigeria sees in borrowing from the Bank with "conditions" attached, and what we can hope to achieve in these circumstances by way of overall economic and sector objectives.

17. It is difficult to give a ready answer at this stage. While we have defined in broad terms our lending objectives and strategies, we will have to await the outcome of our discussions with the Nigerians in order to test their reactions and intentions. However, several factors would support the premise that the Nigerian Government, notwithstanding other options, is looking towards the Bank for an increased role in support of its development program for the following reasons:

(a) Bank loans are the only source of long-term finance to which Nigeria has access at the present time, and even though the Bank's share in total external resource transfer may be relatively minor, it is an important element in the Government's external borrowing policy;

(b) Given the serious constraints in the Nigerian economy in terms of trained manpower and managerial skills, the Bank has a major contribution to make by way of technical assistance, organization, management and training linked to projects in selected sectors;

(c) In a more general way, the Government is relying on the Bank in the design and preparation of projects which can be replicated with their own resources; and

(d) To an increasing extent the Government expects the Bank to play a catalytic role in attracting or mobilizing other sources of capital, particularly for major projects.

18. These considerations are important objectives from the point of view of the Bank as well, particularly since they are designed to improve the country's absorptive capacity. However, there are additional overall economic and sector policy objectives which in the context of Nigeria's current economic situation are of equal significance to us. The country is clearly at a crossroad, and much will depend on the extent to which Government policies will address themselves to the fundamental issues and problems which have emerged. This will be by no means easy in a society which has become adjusted to continuing oil surpluses. The need for far-reaching policy adjustments is not without political risks, particularly now that the country is on the way to returning to civilian rule, but they are imperative to assure sustained economic growth.

19. The Government, in trying to deal with the major problems it is facing, has taken some ad-hoc measures in certain areas, notably in curbing expenditures, but has not formulated or articulated any overall policy proposals. It has, however, expressed its willingness to discuss the major policy issues with us.

20. In these circumstances, we consider that the main objective of increased Bank lending is to induce policy changes both at the macroeconomic and sectoral levels through an intensified economic dialogue with Nigeria, and to assist the Government in policy formulation through an expanded economic work program. In order for the Bank to have any appreciable impact this will require, in the first instance, a substantially larger Bank involvement than in the past. It is of course possible that we may find the Government unresponsive to the need for policy changes, in which case the Bank will have to reconsider its position. Moving to a higher level of Bank lending clearly implies the inclusion of sectors other than agriculture and rural development in the program. The selection of the sectors and projects in the proposed lending program has been closely linked with the overall policy objectives to be achieved.

Bank Lending Strategy

21. A Bank lending strategy has been defined in only very broad terms. It is designed to support Government policies at the macrolevel to reverse some of the imbalances in the economy, and to restore appropriate incentives for agricultural and industrial development. Among the principal objectives are:

(a) To induce Government to adopt policies in respect of public expenditure controls and a review of public sector investment priorities;

(b) To encourage Government to eliminate some of the anomalies in its pricing, tariff and subsidy policies, including in particular, an upward revision in interest rates;

(c) To work with Government towards the introduction of appropriate incentive policies and the formulation of a rational long-term domestic and external borrowing strategy; and

(d) To assist Government in the formulation and implementation of more effective policies and programs directed at reducing the size of Nigeria's urban and rural poverty problem.

22. In addition to this overall strategy, we have broadly defined sectoral objectives which would justify Bank involvement. In examining the objectives and criteria for Bank lending in each sector we have selected those where we expect to make a major contribution, and have dropped others where we feel our involvement can achieve little or nothing at this stage.

23. An important element in our lending strategy is the definition of minimum sectoral policy conditions on which we would agree with Government at the earliest stage of any lending operation. This approach will permit both the Bank and the Government to reach a common understanding in respect of the basic requirements for Bank involvement in any particular sector.

III. SECTOR LENDING OBJECTIVES

A. Agriculture 1/

24. The importance of agriculture and rural development to the future growth prospects of Nigeria is obvious, given Nigeria's resources and excellent market potential for both food and cash crops.

25. The Federal Government has pursued the policy of investing its current oil revenues, a wasting asset, in order to expand and to diversify the economy in which agriculture is the dominant sector.

26. Its commitment to increased food production and in turn a reduction in food imports is reflected in its National Accelerated Food Production Program (NAFPP), which essentially seeks to integrate various components including

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1/ See Appendix I

agricultural research, extension services, input delivery systems and markets which are considered essential for the future development of the agriculture sector.

27. The Federal Government's long-term strategy in agriculture aims at efficient and expanded development of the sector, thereby helping to curb the existing population drift to urban centers and also to revive Nigeria's role as an exporter of agricultural products.

28. The main short-term development constraints in the sector are the lack of effective support services, inadequate feeder roads and poor input delivery systems. In addition, there is also a need to adopt and introduce modern farming techniques and sound economic and financial systems appropriate to the socio-ecological conditions of Nigeria. Furthermore, the expansion of employment opportunities elsewhere has indirectly raised the cost of farm labor through the constant migration from rural areas.

29. Institutional deficiencies at both Federal and State levels resulting from technical and managerial shortages are adversely affecting the planning and execution of programs and projects in the sector -- a situation which was recently exacerbated by the creation of seven new additional States.

30. The basic objective of Bank involvement in agriculture has been to assist in increasing agricultural production and rural incomes through improved support service and better farm management techniques and training.

31. Future Bank assistance would continue to pursue these objectives but additionally would focus increasingly on:

(a) Assisting the Federal Government in improving its capability in preparing, appraising and implementing rural development projects including programs for agricultural research and manpower training;

(b) Supporting the Federal Government's effort to decentralize development by strengthening agricultural extension services and institutions at the State and Local Government levels;

(c) Strengthening the ability of the Federal Ministry of Agriculture and Rural Development (FMARD) to plan, program and control the development of the agricultural sector as a whole; and

(d) Encouraging the involvement of Federal agencies such as the Nigerian Agricultural Bank (NAB) and the Marketing Boards at local levels.

32. Clearly, these objectives could only be achieved over the long run and whilst the focus to date has been aimed at meeting the more urgent short-term objectives, it is nevertheless proposed to engage the Federal Government in a comprehensive dialogue on the Bank's long-term objectives within the

context of an agricultural sector mission scheduled for the summer of 1978. Of particular importance in this respect is to reach a concensus with the Government on the need to rationalize policies on pricing, interest rates and subsidy policies.

33. The proposed lending program in agriculture over the next five years (1978-82) will consist of 13 projects amounting to US$335 million.

B. Power

34. The development of a comprehensive electricity supply network is one of the top priorities under the Third Development Plan. To this end, the Nigerian Electric Power Authority (NEPA) has formulated an ambitious ten-year 1976/77-1985/86, power expansion program. This program basically consists of the installation of about 4,000 MW of new generating capacity, an extensive transmission system and a distribution expansion which would extend power supply to the entire Nigerian territory. The total investment requirement for this ten-year program at today's prices is estimated at about US$7 billion.

35. Electrical power consumption, although low by West African standards, has grown at an annual rate of 18% for the past five years and is expected to grow at an even higher rate over the next decade. One of the major reasons for this high expectation is the anticipated consumption of large industrial projects.

36. The execution of this current plan will probably be affected by a number of factors. Three major issues can easily be identified: financial policy and internal resource generation, institutional deficiencies, and planning and management constraints. As is the case in most developing countries, the weakest aspect of the power development plan in Nigeria is distribution planning and operations.

37. Bank participation in the power distribution aspects of the ten-year plan could help achieve a number of objectives:

(a) Improve NEPA's planning methods for distribution development in order to reduce costs and delays in its execution;

(b) Execute a study on Nigerian energy resources which, among other things, would in turn be instrumental in the proper planning of power generation sub-sector in future stages;

(c) Increase electric service coverage to the urban and rural poor;

(d) Execute a study on the medium- and long-term marginal cost of electricity, which should serve as a basis for establishing tariff and pricing policies. This study and the power supply and demand balance forecast will permit the Government to take decisions on exporting power to neighboring countries (Benin, Togo, Niger); and

(e) Promote engineering designs of distribution project components to reduce cost and encourage local manufacture.

38. Both the Government and NEPA are interested in a continued association of the Bank with the power sector. There is also evidence that the Government is changing its position on tariff policies. To tackle the major issues is obviously a longer-term proposition and will require a substantial involvement by the Bank for some years to come involving several successive loans. We envisage a Bank loan of about $100 million in FY 1980, and a second operation, not necessarily confined to distribution, in FY 1982.

C. Industry

39. Industrial development in Nigeria is of significant importance for sustained long-term growth of the economy, both in terms of its contribution to GDP and employment generation. The latter is of particular relevance for absorbing ever-increasing off-farm unemployment. Bank involvement in the industrial sector could play an important role in supporting Government efforts in promoting medium and small indigenous enterprises as well as a few large projects in selected areas. Such assistance would also meet the objective of assuring a more balanced development of the sector.

Finance Companies

40. Among the potential lending possibilities for the Bank, the NIDB 1/ perhaps later the NBCI, 2/ rank fairly high. Both institutions will most likely have substantial borrowing requirements over the next five years, and in their case the Government is likely to encourage borrowing abroad. As far as the NIDB is concerned, there is the advantage of a previous association with the Bank and familiarity with Bank procedures and conditions. This would allow the Bank to increase lending outside agriculture fairly rapidly.

41. Even though the Bank was instrumental in setting up NIDB and has made two loans (apart from equity participation by IFC), there is room for further institution-building, particularly in the areas of financial control, programming and loan recovery. In addition, NIDB is in the process of widening its scope of operations, including setting up branches in some State capitals. While the major objectives of the Bank in respect of NIDB and NBCI would be to bring about improvements in these and possibly other areas, it would also afford the Bank a balanced approach in support of industrial development in Nigeria. Following a recent Government reorganization of Nigeria's financial system, NIDB is now lending exclusively for public sector industrial investment, while NBCI is primarily engaged in financing investment in medium and small enterprises in industry and commerce.

42. While we have not yet identified any specific sectoral issues, we expect some to emerge from studies already underway and from additional sector and sub-sector reviews which we intend to undertake. A broader issue is the interest rate structure over which NIDB and NBCI have no direct control. However, progress in this area as borrowing requirements increase and surplus liquidity diminishes, is part of the Bank's overall objectives and as such must be linked to Bank lending in general. Involvement with NIDB and NBCI may provide us with more leverage.

1/ NIDB - Nigerian Industrial Development Bank
2/ NBCI - Nigerian Bank for Commerce and Industry

43. The lending program envisages three loans in the DFC sector; two to NIDB and one for NBCI totalling US$150 million over the five-year period.

Major Industrial Projects

44. The Government Development Program places heavy emphasis on the need to create an industrial base that can contribute to self-sustaining growth with less reliance on oil. The large-scale industrial projects in the program include an iron and steel complex, downstream diversification of the petroleum industry, additional cement plants, agro-industries, expanded fertilizer production and LNG projects.

45. The Government has expressed interest in Bank participation in the iron and steel plant, LNG project and a fertilizer plant. In the case of the iron and steel plant, major contracts have already been awarded to suppliers in conditions which most likely preclude Bank participation. The LNG project is sponsored by several major oil companies which should be able to secure private sources of finance.

46. The fertilizer project, on the other hand, might constitute a case for Bank lending because of its direct linkage with agriculture. Fertilizer is a major input in the agricultural sector as a whole, and particularly in the projects which the Bank has been and will be supporting in the future. Pricing (including subsidies) as well as distribution and marketing have been identified as major issues. Involvement in the financing of a fertilizer project would thus provide the Bank with the additional opportunity of assisting in policy improvement, in addition to our major involvement in agriculture to resolve the pricing and distribution problems. A firm Government commitment to that effect, however, would be an essential prerequisite for Bank participation.

47. Discussions with the Government to be initiated shortly should determine whether there is common ground for a firm Bank involvement. If this is indeed the case, we propose that the Bank finance a major part of the project costs which are currently estimated at around US$500 million. We have earmarked a US$100 million loan for FY 1980 for this purpose.

D. Transport Sector

48. Past involvement of the Bank in the transport sector was significant and covered highways, railway rehabilitation and port development. The extent of future Bank assistance to the sector is at present uncertain. From a general point of view there is little doubt that there is a *prima facie* case for Bank support for Nigeria's transport infrastructure because of its importance for Nigeria's economic development, its relationship with other sectors in which the Bank is interested and the role we could play in bringing about needed institutional and financial improvements as well as more rational investment decisions.

49. The Government has so far not expressed any specific interest for Bank assistance in the transportation sector. Regarding development and improvement of highways there have been disagreements between the Bank and the

Nigerian authorities in the past over economic criteria and highway design standards. As a result, and because of its high liquidity, the Government had placed a premium on speed and even over-designing and opted for direct contracting, and has financed its massive investment program in this area with its own resources. Any Bank involvement would clearly require a change in Government attitude and acceptance of Bank criteria, policies and procedures for highway projects. While there may be some indication that the Government will change its approach, we are not sufficiently sanguine at this time to provide for any lending for major highway construction in the program.

50. However, there are two areas which we propose to pursue with the Nigerians. The first is directly linked with Bank-supported agricultural development in the North. The expansion of these projects contemplated for their second stage will require new roads varying in standard from simple feeder roads to fully constructed paved roads which will form part of the secondary road network. These development roads are obviously of high priority and, on the assumption that Government endorses our proposals, we have made provision for a first US$30 million Bank loan in FY 1980.

51. The second area concerns road maintenance. The objective would be to provide capital and technical assistance in a limited number of selected States to build up effective road maintenance organizations at State and local levels. We expect the Nigerians to be responsive to the need for support in this field and envisage a first project in FY 1980.

52. The Nigerian railways pose a special problem. In spite of its declining role in past years in relation to road transport, the railways could have a viable future and successfully compete with road transport given Nigeria's growth potential, but this would require a fundamental financial, operational and technical rehabilitation of the entity. The railways are virtually financially bankrupt and depend on huge Government subsidies to cover operating losses. The weaknesses in organization, management and operations are such that it would require disproportionate staff and financial inputs by the Bank which in relation to the risks involved in achieving even modest progress do not, in our view, warrant Bank involvement for the time being. The railways have received substantial technical assistance from other sources and the obstacles (largely political) which have prevented its effective utilization are not readily amenable to Bank action.

53. Ports are of strategic importance for Nigeria's development to combat serious congestions at all major ports since the oil boom. The Government has embarked on extensive port expansion schemes, many of which are nearing completion, while more are at the planning stage. Our past involvement in port development has not been overly successful in terms of the principal financial and institutional objectives we had hoped to achieve, in part because of the civil war and the subsequent change in traffic conditions which followed the oil boom. The question therefore is whether through future assistance we can expect to achieve more satisfactory results. The major issues to be resolved are clear: improvement of the serious financial situation of the ports through realistic and cost related tariffs and charges, and in financial control; strengthening of management, administration and operations; establishment of a proper planning capacity in respect of future development; and training at all levels. Since these objectives can only gradually be achieved, the Bank would have to aim at a longer-term association with the ports. Two future

expansion schemes in Lagos and Port Harcourt might be potentially suitable projects for Bank assistance provided we can reach firm agreements with Government on key lending criteria. On this assumption, we have tentatively included a loan of US$80 million for port development in FY 1980.

E. Water Supply

54. The Government places highest priority on water supply expansion as reflected in the development program which provides for substantial investments in new and expansion of existing schemes in both urban and rural areas.

55. Water supply development in Nigeria is a State Government responsibility but the Federal Government is meeting 50% of the total costs of projects.

56. Most State institutions have serious deficiencies in management, organization, technical expertise, staffing and finances. One of the reasons for the latter is that water charges are extremely low reflecting that, in Nigeria as in many countries, water supply is regarded as a social service.

57. The Bank has so far not lent for water supply in Nigeria, although involvement in the sector has been envisaged for some time. Substantial preparatory work was undertaken and two urban water supply projects were in fact appraised in 1974 and 1975 (Western State and Kaduna). Neither project materialized for Bank lending. In the first case the Government is financing the project with its own resources, and the implementation of the second project has been delayed due to revised project scope and concept. Institution-building, training and improved financial management remain the major objectives for Bank assistance, but no overall sector strategy has so far been developed. Assistance for rural water supply to which the Government attaches high priority would be subject to a reconciliation of Government policies with current Bank policy, notably in the area of cost recovery. While there may be a case for subsidization of water supply in the rural areas in the Nigerian context of redistributing oil resources, cost recovery is a major issue which would need to be resolved. We will pursue this and other related issues with Government in an effort to reach an early understanding.

58. In terms of lending options, we have therefore assigned initial priority to urban projects in a few selected States which have expressed interest in Bank assistance and where we can expect responsive attitudes towards needed institutional and financial improvements. In each case we can expect only gradual progress toward these objectives, and we would therefore have to aim at a longer-term involvement.

59. Accordingly, we have made provisions for three urban projects in FY 1979 and FY 1982, and for a possible project in support of rural water supply in FY 1981.

F. Housing and Urban Development

60. Although Nigeria's housing and urban problems have not been comprehensively reviewed by the Bank, there is enough information to conclude that serious problems exist. Rapid urban growth has resulted in overcrowding,

congestion, lack of essential services and high rents, resulting in slum and squatter settlements in practically all of the major urban centers in Nigeria.

61. Recognizing the increasing seriousness of the situation, the Government has formulated an ambitious program aimed at sharply increasing housing construction especially for low-income groups. The program entails direct construction by both Federal and State governments as well as expansion of credit facilities to enhance private housing construction.

62. Among the major issues concerning urban development are:

(a) The lack of qualified personnel at both the Federal and State levels;

(b) The excessive reliance on high-cost imported building materials and the corresponding need to develop appropriate technology;

(c) The need to address employment generation schemes in upgraded areas; and

(d) The lack of attention to infrastructure facilities and community services.

63. The main Bank objective in the sector would be to follow an approach which has been successful in rural development in assisting the Government's program by developing demonstration (or seed) projects for sites and services, slum upgrading and related improvements in selected urban centers or State capitals which would then be replicated in other cities.

64. The Government has expressed interest in Bank assistance and we envisage a substantial Bank involvement in this sector over the next years, embracing a series of operations. An identification-cum-preparation mission is scheduled to visit Nigeria in the near future and a first lending operation is envisaged to materialize in FY 1980.

G. Education

65. The Bank's strategy in the education sector has been to assist, through three projects, in the diversification of the secondary school curriculum, in the training of teachers, in the expansion of technical and vocational training and in redressing imbalances in the regional access to education. This strategy remains basically valid but would need to be modified to place greater emphasis on professional and vocational training including public administration. This might include establishing basic institutions for the administration, management and planning of education. Some State governments have expressed a strong interest in Bank assistance for new projects and we propose to initiate a dialogue with the Government with a view to identifying suitable projects in the area of professional and vocational training. It is possible, therefore, that an education or training project could be included in the lending program in later years. However, given past experience, any such project would be limited in scope and confined to selected States.

IV. PROPOSED LENDING PROGRAM

66. The lending program we are proposing for the next five years would amount to US$1.2 billion as detailed in the attached table.1/ Gross disbursements would increase from a current level of about US$50 million to around US$125 million by 1981.

67. There is a fairly strong case, we believe, for a further substantial increase in Bank lending to Nigeria, say to US$1.5 billion over the period. However, because of the lead time necessary to prepare projects and the notoriously slow pace of the Nigerian administration, we have kept our expected level of commitments to US$1.2 billion, which we think is feasible. However, to achieve this commitment level we will have to work on a substantially higher operations program because of the exceedingly high slippage factor in Nigeria, which will undoubtedly be exacerbated by the country's return to civilian rule.

68. The lending program as presented in this paper is necessarily tentative, and the individual amounts of the various loans merely indicative at this stage, for obvious reasons. In the first instance, our present knowledge of sectors other than agriculture and power and to a somewhat lesser extent NIDB, is not such as would permit us to establish clear-cut lending possibilities. These can be firmed up only after extensive work in practically all major sectors. The omission of certain sectors from the program, such as education, moreover, does not imply that we do not see a role for the Bank, albeit at some later stage.

69. Secondly, we do not know what reactions we can expect from the Nigerian Government in response to the proposed program, and more importantly, to the overall economic and sector policy issues on which we want the Government to take action as part of our lending strategy. This will have to be established in the forthcoming discussions with the Nigerians.

70. For the time being we have assumed that Bank financing should be confined to covering the foreign exchange cost of projects. However, we may have to review this position should it become clear that a higher Bank contribution is warranted.

V. STAFFING

71. Obviously to more than double our current level of commitments to US$1.2 billion for the five-year period FY1978-82 will require a very high staff input on our part. In presenting our FY78 budget request we had warned that it was based on our present low level of involvement, exclusively in the agriculture sector. If Senior Management agrees to our approach as presented above, and if we can reach a preliminary understanding with the Nigerians during the Annual Meetings on the proposed lending program, we would have to develop at once detailed work papers and related staffing needs. We would also review our present operational set up, i.e., field versus Headquarters staff.

1/ See Appendix II

72. At present the Lagos Resident Mission consists of the Chief of Mission, one economist and two agricultural experts (one agronomist and one financial analyst). The loan officer position in the field has been vacant since June 1976. At Headquarters we have one country economist, one liaison officer and one operations assistant. This is clearly inadequate to handle the envisaged expanded program. However, we shall not be in a position to outline detailed staffing requirements until we have a clear agreement on the scope and direction of our future activities. In the meantime we would propose to re-arrange our own forces at Headquarters on the Programs side on an interim basis to lay the ground for a future expansion. In that respect we would designate a team leader at Headquarters and transfer back to Headquarters the field loan officer position and redefine the responsibility of one field staff to give badly needed support to the Chief of Mission. There would be no immediate budget implications to these moves.

73. Given lead times for hiring competent staff, we envisage that we would, however, need advance authority for recruiting during FY78; we have in mind one additional loan officer, one additional sector-oriented economist on the Programs side and two experts on the Projects side. These additional positions would be defined as soon as we have firmed up our program with the Nigerians and would be integrated into our FY79 budget submission.

Attachments - 2

WACPI
9-19-77

VISIT TO INTERNATIONAL INSTITUTE FOR TROPICAL AGRICULTURE (IITA)

IBADAN

0900 - 0930

Briefing on IITA program giving emphasis to those areas of activity where the research product is being rapidly transmitted to the small farmers. The four main programs comprise:

Cereal Improvement Program (C.I.P.)
*Farming Systems Program (F.S.P.)
*Tuber and Roots Improvement Program (T.R.I.P.)
Grain and Legume Improvement Program (G.L.I.P.)

*These two programs will be described in some detail

0930 - 1100

Field Trip

The field trip will comprise a tour of the research station concentrating in the main on the Farming Systems Program and the Tuber and Root Program

Farming Systems Program

(1) Emphasis will be given to the minimum tillage techniques being developed to establish continuous cultivation in place of the traditional shifting cultivation combined with a period under bush fallow

(2) Tour of the model being developed for small-holdings aimed at maximizing land use and computing inputs/returns at different levels of technology

Tuber and Root Improvement Program

Will be given an overview of the program where benefits are rapidly being transferred to small farmers in Zaire, Nigeria and other West African countries

INTERNATIONAL INSTITUTE OF TROPICAL AGRICULTURE

BIOGRAPHICAL DATA OF PRINCIPAL OFFICIALS

WILLIAM K. GAMBLE
Director General

Dr. Gamble is an American, he holds a Ph.D. degree in agriculture from Cornell University. He has more than 20 years experience in international agriculture. He joined the Ford Foundation in 1955 as program specialist in agriculture for Burma, and served in a similar capacity in South and Southeast Asia. Later he became Ford Foundation Representative for Mexico and Central America, Colombia and Venezuela, and finally Representative for West Africa, headquartered in Lagos where he remained until his appointment as the third Director General of IITA in September 1975.

Dr. Gamble is married and has three children.

DR. IVAN WILLIAM BUDDENHAGEN
Assistant Director and Program Leader
Cereal Improvement Program

Dr. Buddenhagen is American and Plant Pathologist by training, having taken his Ph.D. in Plant Pathology, Breeding and Genetics in 1957 from Oregon State University. He was a Fulbright Scholar in the Netherlands in 1954-55. He has had experience with the United Food Company in Costa Rica, and Honduras and has done considerable plant pathological work in Pakistan, Philippines and India. He joined IITA in 1975 and has been program leader for CIP since then. This program deals principally with maize and rice.

Dr. Buddenhagen is married with children.

DR. JOHN COLMAN FLINN
Assistant Director and Program Leader
Farming Systems Program

Dr. Flinn is Australian and was educated at Melbourne University and at the University of New England, Australia, where he obtained his Ph.D. in 1968. He was in 1969 Associate Professor for Agricultural Economics in the University of Guelph. He was, also, a Teaching Fellow and a Temporary Lecturer at the Agricultural Economics Department of the University of New England. He had some experience as an Agronomist in Tasmania Department of Agriculture. He joined IITA in 1973 as Agricultural Economist in the Farming Systems Program. He stood in for the Director for Research for a few months and on 1st April, 1977, he became Program Leader and Assistant Director for the Farming Systems Program.

The Farming Systems Program conducts research into finding an alternative to shifting cultivation which is a normal feature of peasant agriculture in the tropics. It, therefore, focuses attention on soil physics, soil fertility, soil erosion and continuous cropping without any significant reduction in yield. The program also pays attention to tillage problems (mainly zero tillage) and the design and fabrication of farm tools which the village blacksmith can maintain or repair.

Dr. Flinn is married with children.

DR. SANG KI HAHN
Assistant Director and Program Leader
Root and Tuber Improvement Program

Dr. Hahn is Korean and took his B.S. and M.S. degrees in Korea and his Ph.D. at the University of Minnesota. He has been in the field of plant breeding and genetics all his life. He joined IITA in 1971 and has been plant breeder and program leader and assistant director in charge Root and Tuber Improvement Program. This program focuses attention on the research and production problem of cassava, yams, sweet pototoes and cocoyam (colocasia spp.). Dr. Hahn and his team have succeeded in producing resistant varieties of cassava to cassava mosaic and cassava bacterial blight diseases. This program has by far made the greatest impact on farmers in areas where cassava is very important. The program has, also, succeeded in the genetic improvement of yams through diversity in the number of clones available and through the use of seed rather than vegetative propagation.

DR. PETER RUSSELL GOLDSWORTHY
Assistant Director and Program Leader
Grain Legume Improvement Program

Dr. Goldsworthy is English and was educated at the University of Leeds, University of Cambridge, Imperial College of Tropical Agriculture, Trinidad, and the University of Reading where he obtained his Ph.D. in 1969.

Dr. Goldsworthy was an Agronomist in Northern Nigeria for many years before he was appointed as a Research Scientist in CIMMYT. After serving for about six years in CIMMYT, he was appointed Program Leader and Assistant Director for GLIP at IITA. His program concentrates on grain legumes like cowpeas, soya bean, lima bean, yam bean and other miscellaneous legumes.

Dr. Goldsworthy is married with children.

DR. BEDE NWOYE OKIGBO
Deputy Director General

Dr. Okigbo is Nigerian and took his Ph.D. in 1958 at Cornell University. His areas of specialization have been in Agronomy and Crop Production. Dr. Okigbo has had varied experiences in Nigerian Government Research institutions before taking up appointment with the University of Nigeria, Nsukka, where he rose to become Dean of the Faculty of Agriculture. He joined IITA in 1973 as Program Leader of the Farming Systems Program and in April 1977 he was appointed Deputy Director General of the Institute.

Dr. Okigbo is highly respected in scientific circles in Nigeria. He was for many years the Chairman of the Agricultural Research Council of Nigeria and now the Chairman of the Agricultural Research Department of the National Sciences and Technological Agency.

He is married with children.

argument: 1) they put Nigerian on (native [illegible] salaries) 2) until now for breeding [illegible] varieties [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

DR. WADE H. REEVES
Assistant Director and Program Leader
Training

Dr. Reeves is American and was educated at the University of California, Davis, where he obtained his B.Sc., M.Ed. and Ph.D. He has had considerable experience in extension education both in and outside the United States. He joined IITA in 1972 as Assistant Director and Program Leader for Training. His main work consists of organizing workshops, seminars and training courses for people brought from different parts of the world to become acquainted with the work that is being done at IITA. He, also, has some responsibility for the appointment of post-doctoral fellows and in guiding them in cooperation with the appropriate scientists through their stay at IITA.

organizational potential for [illegible] w/ IITA – Nigerian [illegible] Rural Devel – + Train proj – spec. progs. [illegible] [illegible]

Dr. Reeves is married with children.

DR. SISHTA VENKATA SEETHARAMA SHASTRY
Director for Research

Dr. Shastry is Indian and had his university education in India and the University of Wisconsin where he obtained the M.Sc. and Ph.D. in Genetics.

Dr. Shastry has had tremendous experience working with the Indian Agricultural Research Council, as well as the FAO in Rome. It was from FAO that we recruited him as Director for Research in July 1977. In this capacity, he coordinates all research activities in the various programs and gives leadership to all research scientists.

Dr. Shastry is married with children.

WORLD BANK / INTERNATIONAL FINANCE CORPORATION

Annex 1

OFFICE MEMORANDUM

TO: Mr. R. Chaufournier

DATE: June 29, 1977

FROM: Montague Yudelman

SUBJECT: Visit to Northern Nigeria

1. I joined a supervision mission visiting the Funtua and Gombe agricultural development projects from June 12 to 21. I also visited the IAR at Zaria. The mission was headed by Mr. Zuckerman who was supported by Mr. B. Wilson of your staff and two consultants, Mr. H. Adams (Irrigation) and Mr. P. Calkin (Marketing). The mission was well and ably led and all members worked very diligently and very long hours. They will be writing their own report on detailed aspects of the project.

2. I was given every opportunity to visit a wide spectrum of persons in the project area. I met traditional leaders, emirs and chiefs as well as government officials. I attended meetings of various bodies concerned with the projects, ranging from the Project Executive Committees to local committees dealing with managing farm service centers. I met many farmers and had the opportunity for lengthy discussions with the project staff. I also travelled extensively throughout the project areas.

3. Any remarks have to be tentative. The projects have been operating for less than two years. The areas concerned are large and there is a very complex relationship between the state authorities and the traditional leaders. In addition the recent reorganization of Nigeria into 16 states, the changing Federal-State relationship and an apparent vacuum at the local government level make it difficult to assess the institional framework in which these projects must operate. Despite this though there are a series of general observations that can be made with a degree of confidence - some of these bear on the future of these projects.

4. The first and most significant observation is that the projects are demonstrating that the "conventional wisdom" for agricultural development works. This "wisdom" is that good infrastructure, (1) a suitable technological package, (2) good distribution facilities, (3) adequate advisory and marketing services and a (4) favorable cost-price ratio are essential for an increase in output. The projects provide the needed ingredients: roads, extension services, distribution centers, markets and a package for corn and cotton and a very favorable profit - there is a 75% subsidy on fertilizers and prices of output are above world levels. In addition there is active support from government and traditional leaders. The projects also have very capable and energetic management with all the accoutremont to do the job - vehicles, skills, radio communications, funds, etc; in addition management have considerable authority within "their" project areas - and so are not encumbered by delays due to bureaucratic procedures.

5. A factor facilitating the project is that it is built on the first hand experience of some Bank staff members. Several senior staff members were in the service of the previous (colonial) administration. They know the region, the ago-climatic environment and the potential there. There was also a legacy of pilot projects and crop testing programs, some of which were run by current staff members in the Bank. In other words there is an element of sunken investment that is yielding unexpected dividends.

6. There is no doubt whatever that the project is well received. Governors, emirs, chiefs and farmers all praised the projects - many felt that agriculture had been "neglected" before the projects were introduced, and the projects were indicative of changed attitudes by the government. Speakers from outside the project area came to meetings to request that the project benefits be extended to their people. Whatever complaints were heard related to details about tractor services, adequacy of supplies, timing of distribution of inputs etc. While each project varies somewhat in design, there does seem to be a moderate degree of producers participation in the projects at the local level. However, since the projects are in a quasi-feudal area, most signals are given by the traditional leaders and their cohorts. To expect otherwise - at this stage - would be somewhat unrealistic, so that while there is 'popular' support this is not necessarily the same as participation in management. (This may be a major problem in the long run).

7. There are some issues for concern. The first of these relates to the goals of the project. If the object is to increase yields, then this goal is not only attainable but appraisal estimates may well be exceeded (with the weather being a factor). However, it is conceivable that the short term object can be achieved without attaining longer term objectives partly because these have yet to be fully articulated. The projects could well "close down" after five years having achieved yield increases but, thereafter, there might be a minimal impact, without any sustained increase in output. This would arise if the projects are not 'institutionalized', are not part of a larger strategy and do not involve greater farmer participation. (It is not fanciful to assume that 'successful' projects can disappear without leaving a trace vide AID experience with servicios in Latin America).

8. I would suggest that the projects must be incorporated into a coherent strategy for the agricultural development of Northern Nigeria. They can be part of a broader based effort that would include functional programs as well as area programs. This would involve strengthening research, extension, credit, marketing and storage on a state wide basis. I would recommend a sector mission be organized with the purpose of articulating a strategy and the way in which existing projects can be part of the process of agricultural development. To this end such a mission might start by examining Bank experience in Malawi where such an approach is being followed. Once such a strategy has been evolved then it will be possible to "fit in" the other functional components. The sector mission should also pay special attention to a strategy in a situation where labor costs are rising rapidly and where there is a growing food deficit i.e. where there are plenty of alternative employment opportunities.

9. I would also like to comment on the following:

a) Managerial manpower. It must be accepted that there is an absolute shortage of trained Nigerians in the North. Management talent is scarce and so are agricultural skills - demand far outruns supply in a booming economy. Nothing is to be gained by shuffling people around; expatriates will be needed for the foreseeable future. The Bank should face up to this fact, and recognise that it has no option in the short run but to use expatriates. Arrangements should be made to ensure an adequate supply of managers through an aggressive recruiting program and the strengthening of APMU.

At the same time there has to be a greater "training" effort. Projects should incorporate fellowship opportunities; there should also be a program whereby the project is used to train all levels of personnel for future programs. This has yet to be done.

b) Institutional evolution. A fundamental problem is one of broadening the base of the projects so as to widen their coverage, and to "leave something behind". It is conceivable that the projects could have a considerable short term input without any lasting impact unless they are embedded in the government framework. I have said the best way this can be done is by shifting away from an area emphasis to a functional approach based on state level institutions, i.e. strengthen state services or set up semi-autonomous state agencies to operate certain services (e.g. State Development Corporation to handle distribution of inputs). Over time the state agencies could be grouped together as part of a national effort. This should be seen as part of a long term program for agricultural development.

c) The projects themselves should strive for a balanced approach to agricultural development. There is a special sector to deal with large farmers - there should be a sector to examine, advise on and implement schemes to help small farmers.

d) There must be some adjustments for cost recovery. This is a very delicate area and one which will involve a dialogue with the Federal Government. As it is the people living in the project areas are priviliged (and pay nothing for it); some very rich people are undoubtedly getting much richer. Cost recovery also involves paying for maintenance.

e) There is a danger that the project management - by virtue of its strength in a weak administrative set up - will become overloaded. It should resist the temptation to take on too many functions unless these are to help test approaches that fit into an overall strategy.

f) There is an urgent need for the development of new varieties of traditional crops. There must be a regional research effort to support the projects especially in relation to millets and other subsistence crops. This issue will become acute when the current knowledge has been disseminated.

Special mention should be made of the work of the monitoring and evaluation unit at one of the projects (Gombe). I believe it can serve as a model for others.

cc: Messrs. Baum
Van Gigch
Zuckerman

MYudelman:lkt

NIGERIA

FUNTUA AGRICULTURAL DEVELOPMENT PROJECT

Loan 1092-UNI $19.0 million

Approved:	December 1974
Signed:	March 1975
Effective:	January 1976
Closing Date:	July 1982
Disbursement as of Sept. 30, 1977:	$14.3 million (95% of appraisal estimate)
Total Project Cost at Appraisal:	$57.6 million
Appraisal estimate of internal rate of return:	41%

Project Description

- On farm development on 86,000 family farms (450,000 people)
- Staffing and equipping an extension service
- Staff and farmer training
- Provision of farm inputs
- Seasonal and medium-terms loans for farm inputs
- Development of seed multiplication farms and registered seed growers
- Infrastructural development including administrative center, staff housing, training center, and farm service centers
- Marketing services
- Construction of 700 kms of all weather surfaced feeder roads
- Construction of 60 earth dams
- Establishment of a central Monitoring and Evaluation Unit to co-ordinate the field evaluation units of the five agricultural development projects (Funtua, Gusau, Gombe, Ayangba, and Lafia).

Project Area

The project is centered around Funtua in Kaduna State, covering an area of 7,500 sq. km, supporting a total population of 490,000 people. Pertinent data are as follows:-

Rural Population	:	450,000
Number of farm families	:	86,000
Average family size	:	5.3
Value of Gross Production per capita	:	$240 (1976 prices)

Land Ownership

	Average holding (ha)	% of Total
Small farmers	3.5	90
Mixed (i.e. with work oxen)	11.7	7
Large	?	3

Project Progress

The project, operational since April 1975, is making excellent progress despite the rather difficult circumstances prevailing in Nigeria. Farmer response has been very enthusiastic. By the second season of the project, 29 per cent of project area farmers are estimated to use one or more of project supplied inputs and 16 per cent received some extension advice. Eighty one per cent of farmers receiving extension advice used project inputs. Fertilizer usage, a key input, is estimated to have increased from 1,000 tons/annum before the project to 16,500 tons/annum by the third year of the project (see Table of Key Indicators attached).

The infrastructural program has proceeded on schedule due to energetic senior management using local contractors. In a period of high internal inflation, no cost overruns over the five-year development period for the project as originally conceived are expected.

Senior management has been of the highest quality, being principally recruited internationally due to the dearth of senior Nigerians; the reluctance of the State to second their own staff who are in short supply; and the State's unwillingness to hire Nigerians from other States in the Federation. Lately a senior training officer has been added to the project staff to bolster in-house training efforts.

State support for the project has been considerable while the Federal Government's attitude has been one of apathy until recently when the project has begun to receive considerable attention both inside and from outside the country. However, both State and Federal financing has been haphazard and deficient and continues to put the success of the project at risk.

Other areas of the State are pressing for an extension of the geographic coverage of the project and the State Government is anxious to meet this request. The technical, organizational, manpower and financial implications are being considered in the course of the preparation of a second stage project which will be submitted to the Bank for financing.

Central Monitoring and Evaluation Unit

This unit has been established as a department of the Federal Department of Rural Development and functions as the Federal Government's link to the State Development Projects. The unit provides operational support to the projects in general communications, agronomy, training, planning, and economic monitoring and evaluation. Under the overall guidance of the unit the projects undertake field trials, manpower development and socio-economic studies. These studies have included a listing exercise of villages and hamlets; a base line survey of 6% of the population to establish basic cropping patterns, family composition, land holdings and an inventory of farm input use and rural infrastructure; and a detailed farm management study to measure production, expenditure and incomes of 0.6% of the population. Ad-hoc studies as an immediate aid to project management have been undertaken on the potential demand for fertilizer, traffic counts, market price information, impact of new feeder roads, group farming, water resources and consumption, farmers' and extension agents' agricultural knowledge, and a survey of the use of credit.

NIGERIA

GOMBE AGRICULTURAL DEVELOPMENT PROJECT

Loan 1164-UNI $21.0 million

Approved:	December 1974
Signed:	September 1975
Effective:	December 1976
Closing Date:	July 1982
Disbursement as of Sept. 30, 1977:	$6.9 million (63% of appraisal estimate)
Total Project Cost at Appraisal:	$42.1 million
Appraisal estimate of internal rate of return:	17%

Project Description

- On farm development on 58,000 family farms (310,000 people)
- Staffing and equipping an extension service
- Staff and farmer training
- Provision of farm inputs
- Seasonal and medium-terms loans for farm inputs
- Development of seed multiplication farms and registered seed growers
- Infrastructural development including administrative center, staff housing, training center, and farm service centers
- Marketing services
- Construction of 700 kms of all weather surfaced feeder roads
- Construction of 60 earth dams
- Establishment of a project evaluation unit.

Project Area

The project is centered around Gombe in Bauchi State, covering an area of 6,450 sq. km. supporting a total population of 380,000 people. Pertinent data are as follows:-

Total Population	:	380,000
Rural Population	:	310,000
Number of farm families	:	57,700
Average family size	:	5.4
Average number of children per family	:	2.6

Project Progress

The project, operational since September 1975, is making good progress despite the rather difficult circumstances prevailing in Nigeria. Farmer response has been very favorable. Fertilizer usage, a key input, is expected to increase from 500 tons/annum before the project to 7,000 tons/annum by the second year of the project (see Table of Key Indicators attached). Further improvement can be expected as the project develops an area in which surveys show that over 90% of farmers have never before received extension advice.

The project has been instrumental in controlling the irregularities of the local cotton markets which has met an enthusiastic response from project area farmers. The feeder road program is also very well received opening up communications in the project area significantly. The infrastructural program, as a whole, has proceeded on schedule due to energetic project management using local contractors. In a period of high internal inflation, and despite delays in project start-up due to staffing problems, total costs of the project as originally conceived, are not expected to be more than 12 per cent higher than appraisal estimates.

Senior management has been of the highest quality, being principally recruited internationally due to the dearth of senior Nigerians; the reluctance of Bauchi State to second their own staff who are in critically short supply and the State's unwillingness to hire Nigerians from other States in the Federation. Staff shortages at all levels are critical and hampering project activities. (Eighty per cent of the extension staff have not graduated from Grade 10 level schooling). A Senior training officer is being added to project staff to bolster in-house training activities and assist at the State level.

The State's and the Federal Government's attitude to the project has been one of apathy until recently when the project has begun to receive considerable attention both inside and from outside the country. The State are now asking that the geographical coverage of the project be extended.

NIGERIA

ONDO, OYO, OGUN AND BENDEL STATES COCOA PROJECT

Loan 1045-UNI $20 million

Approved:	June 1974
Signed:	October 1974
Effective:	October 1975
Closing Date:	September 1981
Disbursements:	nil

Project Description

1. Second phase of an integrated cocoa development project following the successful replanting of 17,000 hectares of cocoa under Loan 764-UNI (closing date March 31st, 1977). The project, following the division of the former Western State, is now being implemented in four States and comprises of:

- replanting 28,800 hectares of high yielding cocoa varieties, (24,800 ha in the former Western State and 4,000 ha in Bendel State);
- training staff and farmers in new production methods;
- rehabilitating 96 ha of cocoa seed gardens; and
- rehabilitating 1,000 km of secondary and farm access roads in the former Western State, and constructing 100 km of secondary roads in Bendel State.

Project Progress

2. The project planting targets set for the areas under the former Western State was in 1976 exceeded by 3,600 ha, bringing the total project planted area to 28,400 ha (45,800 ha if phase I area is included). In Bendel State progress has been less satisfactory and only 760 ha has been planted compared to the 1,680 ha appraisal target.

3. The division of the former Western State into three new States (Oyo, Ondo and Ogun) had led to organizational, managerial, and administrative problems which have affected loan disbursements. The former single Cocoa Development Unit (CDU) responsible for implementing the project in the former Western State had to be divided into three, and considerable delay was experienced in establishing the new CDUs, the division of assets, and the related appointment of coordinating committees, Tender Boards, and senior and junior staff.

NIGERIA

BENDEL STATE OIL PALM PROJECT

Loan 1183-UNI $29.5 million

Approved:	June 1975
Signed:	December 1975
Effective:	October 14, 1977
Closing Date:	December 1984
Disbursement as of Sept. 30, 1977:	nil

Project Description

First phase of an integrated oil palm development project consisting of:

- planting 8,000 ha of smallholder oil palms;
- operation of a smallholder grant/credit scheme;
- improving 300 km of earth roads;
- staff and smallholder training;
- planting/replanting of 8,000 ha oil palm nucleus estate;
- construction and operation of 2 palm oil mills;
- establishing a fruit collection system;
- establishing a Federal Tree Crop Monitoring and Evaluation Unit;
- smallscale processing studies.

Project Progress

This is a problem project, in contrast to the Imo and Ondo State oil palm projects approved at the same time. Effectiveness took nearly two years due to land acquisition difficulties and delays in signing subsidiary loan agreements. Total oil palm estate planting targets to date have been achieved, although not in accordance with the original project design. Smallholder progress has been negligible, oil palm plantings totalled 750 ha in the first two years compared with 2,000 ha estimated at appraisal. There have been managerial, staffing and funding problems affecting both the estate and smallholder component. The management weaknesses have been componnded by the reluctance of the State Government Permanent Secretary of Agriculture to delegate to the project Tree Crop Unit (TCU), which has had little autonomy, and problems in recruiting a Director for the Federal Tree Crop Monitoring and Evaluation Unit.

During the last problem project review (April 1977), Mr. Knapp seriously questioned whether the Bank should continue to be associated with the project. Consequently Government was informed of the Bank's concern over project implementation; that the project would be reviewed after three months; and that if no significant progress had been made, the Bank would seriously consider whether further participation in the project was warranted. Lagos office staff visited the project three times in August/September 1977 and reported that although major problems remain (e.g. important staff appointment unfilled and poor technical standards) there has been a modest improvement, particularly in the completion of conditions of effectiveness. More importantly, a new Permanent Secretary of Agriculture has been appointed, which should increase State interest in the project and the chances of Government action to resolve outstanding issues and problems.

Because of these developments the project has been made effective. Revised estimated project costs, reflecting the slower than expected implementation, are expected to show a substantial increase, and although the project is expected to remain viable the 18% economic rate of return estimated at appraisal will not be achieved. Assuming the project implementation improves, the Bank would make an in-depth review of the project and the Monitoring and Evaluation Unit in early 1978 to assist and redirect the program if required.

NIGERIA

ONDO STATE OIL PALM PROJECT

Loan 1192-UNI $17.0 million

Approved:	June 1975
Signed:	September 1976
Effective:	not yet but expected
Closing Date:	December 1984
Disbursements:	nil

Project Description

1. First phase of an integrated oil palm development project consisting of:

- planting 4,000 ha of smallholder oil palm;
- planting 6,000 ha of estate oil palm;
- operation of a smallholder grant/credit scheme;
- training of staff and smallholders;
- improvement of 184 km earth roads;
- construction and operation of two oil palm mills; and
- establishing a fruit collection system.

Project Progress

2. The project got off to a slow start, but is now proceeding more satisfactorily. The planting programs have been revised and targeted planting areas are expected to be reached in 1980.

3. The project is not yet effective; terminal date has been extended to January 31, 1978. The outstanding conditions of effectiveness are:

(a) execution of subsidiary loan agreements, and submission of State and Federal legal opinions; and

(b) acquisition under a long term lease of suitable land required by the oil palm company for its planting program.

NIGERIA

IMO STATE OIL PALM PROJECT

Loan 1191-UNI $19.0 million

Approved:	June 1975
Signed:	February 1976
Effective:	April 1977
Closing date:	December 1984
Disbursement as of Sept. 30, 1977:	$0.4 million

Project Description

1. First phase of an integrated oil palm development project consisting of:

- planting 16,000 ha of smallholder oil palm holdings;
- operation of a smallholder grant/credit scheme;
- training of staff and smallholders;
- construction and improvement of 571 km earth roads;
- construction and operation of two oil palm mills; and
- establishing a fruit collection system.

Project Progress

2. Due to initial delays in project implementation the planting program has been revised. However, the project is adequately staffed and has the technical and managerial resources to achieve the full planting target by 1980, providing financial and administrative support is forthcoming from the State.

NIGERIA

LIVESTOCK PROJECT

Loan 1091-UNI $21.0 million

Approved:	December 1974
Signed:	March 1975
Effective:	July 1976
Closing Date:	July 1981
Disbursement as of Sept. 30, 1977:	$2.0 million (plus $0.8 million being processed)

Project Description

- establishing a Livestock Project Unit (LPU) in the Federal Ministry of Agriculture;
- establishing or improving seven breeding ranches;
- improving two fattening ranches;
- providing credit and technical support to 50 commercial farmers and settled Fulani to establish breeding/fattening ranches;
- providing credit and technical assistance under a pilot scheme for up to 1,500 smallholders to take up beef cattle fattening;
- establish 1,600 sq mi of grazing reserves, and improving the existing 300,000 ac Kukar Jangarai Reserve in North Central (NC) State;
- carrying out pasture improvement research; establishing a pilot pasture seed production scheme; and providing training facilities for government officials, farmers and herdsmen in practical cattle and pasture management;
- establishing a pool of heavy equipment for project land development, and road and dam construction activities; and
- employing consultants to evaluate the project on a regular basis, to conduct appropriate studies, and to prepare further stages of the national beef cattle program.

Project Progress

This is a problem project. Effectiveness took more than a year due to delays in appointing staff, signing subsidiary loan agreements and establishing LPU. Physical development has been disappointingly slow due to:

Livestock
problem project

- institutional problems of establishing a Federal Project involving 8 states;

- difficulties in obtaining satisfactory working relationships between LPU and the entities involved in project implementation including Nigerian Agricultural Bank, National Livestock and Meat Authority, National Livestock Production Company and the Livestock Project Management Committee;

- delays in handing over to LPU research and training facilities;

- weak management, compounded by the employment of 7 expatriate new to African conditions, which gave rise to serious personnel problems.

Government has expressed dissatisfaction with project progress and in the last year, in agreement with the Bank, action has been taken by relocating several project staff to proposed development areas, phasing the withdrawal of the project manager and agreeing target dates for project development.

In July 1977 Government requested an in-depth review of the project and a Bank mission, now in the field, is expected to complete report-writing by mid-November 1977. The terms of reference of the review mission require them to confirm that: either the project can be restructured institutionally and managerially within the general framework of the negotiated loan; or, that full reappraisal of the project would be required.

The review mission has just completed its field review and its preliminary report is attached as Annex I.

NIGERIA

LIVESTOCK DEVELOPMENT PROJECT

LOAN 1091-UNI

Amount of Loan	:	US$21.0 million
Date of Loan Agreement	:	March 20, 1975
Closing Date	:	July 1, 1981

Disbursements as of September 16, 1977

Actual (A)	:	US$2.02 million - A/E - 20%
Latest Revised Estimate	:	Cost updating not yet carried out
Appraisal Estimate (E)	:	US$7.6 million

Supervision Mission

Latest	:	Full supervision - April 1977 Review mission - September/October 1977
Next	:	Full supervision - May 1978

The Project

1. The loan will: promote beef cattle production in Nigeria by providing credit and technical services for seven State Government breeding ranches and two fattening ranches, 50 private breeding/fattening ranches and fattening by 1,500 smallholders; to establish and improve about 5,200 square kilometers of grazing reserves; develop a program of applied research, training and pasture seed production; provision of overseas training program, and consultancy services for livestock studies and utilization of tsetse free areas.

The Problem

2. The project has made slow progress to date, only becoming operational with the arrival of the Project Manager in August 1975. Loan effectiveness did not occur until July 1976 after many delays, not untypical of other Nigerian experiences. There has been little progress in physical development of the production components of the project, due to: an ineffective

management committee; inadequate links between Federal Livestock Department (FLD) and Livestock Production Unit (LPU); an uncoordinated and inefficient LPU organization and management; no cooperation by National Livestock Meat Authority (NLMA) nor its subsidiary National Livestock Production Company (NLPC) and; an inexperienced and therefore ineffective Nigerian Agricultural Bank (NAB). In addition, budgetting procedures by LPU, FLD and FMARD have been inadequate with the result that local currency availability for project administrative and central support services is critically short. Looking ahead, the effects of inflation on project costs will require reduction in or elimination of some project components. Also, the creation of new States has had a disruptive effect on project progress.

3. Progress has been made in preparing some components notably: plans for 5 grazing reserves have been finalised; Western Livestock Company, Bornu Livestock Company and Bauchi Livestock Company have been formed, development plans prepared and, subject to NAB loan approval, are ready for development to commence and; the procedures for lending to smallholder fatteners have been agreed between NAB and LPU and implementation awaits only the availability of NAB finance.

Actions and Recommendations

4. A Bank Review Mission (Sept/Oct 1977) obtained approval in principle from the Permanent Secretary FMARD and from FLD to its recommendations. These are:

a) Organization The organization of LPU will be simplified to permit greater autonomy to the Project Manager in the execution of the project. The LPMC will cease to exist and in its place will be substituted a small committee within FLD which will only deliberate on such policy matters as the project budget, employment of senior staff and ICB tender awards. The Project Manager through the LPU will be responsible for coordinating and approving project components with State Governments. To this end, LPU activities will be fully decentralized with the formation of five separate State units.

b) <u>Project Scope</u> The production components of grazing reserves, smallholder fatteners, private farmers and state farms remain as appraised with only a modest reduction in the grazing reserve component. This is made financially possible by excluding the NLPC operations at Mokwa and Manchok, limiting research expenditure to very modest operations at state level, and further investigating an effective training component at state level. LPU is made more operationally effective through a decentralization of its activities on a state basis.

c) <u>Institutional</u> The role of NAB is of critical importance since it is responsible for channelling 80% of funds for the production component. NAB must adopt a much more active role if the project is to succeed - particularly in the provision of finance, and the prompt processing of loan applications.

d) <u>Finance</u> A financial controller would be appointed; adequate immediate and long term finance is required to meet loan agreement commitments.

5. <u>Project Management</u> Provision for nine expatriate technicians was made in the appraisal report. Three posts will be abolished; one post (Financial Controller) will be created. Where expatriate Ranch Technical Officers' posts become vacant they will be filled by expatriates unless suitable local staff are available. A replacement Project Manager is required in mid 1978. If a suitable Nigerian can be found he will be supported by a 'visiting agent' consultancy service; if not, an expatriate Project Manager will be recruited. A phased plan of disengagement from expatriates to local staff will be operated in all cases and progress will be reviewed periodically.

6. <u>Issues</u> The Review Mission will complete its report by November 15. Early action is required and can be expected in view of agreement in principle to its recommendations having been reached in mid October. Issues of special importance are:

   a) Provision of immediate and long term funds
   b) NABs role in the project
   c) Staff appointments

October 18, 1977

NIGERIA

AYANGBA AGRICULTURAL DEVELOPMENT PROJECT

Loan 1455-UNI US$35 million

Approved:	June 9, 1977
Signed:	June 28, 1977
Effective:	Not yet
Total cost of project at appraisal:	US$114.0 million
Appraisal estimate of internal rate of return:	27%

Project Description

- On farm agricultural development on 150,000 family farms (800,000 people)
- Staffing and equipping an extension service
- Staff and farmer training
- Provision of farm inputs
- Seasonal and medium-terms loans for farm inputs
- Development of seed multiplication farms and registered seed growers
- Infrastructural development including administrative center, staff housing, training center, and farm service centers
- Marketing services
- Components for development of livestock, forestry and fisheries resources
- Upgrading of 300 kms of all weather surfaced feeder roads
- Construction of 180 wells
- Establishment of a project evaluation unit.

Project Area

The project is centered around Ayangba in Benue State, covering an area of 13,150 sq. km. supporting a total population of one million people. Farming population is estimated at 800,000 (150,000 families). Average farm income estimated $380 at appraisal.

Project Progress

The project is expected to become effective in January 1978. Recruitment of senior project staff is proceeding according to plan, and the project manager, Mr. Fleming (ex-Funtua project) will take up his post in November this year.

NIGERIA

LAFIA AGRICULTURAL DEVELOPMENT PROJECT

Loan 1454-UNI $27 million

Approved:	June 9, 1977
Signed:	June 28, 1977
Effective:	Not yet
Total cost of project at appraisal:	$85.0 million
Appraisal estimate of internal rate of return	23%

Project Description

- On farm agricultural development on 60,000 family farms (400,000 people)
- Staffing and equipping an extension service
- Staff and farmer training
- Provision of farm inputs
- Seasonal and medium-terms loans for farm inputs
- Development of seed multiplication farms and registered seed growers
- Infrastructural development including administrative center, staff housing, training center, and farm service centers
- Marketing services
- Components for development of livestock, forestry and fisheries resources
- Upgrading of 600 kms of all weather surfaced feeder roads
- Construction of 400 wells
- Establishment of a project evaluation unit.

Project Area

The project is centered around Lafia in Plateau State, covering an area of 9,400 sq. km. supporting a total population of 500,000 people. Farming population is estimated at 400,000 (60,000 families). Average farm income estimated $580 at appraisal.

Project Progress

The project is expected to become effective in January 1978. Recruitment of senior project staff is proceeding to plan, and the project manager, Mr. Tench (ex-Gusau project) will take up his post in November this year.

NIGERIA

SECOND LAGOS PORTS PROJECT
(Apapa Extension)

Loan 922-UNI $55 million

Approved:	July 3, 1973
Signed:	August 1, 1973
Effective:	October 30, 1973
Closing date:	December 31, 1979
Disbursements to September 30, 1977:	$29.7 million
Borrower:	Nigerian Ports Authority (NPA) An autonomous government agency in charge of all Nigerian ports.

Introduction

1. Nigeria has four port complexes for general cargo: Lagos, the Delta ports (Koko, Burutu, Warri and Sapele), Port Harcourt and Calabar. The Bank has made two major loans for Nigeria Port development, both of them associated with the Apapa Wharf in Lagos. Both loans were made to the Nigeria Port Authority (NPA). The first involved the construction of 770 meters of quay wall at the Apapa Wharf and the procurement of some ancillary equipment. The loan was made in 1962 and the project was completed in 1966. A second loan for a further 1,000 meters of quay was made in July 1973 and is still ongoing. The project was estimated to cost $84 million and the Bank loan was for $55 million. The Bank rehabilitation loan of $25 million made to Nigeria in June 1970 to assist the country in recovering from the civil war included a small port component of $1.4 million which was used for refitting a buoy tender (Bodé Thomas) and purchasing some cargo handling equipment.

The Ongoing Project

2. (a) Project Content. The project comprises expansion of berth face by 1,000 meters with associated dredging to provide a channel and turning basin and deepening of the port entrance channel; construction of transit sheds, roadways, etc; procurement of container and cargo handling equipment; and technical assistance for improving management and operations. The Government and NPA unilaterally decided in 1975 to extend the new berthage by an additional 500 meters with a total provision of six berths because of growing congestion. Due to this and appreciable inflation, the estimated total project cost has increased to $200 million. The increase in costs is being financed by the Nigerian Government.

(b) Project Execution.

(i) Civil Works. After considerable delay the civil works contract was awarded in 1975 to Julius Berger Bauboag and work commenced in April of that year. In spite of slow progress at the beginning of the construction due to changes in the berth structure design, the works are now expected to be completed in the third quarter of 1978, some months ahead of schedule. The contractor's overall performance is good but our arrangements with NPA for work supervision did not work out well. It was intended that NPA would provide a supervision team headed by a Chief Resident Engineer. However, NPA found great difficulty in recruiting an experienced expatriate to fill the Chief Engineer's post and the rest of the team was not well staffed. The consultant's site representative played a minimal role and as a consequence various problems have arisen with the contractors. Both we and NPA have learned that greater reliance should be placed on consultants in such circumstances for any future work that may be handled. NPA has been slow in producing quarterly reports on the work in progress and we are only now receiving reasonably adequate reports.

(ii) Equipment Procurement. The bulk of the equipment consisted of quayside container handling cranes and container gantry cranes. This procurement is proceeding under the auspices of the U.K. Crown Agents.

(iii) Technical Assistance. Under the loan Price Waterhouse Associates were hired to establish computerized accounts and data processing as well as costing procedures and asset revaluation. Some technical and staffing difficulties have been experienced in this respect but are now being overcome. Proper port costing is being introduced gradually. The effect of asset revaluation on the current April 1975 price base has been to triple the net value of assets as previously recorded and this has had a corresponding impact on the annual depreciation charge, involving a further increase in the financial burden on NPA.

NPA's Operating Results and Forecasts

3. (a) Traffic. The impact of Nigeria's massive increase in oil revenues on national development plans and the consequent huge increase in imports was not foreseen during appraisal of the project in early 1973. Our forecast was essentially accurate for 1975/76 (4.5 million tons through Lagos and 6.5 million tons in all ports) but estimates were substantially exceeded in 1976/77 when Lagos handled 1.5 million tons over the forecast of 4.9 million tons and all Nigerian Ports handled about 2.0 million tons over the forecast 6.9 million tons. The resulting port congestion has been well

publicized and NPA has made heavy investments in short-term lighterage facilities and mechanical cargo handling equipment in an effort to cope with this congestion, largely at Lagos.

(b) Operations. NPA has made vigorous efforts to clear the congestion and its success can be measured by the fact that the massive backlog of 455 vessels waiting for berths in August 1975 has been reduced to less than 100 this year. Berth occupancy at Lagos is excessively high, running at about 97% at Lagos in 1976/77. Under the pressure of this traffic, however, labor productivity has improved, particularly at Lagos, and NPA has fulfilled its obligations under the Bank loan in this regard.

(c) Accounting, Auditing, Finance and Tariffs. Due to the difficulties in establishing new computer accounting procedures referred to in paragraph 2(b)(iii) above, NPA's accounts are far in arrears. We are still awaiting the audited accounts for 1974/75. However, it is clear that NPA's financial situation has deteriorated sharply in recent years due principally to:

(i) substantial increases in staff costs resulting from Government salary awards; and

(ii) Government failure to approve NPA's proposal to increase tariffs.

Government approval for the tariff increases has recently been received and the revised tariff was to be in force from October 1, 1977. However, NPA has yet to clarify what additional revenue this would yield, whether this would suffice to meet its greatly increased financial burdens -- particularly the debt charges for the massive new works underway (including the project), and whether the Government will compensate NPA for the huge past deficits incurred.

4. The net deficit for 1973/74 was N1.3 million ($2.0 million) rising to an estimate of N14.5 million ($22.0 million) in 1975/76. Current estimates for 1976/77 and 1977/78 indicate deficits of N8 - N9 million ($12 - $14 million). We have urged NPA to settle the outstanding financial issues with the Government so that a reasonable estimate of the 1978/79 returns can be agreed with the Bank and future prospects determined.

Relations With The Borrower

5. Much of the significance and leverage of the project was lost when Nigeria unilaterally enlarged the scope of the project itself and embarked on a massive investment program encompassing virtually all Nigerian ports and costing approximately $1.2 billion (including the $200 million Apapa Wharf project).

6. We have retained good working relationships with NPA but at the cost of overlooking the fact that the important loan covenants have been broken or disregarded. This particularly applies to those relating to consultations on future port development, and those specifying financial results (rates of return,

working ratios and debt coverage). This approach was deliberately adopted by the Bank when it became apparent that the alternative was suspension or cancellation of the loan (the latter was suggested by NPA at one point) and lack of any effective contact whatever. As it is, our relationship has permitted us to continue our supervision and to have some positive input into Bank objectives.

Development Underway

7. The principal projects expected to be completed by the end of 1978 are the Lagos "Instant Harbor" at Tin Can Island ($370 million) comprising 10 berths, two lighterage terminals totalling 2,700 meters at Lagos ($94 million) and one of 1,140 meters at Port Harcourt ($31 million). Assuming a normal throughput of 150,000 tons/year for a vessel berth and of 500 tons/meter/year for a lighterage berth, NPA's total annual general cargo handling capacity will increase to about 7.8 million tons (including 5.7 million tons at Lagos). This falls appreciably short of NPA's rough estimate of corresponding traffic of 9.5 - 10.0 million tons.

Prospective Development

8. The Government has been led by the recent port problems and the anticipated increase in berth requirements to contemplate further considerable expansion of capacity. Two main schemes envisaged are a 30 berth new port (Ocean Terminal) at Lagos with an initial phase of 6 berths ($200 million), and construction of 6 berths ($150 million) at Port Harcourt. If these materialize by the end of 1981, together with other ongoing works ($440 million) at Calabar, Warri and Koko, the general cargo handling capacity will increase by then to 12 million tons as against NPA's rough estimate of 15 million tons for 1980/81. Even if the traffic rises only to 12 million tons, the intended first phase projects at Lagos and Port Harcourt would probably be economically justified. Their foreign exchange component is estimated at $200 million.

9. We understand that the NPA would welcome Bank participation in the proposed Lagos "Ocean Terminal" project which involves technical complexities yet to be studied. We could contemplate a useful role for the Bank provided there was clear agreement on:

(i) the need to thoroughly review the economic case for this and other proposed port projects in Nigeria as well as the technical aspects; and

(ii) the importance of adhering to the Bank's loan covenants on operational and financial returns.

NIGERIA

FOURTH POWER PROJECT

Loan 847-UNI $76.0 million

Approved:	June 29, 1972
Signed:	June 30, 1972
Effective:	June 26, 1973
Closing Date:	December 31, 1977
Disbursements as of Sept. 30, 1977:	$72.9 million
Borrower:	National Electric Power Authority (NEPA) The Government-owned corporation in charge of planning construction and operation of the power systems.

Project Description

1. The project consists of: (i) addition of 2 units of about 100 MW each to the Kainji hydro-plant; (ii) reinforcement of 5 existing 330/132 kV substations; (iii) construction of a second 330 kV line from Kainji to Lagos; (iv) reinforcement of the distribution systems in 19 cities and electrification of some 99 rural townships previously without electricity; and (v) studies for future development of the power system, management and technical assistance.

Project Execution

2. Progress on the project has been generally satisfactory taking into account the Lagos port congestion, and the difficulties in transporting equipment and materials to sites. However, the project will be completed significantly behind schedule (6 to 24 months' delay); the extension of the Lagos distribution grid and the rural electrification component are the most adversely affected of all project components. Procurement has proceeded satisfactorily without any problems since the early stages of the project.

3. Despite an amendment to the project Loan Agreement made in June 1977 to provide for a reallocation of funds, disbursements are likely to be completed by the project's closing date.

4. The total project cost estimate at March 31, 1977, is about 21% higher than the original estimate of US$126.04 million. The total foreign cost overrun of approximately US$20 million will be financed out of NEPA's own resources.

NEPA's Management and Staffing

5. NEPA is experiencing problems in retaining and recruiting competent staff because of the recent Government wage policy which compels NEPA to have its salary levels in line with those of the public services. NEPA's management is highly concerned with this situation and has been pressing for Government's acceptance of an autonomous wage policy for the corporation.

NEPA's Operation and Maintenance

6. High growth rates of electricity consumption (16% over the past 5 years) have created generation, transmission and distribution problems and power failures and load sheddings, which are presently rather common in large cities as well as rural areas. These high growth rates of consumption generally lead to shortages of distribution and maintenance materials, and seldom allow scheduled maintenance, which explains in large part the low quality of service. These conditions explain why NEPA issued in January 1977 a 10-year investment program estimated to cost US$6.6 billion in 1976 prices.

NEPA's Finances

7. NEPA had a 4.2% rate of return on net assets in service in FY 76; and although its tariffs have not been increased for years, the corporation appears in a comfortable financial position due to the Government's financial support for NEPA's development program.

NIGERIA

EDUCATION PROJECTS

I: DATA

	First Education Project US$20.0 (Credit 72-UNI)	Second Education Project US$17.3 (Loan 814-UNI)	Third Education Project US$54.0 (Loan 929-UNI)
Signed:	March 1, 1965	April 18, 1972	August 16, 1973
Effective:	May 10, 1966	November 28, 1972	January 14, 1975
Closing Date:	December 31, 1977	December 31, 1978	December 31, 1978
Disbursements as of October 1, 1977)	US$19.6 million	US$4.4 million	Nil

II. Background

1. Nigeria has three Bank-Group assisted education projects. The First Education Project (Credit 72-UNI), signed in 1965 for US$20 million, was national in scope. About one third of the total cost of the project of US$39 million was for technical and vocational training, and about 60 percent for increasing enrollments and for shifting the emphasis in the curriculum in secondary schools by providing workshops, science laboratories and typing classrooms. 65% of the project in terms of total value was allocated to the Northern region which, at appraisal, had only 360,000 students or about 7.9% of the age group enrolled in primary schools. This may be compared with 100,000 students or 73.7% for Lagos, 1,270,000 or 68% for the Eastern region, and 1,100,000 students or 58% for the Western Region. At the secondary school level, the Northern region had 8,000 students enrolled or 0.3% of the secondary school age population, Lagos, 6,400 or 10%, the Eastern region 27,600 or 2.0%, and the Western region 143,000 or about 2.0%.

2. At the request of the Federal Government, disbursements under the first project were discontinued in the Eastern Nigeria region during the civil war and were resumed only in 1972. The project was reappraised in the Eastern region in 1970 and 56 of 60 institutions were dropped from the project and 5 added. At reappraisal, the first education project changed objectives in the Eastern region and became a rehabilitation and reconstruction project. The 1970 reappraisal mission for the first education project in Eastern Nigeria was, at the same time, the first of two appraisal missions for the second project. The Second Education Project (Loan 814-UNI) for US$17.3 million was signed in April 1972 and was entirely concerned with the rehabilitation and reconstruction of war damaged educational institutions in the four states which comprised the former Eastern region. The project assists 23 secondary schools and seven primary teacher training colleges. One of the state which you will visit, Cross River, is part of the former Eastern Nigeria. The first and second education projects did not get off the ground in this State until 1973 because of the civil war and preoccupation with establishing new state administration.

3. The Third Education Project (Loan 929-UNI) for US$54 million is confined to the states in Northern Nigeria because the education systems in these states are less developed than in other states of the Federation. The

project has elements for primary teacher training, increasing the capacity at the Faculty of Education at Ahmadu Bello University by 1,000 students and increasing secondary schools enrollments by about 15,000. Because Ahmadu Bello University no longer wishes to participate in the project and because the states now wish to finance teacher training colleges under a Federal universal primary education program, and to compensate for cost overruns of over 400%, the project content is being reduced to secondary schools only. Cost overruns are attributable to a 340% increase in building costs that are general for Nigeria and to a 20% increase in the physical content of the project since appraisal. The impact of inflation has been exacerbated by a 12 months delay in project implementation caused by Government's slowness in signing subsidiary loan agreements with state authorities, and an agreement with consulting architects. The two states which you will visit in Northern Nigeria (Sokoto and Kaduna States) participated in, and successfully completed, the first education project. They are entering the construction phase of the third education project.

4. All three education projects have suffered from management problems attributable to the civil war and the subdivision of State Governments. The first project has suffered most and Government frustration with its slow implementation has adversely affected IDA relationships with some states and with the Federal Government. Many Nigerian officials feel that Bank-Group procurement procedures are slow and combersome and delay project implementation. In the early years of the implementation of the first project, the Bank did adhere closely to procurement guidelines, but with increasing awareness of procurement problems on the part of Government and Bank staff, the major difficulties have been resolved. For example, there was some delay in the implementation of the first project while IDA and the Government worked out exceptions to the Bank's normal guidelines for procurement for small scale works at remote voluntary agency (mission) schools.

5. For two years the second and third projects were classified as problems because of (a) weak management at the State and Federal Government levels, (b) Government's reluctance to accept supervision missions, (c) some states inability to meet the cash-flow requirements of projects, and (d) large cost overruns. Recently State Governments have taken steps to strengthen project management, and the Federal Government accepted two supervision missions and has provided the states with grants to finance the local contribution to total project costs. Management at Federal Government level remains weak. Descriptions of the content, objectives and progress of the three projects are shown separately. A summary table on the content and status of projects located in the various States to be visited is attached as Annex 1.

6. While there have been substantial outlays for education in Nigeria, there remain numerous opportunities for future education and training projects. However, Government has not clarified its views on what help the Bank should provide, and from our point of view new projects, unlike previous projects, should be identified, prepared and implemented on a state by state basis to be more manageable.

CONTENT AND STATUS OF PROJECTS IN STATES TO BE VISITED

A. Kaduna State - Project Manager: Mr. L.K. Akande

1st Education Project - Architectural Consultants: Robert Matthew, Johnson-Marshall and Associates

Institutions	Status	Comments
Advanced Teacher Training College, Zaria	Complete	Provided space for 300 students for US$1.9 million
Government Technical School, Kaduna	Complete	Provided space for 400 students for US$1.6 million
Extensions to 2 Craft Schools	Complete	
Extensions to 9 secondary schools	Complete	

3rd Education Project - Architectural Consultants: Ekwueme Associates + SCAAN

Institutions		
New Secondary Schools, Ikara	) In design and) Construction phase.	For 600 students
New Secondary School, Jibiya	) Construction phase.	For 600 students
Extensions to eight existing secondary schools	Under construction	Workshops, laboratories and staff houses.

The total cost of this project in Kaduna State is US$23 million, 40% of which will be reimbursed by the Bank.

B. Sokoto State - Project Manager: Mallam Abdul Karim

1st Education Project: Architectural Consultants: Robert Matthew, Johnson-Marshall and Associates

Institutions	Status	Comments
Major Extensions to:		
The Sokoto Technical School, Sokoto	Complete except for some missing equipment.	Provided workshops, auditorium, classrooms and equipment. The school does not have sufficient tools and equipment and does not appear to be well managed.
The Government College, Sokoto	Complete	Classrooms, laboratories, workshops, equipment. Good results in terms of physical implementation and educational quality.
The Government Secondary School, Bernin Kebbi	Complete	Science Laboratory, workshops This school was not visited by the March 1977 supervision mission. Consultants indicate satisfactory results.

The total cost of the project in Sokoto State was about US$1.3 million

3rd Education Project: Architectural Consultants: Ekwueme Associates + SCAAN

Institutions		
1 new Girls Secondary School, Illela	Under construction	For 600 girls costing US$9 million
5 extensions to existing secondary schools at Shinkafi, Gumini, Gwada Abowa, Gusau and Sokoto	Under construction	Staff houses, workshops and laboratories costing US$2 million.

C. Oyo State - No Project Manager

1st Education Project - Architectural Consultants: Robert Matthew, Johnson Marshall and Associates

Institutions	Status	Comments
Oshogbo Trade Centre	Less than 50% built	
Oyo Trade Centre	Construction complete	20% of buildings not in use
Olivet Boys High School, Oyo	Construction complete for several years	50% of buildings not in use because of lack of equipment, electrical connections, etc..
Government College, Ibadan		
Ibadan Grammar School		
Ogbomosho High School		
Ogbomosho Grammar School		
Iseyin Grammar School		
Oduduwa College, Ile-Ife		
Ilesha Grammar School		

Note: The physical implementation of the project in Oyo State was very poor because of a lack of project management, low quality contractors and procurement procedures whereby minor works such as electrical connections were not part of main building contracts. Much of the equipment for the schools is missing.

2nd Education Project - Architectural Consultants: Robert Matthew, Johnson-Marshall and Associates

Reconstruction and Rehabilitation of:

Women's Training College, Enugu	All contracts awarded and construction proceeding.	Total cost is about US$9 million in this state.
Loretto Teacher Training College, Adzi		
St. Cyprian Teacher Training College, Nsukka		
Presbyterian Secondary School, Abakaliki		
Union Secondary School, Awkunawa		
Anglican Grammar School, Nsukka		
Dennis Memorial Grammar School, Onitsha		

D. Cross River State - Project Manager: Dr. Essiota Essionata

1st Education Project - Architectural Consultants: Robert Matthew, Johnson-Marshall and Associates

Institutions	Status	Comments
New Trade Training Center at Ikot Ada Idem; New Trade Training Center at Ogoja	Contracts just awarded	
Minor extensions to Teacher Training Colleges at Ikat Ekpene, Ogoja, Oron and Ukam	Completed	

2nd Education Project - Architectural Consultants: Robert Matthew, Johnson-Marshall and Associates

Institutions	Status
Extensions to and Rehabilitation of seven secondary schools	Contracts awarded and nothing built

St. Patrick's College, Ikot Anso;
Q.I.C. Secondary School, Etinan;
Maryknoll Secondary School, Ogoja;
Cornelia Connelly Secondary School, Oyo;
Methodist Boys High School, Oron;
Union Secondary School, Ibiaku; and
the Government Secondary School, Ikam

NIGERIA

SUMMARY OF THE STATUS OF THE REMAINING PROJECTS

1. Loan No. 427-UNI Western Nigeria Road Project: US$14.5 million Loan of September 26, 1965; Effective Date: March 29, 1966; Closing Date: March 31, 1975; Undisbursed Balance as of August 31, 1977: US$2.5 million

The project has been completed and discussions are underway with the Government concerning the undisbursed balance of US$2.5 million. This was the first Bank onlending operation in Nigeria through the Federal Government to the then Western Region for physical and institutional improvements. The physical component involved reconstruction and improvement of three roads together with consultants' services for construction, supervision and engineering of other roads. The institutional components provided assistance for reorganization of maintenance operations. The physical component was completed with a savings of 7 percent. At the same time, the audit rates of return of all road sections are higher than expected because of cost underruns and higher than forecast traffic levels. The institutional component was partly successful. However, the experience provides useful guidance for a comprehensive, nation-wide study carried out under a follow-on project currently being implemented.

2. Loan No. 694-UNI Transport Rehabilitation: US$25.0 million Loan of June 26, 1970; Effective Date: September 18, 1970; Revised Closing Date: March 31, 1975; Undisbursed Balance as of Agusut 31, 1977: US$0.6 million

This project provided for three components: (a) the reopening of Port Harcourt; (b) the purchase of needed equipment and materials for the ports and the Eastern Railway Lines; and (c) the repair of roads and bridges in the East and the general rehabilitation of the highway system. The project is physically complete and discussions are underway with the Government concerning the undisbursed balance of US$0.6 million. The road component was successfully completed although the construction period was extended because the scope of the work under some contracts was extended during project execution. The railway component was less successful because of a lack of local funds, and management and procurement problems. The objectives of the ports component were achieved even though there was some delay.

3. Loan No. 764-UNI Western Cocoa Project: US$7.2 million Loan of June 23, 1971; Effective Date: November 5, 1971; Closing Date: March 31, 1977; Undisbursed Balance as of August 31, 1977: US$0.1 million

This project, started in 1972 to plant 43,500 acres of high-yielding hybrid cocoa by 1975, has been successful. Planting quality is good with trees planted in 1972 and 1973 now producing. Project success can be attributed to the creation and operation of the CDU as a semi-autonomous agency, good management, well qualified staff, cooperative society support, adequate Government funding, satisfactory infrastructure and communications network, exceedingly good farmer acceptance, rigorous field control and proper nursery and field preparation.

4. Loan No. 838-UNI Fifth Highway Project: US$26.3 million Loan of June 26, 1972; Effective Date: February 20, 1973; Closing Date: June 30, 1977; Undisbursed Balance as of August 31, 1977: US$13.8 million

The project included: (a) construction of about 100 miles of trunk roads; (b) reconstruction of eight war-damaged bridges; (c) consultant services for (i) supervision of the road and bridge construction; (ii) a feasibility study for 2,000 miles of road and (iii) a highway maintenance study; (d) technical assistance to improve highway administration; and (e) procurement of equipment for highway planning and vehicle weight control. The physical work on the five roads and the reconstruction of the eight war-damaged bridges has been completed. The highway maintenance study has also been subtantially completed, but the technical assistance is behind schedule.

NIGERIA

RIVERS STATE OIL PALM PROJECT

Timing: FY78
Estimated Total Project Cost: US$66.5 million
Proposed Loan Amount: US$29 million

Project Description

1. The project would plant 10,000 ha of nucleus estate and 10,000 ha of smallholder oil palm, primarily to supplement the production of palm oil for the domestic market; Nigerian extension staff and farmers would be trained; 400 km of roads would be upgraded; two 40-ton/hr. palm oil mills would be constructed; and studies for the preparation of second phase oil palm projects and a coconut project would be undertaken.

Current Status

2. The project has been appraised, but negotiations are delayed due to problems in acquisition of land for the nucleus estate.

NIGERIA

BIDA (NIGER STATE) AGRICULTURAL DEVELOPMENT PROJECT

Timing:	FY78
Estimated Total Project Cost:	US$59 million
Proposed Loan Amount:	US$20 million

Project Description

1. The project would be similar to the ongoing integrated agricultural projects in northern Nigeria, and would consist of: expansion of farmer extension services; seed multiplication and field trials; low cost irrigation development; forestry development; provision of 26 farm service centers to provide farm inputs; construction of 650 km of feeder roads; staff training, and project evaluation. It would affect directly 32,000 farm families and indirectly a further 35,000 farm families.

Current Status

2. The appraisal mission has recently returned from the field and its findings and preliminary recommendations are attached as Annex I.

Bida Agricultural Development Project

Project Area: As proposed by the preparation mission, e.g. three Southern Local Government Areas of Lavun, Etswan and Gboko.

Components:

Farm and Crop Development

Smallholder:	55,300 ha (including 7,300 of irrigated rice)
Group farm:	4,400 ha (70 groups)
Commercial farm:	13,000 ha (between 25 - 75 ha each)

Irrigation

Rehabilitation and expansion of the three former schemes at Edozhigi, Baddegi and Loguna (proposals by Enplan Consultants have been included)

Forestry

Establishment of 2,000 ha of new plantation; technical assistance for existing activation.

Livestock

Technical assistance for improving disease control, advice to commercial poultry farms and long term planning of livestock development in the State.

Infrastructure

Construction of 540 km new farm to market roads, improvement of 30 km.

- Improvement of the MNR Central Workshop at Bida
- Construction of houses, offices, farm service centre, etc.

Project Costs

Total	₦31 million
Local	₦19.4 million
F/Ex	₦11.6 million

Proposed Financing

IBRD	₦11.6 million (37%)
FMG	₦ 7.7 million (25%)
State	₦11.7 million (38%)

Cost Recovery

Full commercial charges for irrigation water, machinery, hire services, plant protection services and supply of improved seeds.

Staffing

13 Expatriates required for key management and technical positions.

Beneficiaries

About 36,000 farm families (with farms averaging below 3 ha) will directly benefit from increased production. Another 30,000 will derive benefits indirectly from improved infrastructure and services.

Status:

The appraisal of the project has been completed satisfactorily and all technical, managerial and financial recommendations have been finalized. However, the State Executive Council has yet to decide whether the project is acceptable to the Government. In view of this, the appraisal mission was not able to hold wind-up discussions and reach agreement with the State Government on the mission recommendations. In the mission's view, delays in the Executive Council decision stem primarily from political consideration (project excludes the area from which State Commissioner for Agriculture comes) and not from any project-related issues.

October 25, 1977

NIGERIA

AGRICULTURAL MANAGEMENT TRAINING INSTITUTE

Timing: FY79
Estimated Total Project Cost: US$12.5 million
Proposed Loan Amount: US$6.0 million

Project Description

1. The project would establish an institute to provide training in managerial and supervisory skills for staff at all levels of agricultural management. Trainees would be drawn from all sectors of the agricultural industry and from related supply, marketing and credit organizations. Training methods would involve up-to-date management training techniques hitherto used only in the industrial sector. In particular the project would: construct lecture rooms, offices, student accommodation and staff houses; provide 19 man-years of technical assistance under a management contract with an internationally-experienced consultant company to establish and operate the Institute; and provide supplementary overseas training for Nigerian training staff in anticipation of phasing out expatriate staff.

Current Status

2. The project has been appraised, but some key issues relating to project concept, costing, location and appointment of management consultants services have to be resolved prior to negotiations.

NIGERIA

ILORIN (KWARA STATE) AGRICULTURAL DEVELOPMENT PROJECT

Timing: FY79
Estimated Total Project Cost: US$90 million
Proposed Loan Amount: US$41 million

Project Description

1. The project would be similar to the ongoing integrated agricultural development projects in northern Nigeria, and would consist of: expanding existing extension and provision of farm management and establishing 2,000 ha of teak plantations; establishing an experimental husbandry farm for undertaking applied research; providing a seed multiplication service, establishing 20 farm service centers and the supply of farm inputs; providing market intelligence, weights and measures, trade promotion and crop storage services; expansion of Government tractor service and promotion of private tractor operators; construction of 100 km of new feeder road and improvement of 200 km of existing roads; providing mechanical land clearing and soil conservation services; provision of buildings and equipment for logistical support for the project. The project would benefit in one way or another 120,000 farm families.

Current Status

2. The feasibility study has been completed and the project is expected to be appraised in November 1977.

NIGERIA

FORESTRY DEVELOPMENT PROJECT

Timing: FY79
Estimated Total Project Cost: US$65 million (approximately)
Proposed Loan Amount: US$30 million

Project Description

1. The project would cover Ondo, Ogun, Anambra, and Cross River States. The objective would aim to achieve a rapid and sustained growth of the rate of plantation establishment together with the basic infrastructure to ensure the welfare of forest workers living in village enclaves within the forest areas. Specifically the project would: develop forest nurseries; establish 45,000 ha of Gmelina arborea plantations to assure the wood supply of two pulp mills; establish large scale species trials in Anambra State; provide logistical support and training for staff; assist in the agricultural development of forest villages; provide additional agricultural services; and supply tree seedlings to private farmers outside the forest reserves.

Current Status

2. A preparation report is being completed by FAO/IBRD Cooperative Program, and appraisal is scheduled for May 1978.

NIGERIA

THIRD COCOA DEVELOPMENT PROJECT

Timing: FY80

Project Description

1. The project would extend the ongoing Cocoa II project in Ondo, Oyo and Ogun States. The project is not yet fully identified, however, apart from supporting a replanting program the project would have to be concerned with cocoa maintenance and related crop development, particularly in the light of significant increases in the cost of farm labor.

Current Status

2. The project will be identified by a Bank mission in October/November 1977, and will be prepared primarily by State Government agricultural staff.

NIGERIA

KADUNA STATE AGRICULTURAL DEVELOPMENT PROJECT

Timing: FY80
Estimated Total Project Cost: US$150 million (approximately)
Estimated Loan Amount: US$50 million

Project Description

1. The project will expand the Funtua Project concepts and actions to the State as a whole. It will involve major sectoral and Government administrative issues, but could set the pattern for a significant change in agricultural development on a nationwide basis.

Current Status

2. The project is currently being identified in detail, and will be prepared by State officials assisted by consultants.

NIGERIA

AGRICULTURAL CREDIT PROJECT

Timing: FY80

Project Description

1. The Bank was the Executive Agency for supervising a UNDP consultancy to establish the Nigerian Agricultural Bank (NAB). NAB has been successfully established and has requested Bank assistance for loan funds. NAP currently lends about $300 million per annum, at least half of which is for annual crop purchase support programs guaranteed by State Governments. The balance is lent for medium- and long-term purposes to State Credit Corporations, Cooperatives, and large scale farmers and agricultural companies. It does not lend directly to small farmers, a policy which we support, but intends to encourage intermediate State or sub-State institutions that can lend direct to the small farmer. Just as Bank financed projects are dependent for support on non-project agencies, so too is NAB; and the relative efficiency of the critical agencies have a major bearing on the sub-borrowers' productivity.

Current Status

2. The Region has agreed to mount an identification mission in December 1977 and on the basis of successful identification will assist NAB in preparing a feasibility study. The Mission will also identify the sub-borrowers and the services required to ensure successful utilization of sub-loans.

NIGERIA

Fifth Power Project

Amount: US$50-100 million
Timing of Lending Program: FY79
Next Critical Steps:
a) Definition by the Bank of pre-conditions required for resuming Bank financing of the power sector expansion and agreement with Nigerian authorities.
b) Definition of project components within the proposed power distribution expansion program.

1. The National Electricity Power Authority (NEPA) has prepared, with the assistance of consultants, a 10-year power expansion program covering the period 1977-86 to serve the electricity demand which is expected to grow from 3,500 GWh in 1976 to about 20,000 GWh in 1986.

2. The program consists of the installation of about 4,000 MW of generating capacity, the necessary transmission lines and substations to supply the main load centers of the country and an extensive expansion of the distribution system that is expected to supply electricity to the entire Nigerian territory. 800 MW of this capacity would be generated by gas turbine plants under execution; about 1,100 MW of hydro electric capacity now under final engineering; 1,300 MW of hydro projects at pre-feasibility stage, and the balance to be met by undecided thermal generation expansion.

3. The cost of the 10-year program is estimated at about US$6,700 million at today's prices distributed as follows:

	US$ million
Generation	3,451
Transmission	1,418
Distribution	1,526
Other	305
Total	6,700

4. NEPA and the Government would probably be hindered in the execution of this impressive 10-year plan by a lack of qualified personnel, infrastructural bottlenecks, and, above all, by a possible lack of financial resources. On the other hand, substantial reductions in size and delays in execution of some of the large industrial projects considered in the demand forecast are highly probable, for similar reasons to those affecting the execution of the power expansion program; in such a case, the program would have to be reduced accordingly. The distribution component would be only affected to a minor degree by these eventualities as the large industrial loads would be served directly by the high voltage systems.

NIGERIA

Project Brief

Urban Development Project

The Urban Sector

1. Nigeria has the largest urban sector in Africa, with some 24 million urban residents out of an estimated population of 76.7 million people. Urbanization in Nigeria has been a long historical process, beginning well before the colonial period, and is an indigenous rather than externally stimulated phenomenon. A well-developed network of market towns and new medium-sized cities exists throughout the country, with the capitals of several states approaching 1 million persons. The recent, rapid growth of the Federal capital at Lagos, about 2 million persons, has been spurred by the expansion of administration, the importance of the Port of Lagos, and the post-war economic boom. Urban population growth is estimated at about 6.1% per year. Continued rural-urban migration in search of the many urban employment opportunities has created a substantial, unsatisfied demand for urban services, including housing, water supply, sanitation, and social services. Large numbers of employed persons in Nigerian cities are unable to acquire the urban services they can afford. It is estimated that about 7.6 million of the 24 million urban population could be considered as urban poor, as defined by the Urban Poverty Task Force. The Government response to this demand for services has been minimal over the past five years. The lack of institutional capacity at the Federal, State, and municipal level to organize and execute large-scale provision of services, particularly housing, has served as the major bottleneck in the sector. The Third Development Plan has identified the need for large-scale housing programs as a major priority for the sector and proposed the construction of some 200,000 units during the Plan period. Financing for these units is to be shared jointly by the Federal and State governments. Achievement of these objectives is highly doubtful, given the absence of an institutional mechanism prepared to develop the technical aspects of such a program, including standards, costs, location, and nature of population to be served. A newly-created Ministry of Housing, Urban Development, and Environment (HUDE) is empowered to organize this effort, using the Federal Housing Authority as an executing agency. These institutions, however, are untested and without substantial organization assistance, are unlikely to meet the ambitious objectives set by the Plan.

The Proposed Urban Development Project

2. Given the above, the Government has requested Bank assistance to achieve the Plan objectives. A reconnaissance mission visited Lagos in June 1977 and discussed the general objectives of the proposed intervention. The Government expressed interest in the Bank approach to the urban sector, particularly the emphasis on the provision of low-cost shelter through sites and services and upgrading of squatter settlements. It was agreed that the HUDE would serve as the coordinating agency for the preparation of a project, which would be identified in September-October 1977 and prepared for appraisal in the first quarter of FY79.

3. The proposed project would assist the Government in the development of an institional mechanism to provide shelter to the urban population of cities in about 3 of Nigeria's 19 States. The project would be considered as a first phase in a longer term program to achieve Government's large-scale objectives. The first phase would seek to serve about 400,000 persons through the following project components:

1. sites and services for low income groups (mainly between the 10th and 40th percentile of the income distribution for the respective cities) including on- and off-site infrastructure, sanitary core housing units, building materials for self-help extension and community facilities;

2. upgrading of unserviced slum and squatter settlements, with emphasis on provision of security of tenure, improved infrastructure and community facilities, with minimum housing demolition;

3. assistance to building materials industries relying on locally available raw materials within a minimum import component;

4. training of staff at both Federal and local levels;

5. technical assistance as needed for project preparation and implementation; and

6. monitoring and evaluation of project performance.

Special emphasis will be placed on the organization of project components in order to generate employment in project areas. Available mechanisms such as credit for small-scale business development and training programs will be included as part of an effort to encourage labor-intensive techniques in infrastructure development and housing construction.

4. The choice of States and cities will be determined during the project identification in Nigeria from October 10-28. The mission expects to visit at least three States and to discuss the preliminary choice of sites within cities with Federal, State, and city officials. The mission will develop with Government a detailed work program for Federal, State and city institutions for the preparation of the project, including terms of reference for a project feasibility study expected to be started by January 1978 and completed by July-August 1978.

NIGERIA

Kaduna Water Supply Project

Amount: US$25 million
Timing of Lending Program: Reserve. Possible candidate for FY79
Next Critical Steps: a) Completion of technical studies
b) Appointment of chief technical officer

1. During 1974, the Federal Government of Nigeria requested the Bank to assist in the financing of a water supply expansion project in Kaduna State (formerly North Central State). The main item included in the proposed project is the extension of the water supply service for Kaduna City, the State capital, which has the highest priority. The original project included: (a) water intake upstream of the city; (b) treatment works for about 17 MGD; and (c) transmission lines. A statewide water supply sector study would be executed in conjunction with the proposed project.

2. The project was first appraised in 1975. However, a succession of changes in the management of the Kaduna State Water Board (KSWB) has taken place since 1975, which has resulted in the adoption of different positions with regard to the project. The original decision to concentrate on the intake and treatment plant in the North, upstream of the city as recommended by the consultants (and supported by the management), was based on the fact that in this way the water would be diverted before the river receives the highly polluted water from the city drainage. KSWB now argues that the continuing of the operation and expansion of the existing plant located downstream of the city may also have economic and reliability advantages.

3. In the interim, the KSWB has undertaken a crash program for a smaller (10 MGD) capacity intake and treatment plant on the northern site which is expected to be operational in 1978, satisfying Kaduna City's water demand up to 1980. After long delays, the contracts have been signed with the consultant for the engineering of the "Emergency Extension" and for the proposed Bank project.

4. In view of the above, it was agreed during a Bank mission in 1976 that the consultants will prepare a revised comparison of the alternative solutions for the next stage, considering the economic and reliability aspects for the intake and treatment plant. The consultants' report is expected to be completed and presented to the KSWB and the Bank in November. If an agreement on the recommended project is reached among the consultants, KSWB and the Bank by January 1978, appraisal of the project could take place in March/April 1978.

NIGERIA

FERTILIZER PROJECT

Amount: $100 million
Timing: FY80s

The Project

1. The project, to be implemented by the Federal Ministry of Industry, is understood to consist of the construction of plant units for the production of 1,500 tons per day (TPD) ammonia, 1,500 TPD urea and 1,200 TPD compound fertilizers based on imported phosphoric acid with the possible addition of a unit for the production of 690 TPD calcium ammonium nitrate (CAN). The project would be constructed at Port Harcourt, some 50 km from the coast and about 3 km from the existing Nigerian National Petroleum Corporation (NNPC) refinery. It would obtain its natural gas feedstock from a natural gas gathering and supply system currently being planned by the NNPC, and would require the construction of considerable supporting infrastructure in the area, which would be provided separately by the Government. The project, which by very preliminary estimates is expected to cost around $500 million including $350 million foreign exchange, is primarily intended to meet future domestic fertilizer consumption which is expected by the Government to grow rapidly from the present modest level. Surplus output in the early years of operation would be exported. The project sponsors propose to form a joint venture with a foreign company to construct and operate the project with the foreign partner to provide technical and marketing expertise in addition to between 30% and 40% of the equity capital.

Current Status

2. In 1975 the Ministry of Industry commissioned two UK consulting firms, The Scientific Design Company Ltd. and The British Sulphur Corporation Ltd., to undertake technical and marketing studies, respectively, on the establishment of a fertilizer project in Nigeria. Following the publication of the consultants' report in December 1975, the Ministry has retained The Scientific Design Company to act as its technical advisor in the further planning of the project. The Ministry has also had discussions with a number of prospective foreign joint venture partners and has now short-listed two companies, Mitsui & Company of Japan and U.K.F. Ltd. of Holland, for negotiations which are expected to start with U.K.F. in October. The Ministry hopes to complete a joint venture agreement with its selected partner by the end of March 1978, and immediately afterward to issue specifications for tender for the project with the objective of achieving start-up in 1981. Consistent with the schedule, the Ministry is understood to have instructed its technical advisors to make an early start on prequalification of bidders and preparation of tender documents.

Next Steps

3. The Director of the Fertilizer Department of the Ministry of Industry (Dr. Oyekan) met with the Bank staff in Washington on September 30 for preliminary discussions on the project and on the Bank's possible participation. At that meeting the Director stressed that it was essential that a Bank evaluation of the project preceding possible Bank financing should not delay the project schedule. Accordingly, as a follow-up to the meeting and at the Director's request, the staff sent a letter (attached) to the Government listing some of the issues which would have to be overcome to enable the Bank's evaluation to be completed within the time frame envisaged. The most important of these were: development of a financing plan and identification of potential lenders; preparation of a consolidated project report giving background and basis of the project plan and conclusions on the project's technical, economic and market viability; completion of plans for provision of supporting infrastructure and supply of gas; completion of detailed plant site surveys and development of accurate project capital estimates. The indications are that a staff project identification mission, at an early date, would be welcomed, and such a mission is provisionally planned for early 1978.

Attachment

October 7, 1977

Dr. Oyekan
Director, Fertilizer Department
Federal Ministry of Industry
Government of Nigeria
Lagos
NIGERIA

Dear Dr. Oyekan:

Port Harcourt Fertilizer Project

It was a pleasure to meet you on September 30, during your visit to Washington, and to hear about your plans for construction of a fertilizer project at Port Harcourt. We understand that the current plan is for construction of a plant to produce 1,500 TPD ammonia, 1,500 TPD urea and 1,200 TPD compound fertilizers based on imported phosphoric acid with the possible additional inclusion of 690 TPD calcium ammonium nitrate. The project would obtain its gas supplies from a national gas gathering and supply system currently being planned by the Nigerian National Petroleum Corporation, but as this was unlikely to be completed by the time the project came on stream, temporary gas supply facilities would be arranged to serve the plant during its initial operating period. We further understand that considerable infrastructure facilities would have to be constructed in the Port Harcourt area to support the project but that these facilities were outside the project scope and would be provided by the Government. Additionally, you informed us that you have appointed the Scientific Design Company Ltd. of London as your consultants and that you intend to join with a foreign partner in a joint venture to construct and operate the plant with the foreign partner being expected to contribute technical and marketing expertise as well as 30 to 40% of the equity of the venture. We understand that you expect to commence negotiations soon with a prospective partner and that you plan to conclude a joint venture agreement by the end of March 1978, at which time you would expect to issue invitations to bid for the project and about six to nine months thereafter to award a contract so that the plant could come on stream in 1981. Near the end of our meeting, you requested that we provide you with an "aide-memoire" covering the various points we discussed relevant to facilitating the possible future participation of the Bank in your project. We have endeavored to do this in the following paragraphs:

1. We understand that you have not yet decided whether to adopt a reimbursable or lump sum type contractual arrangement for implementation of the project but that your consultants intend to proceed very soon with prequalification of potential bidders. We confirm our advice that the Bank has traditionally favored reimbursable type contracts with a fixed fee for services but that it did not exclude lump sum type contracts. Should you elect to follow the "lump sum" option, however, the Bank's procurement guidelines would have to be rigidly followed if the Bank were to participate in financing the contract, and this would initially involve placement of an advertisement in international publications of wide circulation, preparatory to prequalifying potential bidders. The Scientific Design Company should be familiar with the Bank's procedures and requirements in this respect, and we are enclosing a copy of the Bank's procurement guidelines for your further information. We would, of course, have no objection to your consultants seeking information from selected firms at this stage as may be needed to assist in the planning of the project and the preparation of cost estimates.

2. We would confirm that there would be no prospect of the Bank contributing the entire foreign exchange loan funds which could amount to around $300-350 million for the project you are contemplating, and consequently, additional financing sources would have to be mobilized. We should also mention that the Bank finds that a debt/equity ratio of about 60:40 is more appropriate in a project of this nature than the 70:30 you are considering. The exact ratio, of course, depends on the terms of the debt, some of which may be subordinated, and on the pricing allowed for products by the Government. We would emphasize that in our experience the mobilization of financing can be a time consuming effort and would suggest therefore that to avoid slippage in your project schedule, you treat the identification of such financing sources and the preparation of a financing plan as a matter of urgency, so that all participants may be involved in the project and their requirements ascertained at the earliest possible stage.

3. It would be feasible for the Bank to evaluate the project and complete its consideration of a possible loan in the period of approximately nine months which you have allowed between issuance of bidding invitations and a subsequent award of contract. However, this would be very much dependent upon the Bank being provided at the commencement of its evaluation with adequate

documentation in support of and giving the background to the various decisions taken on the project definition and scope, the marketing and distribution arrangements, and the conclusions reached on the project's economic and financial viability. It would seem to us that the period up until the point when you wish to make an effective start on the project (by issuance of bidding invitations) affords an excellent opportunity of consolidating your project plans into a comprehensive project report which will be valuable in expediting subsequent evaluation of the project by the Bank and other potential lenders. Accordingly, we would recommend that you instruct your consultants to prepare such a report summarizing their studies on the project's feasibility. Similarly, we would recommend you arrange with your foreign partner to provide you with a copy of their feasibility study which we would expect they would prepare as a matter of course to support their own investment in the project. We would anticipate that providing the project had been adequately studied and planned, these two reports together with other readily available data may be sufficient to permit the Bank's evaluation to be carried out expeditiously.

4. It has been our experience in the past that in many cases, delays in the evaluation of projects and indeed delays in the projects themselves have been the result of inadequate project studies and planning being undertaken beforehand. We would like to emphasize therefore the value of having your consultants undertake the work suggested above and additionally make mention of some other areas which could conceivably cause delays. Firstly, in the case of supporting infrastructure necessary for the project, we would strongly recommend that you ensure that adequate studies are in progress and will be completed in a timely fashion to permit plans to be formulated by the time it is necessary to make a decision to proceed with the fertilizer project for provision of all infrastructure requirements. We would envisage a delay in the Bank completing its evaluation of the project if at the time of evaluation clear plans for providing the necessary infrastructure to support the project were not available. The same remarks would apply to the plans for supplying gaseous feedstocks to the project. Secondly, we would like to draw your attention to the need to compile accurate capital estimates for the project to provide the necessary credibility to the financing requirements for the project and the estimated financial returns. Thirdly, it is important that a thorough site survey be performed in advance of final project evaluation to determine the suitability of the site for construction of such a project and to provide the basis

for estimating civil works costs.

We very much regret that due to circumstances beyond our control, we were unable to proceed with our proposed visit in August, when we may have been able to identify other potential bottlenecks and so help to avoid any delays in your desired project schedule. However, we hope the above observations are helpful to you and hope to be able to visit you as soon as possible to take a closer look at your project. In the meantime, please do not hesitate to ask our assistance on any other points we have not been able to cover in this letter.

Yours faithfully,

Anthony R. Perram
Chief, Division II
Industrial Projects Department

Cleared with and cc: Mr. Taylor-Lewis

cc: Messrs. Fuchs/Dewey, Kohli, Bottelier, Reitter, Donald King, Senf, Segura, Bourcier o/r

GEvans/ARPerram:mmm

NIGERIA

Project Brief

Industrial Development and Finance

1. The Bank Group has made two DFC loans to Nigeria with the Nigerian Industrial Development Bank (NIDB) as financial intermediary ($6 million in FY69 and $10 million in FY71). IFC also had a 25% equity holding in NIDB which was sold in 1976. Since 1973, there has been little contact with Nigerian financial institutions and our knowledge of the industrial sector is scant. A priori, we are aware of projected financing gaps particularly to carry out planned public investment in the industrial sector. NIDB has become the Government's key intermediary for such public investments. Our past experience with NIDB has shown it to be a reliable institution with good quality staff that follow sound investment policies. It is likely that our renewed involvement in Nigeria would revive Bank contacts with NIDB. A possible project was discussed with NIDB's General Manager during the Annual Meetings.

2. A project identification mission is to visit Nigeria the first part of November to assess the potential for an IDF project. The mission would estimate the magnitude of financing gaps in the industrial sector, determine priority areas for investment, review sectoral developments, and have preliminary discussions on key sectoral, policy, and institutional issues (e.g. interest rates, domestic resource mobilization). Based on the results of that mission, preparation of an IDF project for FY79 using NIDB as intermediary will be determined. The Regional lending program includes a tentative provision of US$50 million for this project. During the course of preparing and appraising the NIDB project, an IDF project using other intermediaries to reach other target groups (e.g. private sector and SSE through the Nigerian Bank for Commerce and Industry) is expected to be prepared for FY80.

BRIEF

INTERNATIONAL INSTITUTE OF TROPICAL AGRICULTURE

CONSULTATIVE GROUP ON INTERNATIONAL AGRICULTURAL RESEARCH

1818 H St., N.W. Washington, D.C. 20433 U.S.A.
Telephone (Area Code 202) 477-3592
Cable Address – INTBAFRAD

July 19, 1977

INTERNATIONAL INSTITUTE OF TROPICAL AGRICULTURE (IITA)

1978 Program and Budget

Observations of the Secretariat

I. INTRODUCTION

History

1. IITA, established in 1969, has the major objective of seeking solutions to the problems involved in finding alternatives to traditional shifting cultivation systems in the humid tropics. It has, therefore, a strong effort in Farming Systems Research, with associated crop improvement programs.

what was the matter + what will it be

2. Research activities currently comprise the Farming Systems Program, the Cereal Improvement Program, the Grain Legume Improvement Program, the Tuber and Root Improvement Program. These are complemented by a strong Research and Training Support Program which includes the direction of Special Projects, station management, library and documentation, statistical services, information services and a more recent addition, a Germ Plasm Collection Unit.

what has been econ what will it

Mandate

3. The mandate of IITA has recently been amended by the Board of Trustees. It now more clearly defines the role of IITA with respect to farming systems research in the humid tropics and better delineates its global and African regional responsibilities in respect of crop improvement. Among "other crops which are, or may become, important in the farming systems," it now specifically names vegetable plantain. The mandate spells out responsibilities for collaborative work with IBPGR on the exploration, collection, conservation, documentation and utilization of genetic resources, and it provides for a wide range of cooperative activities at national and regional level including, as approved by the Board, "activities concerned with the application of the results of research to rural, agricultural and national development."

Program Changes

4. Both the Cereals Improvement Program and the Grain Legumes Improvement Program have been emphasizing breeding and selection for high yield, disease and insect resistance, and tolerance to adverse environmental stresses with wide adaptation under monocrop conditions. They now include improvement within mixed cropping systems, which is particularly relevant to the farming systems of Africa, in which intercropping of cereals and legumes is very common.

what progress

5. Whilst every attempt is being made to overcome disease and pest problems by selecting for resistance and reducing pesticide use to a minimum, some chemical control is still necessary. This is carefully integrated with the use of the selected resistant varieties.

High Rainfall Substation

6. At Ibadan, IITA is outside the true Guinean rain forest zone. It therefore felt the need to establish a substation at Onne, in Rivers State, E. Nigeria, which is in a high rainfall area (2,300 mm p.a.) with highly leached acid soils more typical of large areas of the humid tropics.

What results [illegible]

7. The development of the substation is proceeding satisfactorily, but its final scope will depend upon whether tree crops are to be included within the Farming Systems Program and may also be affected by the possibility of participating in agro-forestry research and research on small animals in cooperation with ILCA.

Basis for Commentary

8. This commentary has been prepared by the CGIAR Secretariat in cooperation with the TAC Secretariat. It is based on the 1978 Budget Proposal of IITA and its draft Supplement, which should be read in conjunction. Members of the TAC and CGIAR Secretariats attended the Annual In-House Review of Programs in February 1977.

II. PROGRAMS

Farming Systems

9. The Farming Systems Program is divided into four main subsections: Cropping Systems, which includes associated studies of the ecology and control of major pests and weeds; Soil and Environmental Management, including soil microbiology, chemistry, soil physics, water management, fertility, pedology and agroclimatology; Agricultural Engineering, including field implements and postharvest machinery; and finally, Agricultural Economics.

10. Highlights of the past years' work include achieving doubled yields of maizes in the zero-tillage trials on the research farms without loss of soil fertility, and establishing parameters for land use classification for a large number of benchmark soils of the humid tropics. Economic studies have demonstrated the utility of mulch-tillage techniques developed at IITA and have provided useful data on the effects of rising population pressures on farming systems, including greater use of household refuse, animal manure and mulch in farming within family compounds and the increased importance of livestock and tree crops.

11. Future plans of the Farming Systems Program include the wider off-site testing of the successful zero- and minimum-tillage findings and of the potentially superior system of soil management utilizing minimal fertilizer applications to arrest available nutrient decline.

12. Preliminary cropping studies have led to the design of eight two-year sequences and rotations with potentially high efficiency. Inter-disciplinary studies will be intensified, on the basis of these eight sequences, to establish year-round production systems for small farmers.

13. The Institute is considering increasing its activities in Agricultural Engineering and, although agreeable to holding staffing levels at those of 1977, as suggested by TAC, is seeking improved facilities for the design and production of prototype innovative tools adapted to the needs of the small farmers of the African region. TAC's previous reservations about aspects of this program will be reassessed during the Quinquennial Review.

14. The complex and inter-disciplinary nature of the Farming Systems Program makes it the key program. The crop improvement programs draw from, and feed into, the systems program, and systems program scientists provide services to all other programs.

Cereals

15. The objective of the Cereals Improvement Program is to improve maize and rice in Africa. Both crops form a major responsibility of other IARCs and consequently IITA's work, of a regional nature, relies heavily on CIMMYT and IRRI. IITA has a formal agreement with the latter. It cooperates with WARDA in training programs in rice production and in testing genetic material. The new approach adopted in 1977 of directing research to problems of specific environments, rather than attempting to breed for wide adaptability, will be continued through 1978 and into the future.

16. Maize work will be directed at four specific environments--rain forest, savannah, the intermediate (transition) zone and medium elevations. Present program objectives continue to be to achieve resistance to stem borer, streak virus and various diseases, early maturity and high protein. Resistance to streak virus will be tested internationally. The use of hybrid maize to reduce variability in crop experiments and its potential in farmers' fields as compared to composites will be examined. Tolerance to the stem borer has been identified, utilizing a mass rearing and infestation methodology developed at IITA.

17. Ecosystem analysis was also incorporated into the rice program to identify the diverse soil and agroclimatic conditions under which rice is cultivated in tropical Africa, and to develop screening methods for segregating populations and cultivars with adaptations to specific environments. Some good lines for swamp conditions and irrigated conditions with high disease incidence have already been identified. Broad based resistance to blast disease especially is being sought.

18. Work on rice is carried out in cooperation with the Institut de Recherches Agronomiques Tropicales et des Cultures Vivriers (IRAT), IRRI and WARDA.

Grain Legumes

19. The Grain Legume Improvement Program is concerned with the improvement of cowpea, lima bean, soya bean, and with exploratory studies on miscellaneous potentially useful leguminous crops. Emphasis has been on cowpea and good progress has been made through breeding. Both initial and advanced yield trials have been conducted "off-campus" for the first time in three African countries and Puerto Rico. A new strategy aims to develop plant types with resistances and suitable photo-period response for different ecological zones and cropping systems. No major constraints appear to be impeding work in this program.

Tubers and Roots

20. The Tuber and Root Improvement Program continues to accord major attention to cassava and, in light of successes gained in 1976 with the introduction of improved lines in Nigeria, will put considerable effort into the rapid multiplication of five lines identified as high yielding and having good palatability, as well as resistance to cassava bacterial blight and mosaic diseases.

But how effect on 2nd many proj

Research Support

21. Work will be started on virology, in the Research Support Unit but under the technical guidance of the Institute's pathologist. The initial core position, to be filled in the first instance by a visiting scientist, is in line with TAC's recommendations, although it is understood that IITA intends to expand this initiative to a project of regional dimensions (see "Issues").

22. TAC has under consideration a CGIAR initiative in vegetable research, entailing a proposal to establish several small vegetable units, including one to be located at IITA for which it would provide land and logistic support, but not management. Similarly, IITA may be called upon to assist in the selection of a location and provide logistic support for a small research subunit of ILCA. Both the above proposals, if they were to be adopted, could hold interest for the Farming Systems Research Unit of IITA.

III. BUDGET TRENDS

23. The evolution of IITA's budgets is summarized in Table I below:

Table I - Summary of Budgets

	1974 actual	1975 actual	1976 actual	1977 revised	1978 budget
Professional staff manyears					
Senior scientists and management)	53	57	45.0	58.3	63.5
Senior technical support)			19.3	23.5	28.5
Total Senior	53	57	64.3	81.8	92.0
Budgets ($'000 current)					
Core budget - operating	5,959	7,201	8,353	9,999	11,669 /1
- capital	699	1,281	1,076	2,411	2,093 /2
Total Core	6,658	8,482	9,429	12,410	13,762
Special Projects	553	1,332	1,631	2,512	4,719
Total	7,211	9,814	11,060	14,922	18,481

/1 Includes $90,000 in 1978 for the TAC Quinquennial Review, not shown in IITA's current budget paper.

/2 Capital budget being reviewed by IITA.

IITA has carried out a review of the growth of funding by program, which is summarized on pages 21-22 of the 1978 Program and Budget Paper. Allocations of funds among the various activities are summarized in Table II below.

Table II - Allocation Among Core Operating Activities (Current $'000)

	1974 actual		1975 actual		1976 actual		1977 revised		1978 budget	
	$'000	%	$'000	%	$'000	%	$'000	%	$'000	%
Research:										
Farming systems	799	13	1,110	15	1,359	16	1,426	14	1,460	13
Cereals	281	5	501	7	710	9	783	8	777	7
Grain legumes	432	7	564	8	701	8	895	9	983	8
Tubers and roots	283	5	412	6	506	6	767	8	826	7
Subtotal	1,795	30	2,587	36	3,276	39	3,871	39	4,046	35
Research Support /1	2,052	35	2,535	35	2,713	32	3,158	31	4,035	35
Subtotal Research	3,847	65	5,122	71	5,989	71	7,029	70	8,081	70
Conferences & Training	338	6	280	4	433	6	655	7	778	7
Library, Documentation & Information	196	3	307	5	390	5	459	5	558	5
General Administration	835	14	896	12	1,088	13	1,233	12	1,481	12
General Operating	307	5	376	5	421	5	423	4	481	4
Contingency, other /2	436	7	220	3	32	*	200	2	290	2
TOTAL	5,959	100	7,201	100	8,353	100	9,999	100	11,669	100

/1 Includes full cost of Physical Plant Services.

/2 Includes $90,000 in 1978 for the TAC Quinquennial Review, not shown in current budget paper.

* Less than 0.5%.

24. It will be noted that there have been only minor changes in the proportion of total operating resources allocated to different activities. Farming systems, having got off to an early start, has somewhat reduced its share, though it remains much the biggest program. Tubers and roots has increased its share between 1974 and 1978, to be more or less on a par with cereals and grain legumes. Research, as defined in IITA's budget, has accounted for an increasing share of total resources, amounting to 70 percent in 1978. Research budgets have accordingly grown between 1974 and 1978 at an average

annual compound rate of just over 20 percent per annum, in current terms, while the total operating budget has grown slightly slower, at about 18 percent per annum. However, the "Research Support" category includes Physical Plant Services, which, though obviously supporting the research effort, is normally shown separately from research at other centers. Eliminating this item from the "Research" budget category results in the following reductions in relative resources allocated to research.

	1974 actual	1975 actual	1976 actual	1977 revised	1978 budget
Research budget as % of total operating budget:					
- including Physical Plant Services	65	71	71	70	70
- excluding Physical Plant Services	44	49	52	55	53

25. Trends in selected indicators at IITA are given in Table III.

Table III - Selected Indicators

	1974 actual	1975 actual	1976 actual	1977 revised	1978 budget
Professional staff fill rates /1, %	93	77	88	97	99
Operating budget per professional staff manyear, $'000	112.4	126.3	130.5	122.3	126.8
Research & support cost as % of total core operating	65	71	71	70	70
Research (exc. research support) professional manyears as % of total professional manyears	52	51	68	65	68
Support staff manyears per professional staff manyear	9.4	9.8	9.3	8.0	8.5

/1 "Fill rate"- budget manyears as a percentage of authorized positions. As from the 1978 Budget, IITA has divided professional staff into two categories -- "Senior Staff", and "Senior Technical Support Staff". The fill rates shown cover both categories.

1976 Budget

26. Program priorities as reflected in actual expenditures in 1976 broadly remained as originally envisaged in the approved budget. However, mandatory salary increases raised unit costs above the impact of overall inflation. In 1976 IITA therefore ended up spending on core operations 95 percent of the funds budgetted, but on real inputs (expressed in terms of professional staff manyears) only 84 percent of those that were planned. The shortfall in professional staff was most marked in the research programs, though research expenditures stayed close to the budget. The total core operating cost per professional staff manyear turned out at $130,000, as against $111,800 in the original budget.

1977 Budget

27. Revised estimates of operating expenditures are, as last year, close to the budget, and the total is identical. As in 1976, unit costs appear to be rising, from $116,300 per professional staff manyear in the approved budget, to $122,300 in the revised estimate. Again, the shortfall in manpower is most marked in the research programs. It is hoped that the forthcoming TAC review (schedule for October 1977) will clarify whether this is due to a reevaluation of program requirements, or to other factors.

Donors

28. IITA has been successful in attracting support for its core programs from an increasing number of major donors. Five of IITA's donors account for 75 percent of the total contributions for 1977, prior to allocation of unallocated contributions.

Capital

29. IITA has so far been the most expensive center in the CGIAR system to establish. Total capital costs in the period 1968 through 1980 are estimated at $38 million in 1977 dollars, applying worldwide deflators, or $27 million in current dollars. Total capital invested over the 13-year period to 1980 therefore amounts, in 1977 dollars, to $.4 million per core professional staff manyear, or $.7 million per senior research scientist manyear, at the 1978 staffing levels. This is among the highest of the established centers, but of course includes a heavy investment in staff housing, which other centers do not need to the some extent, due to a better local supply of rental housing. IITA's future capital program is at present under review, and a revised version will be presented to the Group in the latter half of 1977.

The 1978 Budget

30. IITA's 1978 Budget is its first to be based on a new system of program and project review and identification of short- and long-term goals. As program leaders grow more accustomed to the system, they may find it increasingly helpful in orienting their future work.

Special Projects

31. IITA points out that several special projects are still under discussion, and the budgets for them are still tentative. Extra-core funded projects are now classified as one of three types---(a) outreach projects, (b) training and collaborative research, and (c) supplements to core activities. Total extra-core funding for 1978 is expected to amount to $5 million, allocated as follows:

Table IV - Extra-Core Funding, 1978

	No. of Donors	Budget $ '000
a) Outreach projects	7	3,833
b) Training & collaborative research	5	612
c) Supplements to core	6	274
	16 /1	4,719

Funds Requested from the Consultative Group

32. IITA's total core expenditure for 1978 is estimated at $13.9 million, and the amount requested from the Consultative Group is $13.1 million, an increase of 18 percent in current dollars over the net request for 1977, computed as follows:

/1 Some donors are in more than one category.

Of the 16 donors to extra-core activities, 10 are also members of the Consultative Group, supporting IITA's core programs.

		1978 $ '000
Core operating		11,669
capital 1/		2,223
	Total	13,892
Less:	Earned income, 1978	(368)
	Funds carried over from 1977	(450)
IITA's net request from the CG		13,074

1/ Including increase in working capital.

In addition, IITA expects to undertake special projects totalling $4.7 million in 1978.

Projections Beyond 1978

33. IITA is conducting a review of capital requirements which may result in a request for substantial funds in 1978 and subsequent years, in addition to those shown in the current budget paper. Current projections for capital needs, including additional working capital, are $1.4 million, $0.4 million and $0.4 million in 1979, 1980 and 1981, respectively. Major items are additional housing in 1979 ($0.9 million) and equipment (averaging about $0.2 million a year).

34. Projections of operating expenditures indicate little or no changes in allocation of resources among programs, and virtually no real growth overall. A major item classified as Research Support, Physical Plant Services, is shown as constant from 1979 through 1981, but this will presumably change if IITA embarks on any major capital expansion.

35. IITA's projections of operating costs for 1979 are somewhat higher than the estimates for the same year made in previous budget proposals. Part of this increase is due to the virology unit. When allowance is made for this, IITA's forward projections of the total operating funds it expects to request from donors for 1979 have shown little change, amounting to an increase of less than 5 percent between the estimate made in 1975 and that made in 1977.

1979 Core Operating Budget
1979 $'000

	Budget	Adjusted for Virology Unit
1978 budget paper	12,814	12,814
1977 budget paper	12,503	12,706
1976 budget paper	12,013	12,216

Management

36. IITA has created the new post of Planning and Budget officer, which was filled in 1976. As noted above, this has been accompanied by the introduction of a new system of programming and budgetting during 1976 and 1977. This may be expected to provide the basis for the systematic monitoring of ongoing programs, in addition to improving the accuracy of budgets. Towards the end of 1978, program leaders will be able to assess the degree of progress made towards the specific goals for the year. IITA points out that one objective of the system will be to develop a "full-cost" system of management accounting for the main research programs. Computerized files on admnistrative systems are to be developed during 1978. Other centers might wish to watch IITA's early experience with the system, with a view to adapting it for their own needs.

37. IITA notes another management change in 1978, in that administrative responsibility for all Special Projects is given to a single office, though core scientists remain responsible for program direction.

38. In order to provide additional flexibility in reallocating resources as needs arise, IITA has created a new budget category--"personnel pool"--shown for the first time in the 1978 budget paper. This reflects what has in fact been the practice since 1977, whereby some of the labor budget was detached from individual programs, and allocated when and where needed. IITA is very conscious of the need to improve the efficiency of labor, and this change is a step towards doing so.

IV. ISSUES AND COMMENTS

39. In preparation for the forthcoming TAC Quinquennial Review of IITA, a list of questions and issues has been drawn up for discussion with IITA and TAC. The program issues which follow were highlighted during the TAC discussion of the forthcoming review and will be closely examined by the Quinquennial Review Panel.

Amended Mandate of IITA

40. The amended mandate has clarified the role of the Farming Systems Program and added plantain to IITA's crops. The last paragraph of the mandate would permit IITA to indulge in almost any type of agricultural activity, including extension and production, a deliberate move to avoid restricting IITA to a too closely defined role. A considerable number and variety of special projects could be accommodated under such a provision, however, and the Review Panel could well examine the extent to which departure from a "research and its application" approach might be contemplated.

Breeding and Selection

41. There has been a basic change in the philosophy of approach to breeding and selection in the crop improvement programs. The new programs are aimed at breeding and selection for defined agro-ecological sites rather than

for wide adaptability. This was based on the need to identify varieties for both yield and environmental characteristics, in view of the location specificity of farming systems, especially those including upland rice. The TAC Review Panel will examine the implications closely.

Agricultural Engineering

42. The Agricultural Engineering Program and its plans for expansion will be reexamined in the light of an earlier recommendation of TAC not to expand the program further. The activities are in no way concerned with sophisticated equipment, being aimed at the development of tools which could be made by village blacksmiths.

Virology

43. TAC also advised against expansion of the virology work beyond IITA's own immediate program needs. The Board, however, now seeks to expand the program beyond the modest level endorsed by TAC, and eventually to establish a sizeable regional service. In view of the existence of a national competence in virology quite close at hand, the validity of this proposal will be examined by the Review Panel.

ICIPE

44. IITA shows collaborative entomology research with ICIPE as a "core supplementary" Special Project. The cost of this program is provisionally estimated by ICIPE at about $360,000 per year, but this figure does not appear in IITA's Special Project budget. IITA felt that the program was not well enough formulated for consideration by the Board for 1978. If extra-core funds can be found to initiate the program in 1977, or 1978, then the Board will consider the question of long-term funding in its review of the 1979 budget.

Medical Facilities

45. IITA is proposing a modest improvement ($30,000) to the medical clinic in 1978. Medical facilities available in Ibadan have proved inadequate, and IITA makes a strong case for improving its own medical capabilities. A consultant has been retained to study alternative means of improving facilities. It appears that IITA is already required to provide medical care for all the staff and their families, including daily-rated labor. The detailed description in the budget document states that one of the clinic's long-term objectives is to have "sufficient facilities in the Medical Unit to diagnose and treat our patients, without going through the trauma of sending patients to outside hospitals." Whilst adequate health care is obviously very important IITA will no doubt wish to continue to review all the alternatives before embarking on what could develop into a major undertaking.

Special Projects

46. IITA is proposing a major expansion of special projects in 1978. Tentative estimates of expenditure suggest an increase of nearly 90 percent, from \$2.5 million in 1977 to \$4.7 million in 1978. IITA's special projects would be equivalent in 1978 to 41 percent of its core operating budget, which is about double the percentage experienced in the past by IITA and other centers. \$274,000 (excluding any amount for ICIPE) of the special project budget is designated as supplementary to core operations, and with one exception, funded by core donors. Even if all the proposed special projects do not materialize, the figures presented raise the question of whether IITA should not reexamine extra-core funded projects, in the light of the CGIAR Review Committee's recommendations that centers take care not to upset the balance of their programs through taking on too many extra-core projects. IITA's 1978 budget document gives an account of how each special project relates to IITA's core activities. However, the descriptions of special projects are as yet much less detailed than those of core programs--they do not, for example, identify any specific tasks for 1978. This tends to reinforce the view that IITA should reexamine its program of special projects during the course of the TAC Quinquennial Review.

Fill Rate and Unit Costs

47. IITA is budgetting for all posts (except one virologist) to be filled for all 12 months of 1978, resulting in a "fill rate" of nearly 100 percent. It is probable that this will not be achieved in practice, resulting in savings in personnel and related costs. For example, a reduction in fill rate from 100 percent to 95 percent would result in savings in personal services, supplies and expenses, and travel of some \$400,000 in the 1978 budget.

Budget Classification

48. As noted in paragraph 24 above, IITA classifies its expenditure on Physical Plant Services as Research Support. In a sense, of course, every activity undertaken by a center can be regarded as supporting research. Nevertheless, maintenance and operation of buildings other than laboratories or farm buildings, vehicle pools, utilities, etc., are not functions that are usually regarded as direct research support. Including them gives quite a distorted view of the resources going to research as opposed to overheads and other activities. IITA is reexamining its budget categories, and may find it appropriate to identify those parts of the Physical Plant Services budget which constitute direct research support, as defined in paragraph 22 (b) of the Secretariat's budget guidelines dated February 25, 1976. IITA is in the process of redesigning its management accounting system, and it is therefore an appropriate time to make any such change.

Capital Plan

49. It is premature to comment in detail on IITA's capital plan, which is still being formulated. The Secretariat suggests that IITA take particular

care to provide a complete justification for any substantial new capital items, including a full evaluation of alternative solutions, and alternative phasing. The justification for each item should also be explicit in terms of its relevance to scientific programs. IITA will also wish to consider possible trade-offs between construction and equipment standards and maintenance costs.

TAC Review

50. A quinquennial review of IITA is scheduled by TAC for October 1977. No budgetary provision has yet been made to cover its cost, estimated by the TAC Secretariat at $90,000. IITA is revising its 1978 budget to make allowance for this.

Conclusion

51. Noting the comments made above, and bearing in mind that IITA will shortly be reviewed by TAC, the Secretariat recommends IITA's 1978 Program and Budget proposals for approval of CGIAR donors.

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

OFFICE MEMORANDUM

TO: Files

DATE: October 19, 1977

FROM: Clifton E. Senf, Operations Assistant, WA1DA

SUBJECT: NIGERIA: Regional Meeting with Nigerian Delegation to Annual Meetings on September 26, 1977

1. Mr. Chaufournier opened the meeting 1/ by welcoming the Nigerian delegation to the Annual Meetings, noting that Nigeria had requested an increase in the Bank's lending program. Following this request, a Bank Economic Mission visited Nigeria during April-May 1977.

2. The Economic Mission was able to confirm that Nigeria is likely to experience the re-emergence of a resource gap, and its recommendations on various fiscal and monetary measures to be taken are currently being reviewed with Government.

3. Mr. Chaufournier said he understood the preliminary technical discussions with members of the delegation suggest that the Federal Government is in broad agreement with the Bank on the various policy and sector issues discussed in the Mission's draft report, and also, the Mission's recommendations for remedial measures to be taken. He said that the Bank stands ready to assist Nigeria in the implementation of its development programs, and to consider an expansion of its program in the light of Nigeria's need for a net transfer of resources and additional technical assistance. He stated that, once agreement is reached on the various policy issues, then a more rapid expansion of the lending program would depend on the rate at which projects could be identified and prepared. Mr. Chaufournier enumerated those sectors where Bank intervention could be reasonably rapid and useful. He said that we could make a significant start with those sectors with which the Bank is already familiar and that, as more knowledge is acquired on other sectors, the Bank could broaden its lending program accordingly.

Agriculture

4. The Bank's prime objective in agriculture has been to support the Government's policy by assisting in increasing agricultural production and rural incomes through improved support services and better forms of management techniques and training. Future Bank assistance would continue to pursue these objectives, and in addition would focus increasingly on:

1/ See list of attendees attached.

(i) assisting the Federal Government in improving its capability in preparing, appraising and implementing rural development projects;

(ii) supporting the Federal Government's efforts to decentralize development;

(iii) strengthening the planning and program functions of the Federal Ministry of Agriculture and Rural Development; and

(iv) encouraging increased involvement of Federal agencies such as the Nigeria Agricultural Bank.

The main policy issues relating to this sector, and on which the Bank would expect to reach early agreement with the Federal Government include the fertilizer subsidy and onlending rates issues.

Public Utilities

5. Bank participation in the electrical power expansion program should be looked at as a long-term effort with initial Bank involvement in the area of distribution. This could in turn lead to a series of projects aimed not only at increasing power supplies, but also increasing the planning, technical, and financial capacities. In particular, Bank assistance would provide a rationale for tariff and pricing policies based on cost.

Industry

6. Bank involvement in the industrial sector could play an important role in supporting Government's efforts in promoting medium and small indigenous enterprises, as well as a few large projects, such as the fertilizer project, in selected areas. Both the Nigerian Industrial Development Bank and the Nigerian Bank for Commerce and Industry are potential lending possibilities.

Water Supply

7. The Bank is fully aware of the importance the Government places on water supply expansion. While the Bank has thus far not lent for water supply in Nigeria, substantial preparatory work has been undertaken with regard to two proposed projects. Even though neither project has materialized to date (the Government is financing one of them, and the scope of the other is being revised), we believe this is one of the sectors in which the Bank can make an effective contribution in Nigeria.

Transportation

8. The Bank has had some experience in the transportation sector in Nigeria, and there appear to be a number of areas where the Bank may be of some assistance, e.g., in helping a few selected States to build up effective road maintenance programs at State and local levels. The Bank could also assist in two future port expansion schemes, namely, in Lagos and Port Harcourt, as this is a sub-sector already known to the Bank. Railways pose a particular problem and any efforts in this sub-sector would have to be long-term, after full study and mutual agreement on what needs to be done.

Urban Sector

9. Mr. Chaufournier pointed out that the Bank's strategy would be similar to the one used in rural development in assisting the Government in developing pilot projects which could be easily replicated in other cities. It was also noted that the Government has already expressed interest in Bank assistance in this sector, and that a Bank mission had been scheduled to visit Nigeria in October 1977, with prospects for a proposed first lending operation in 1980 or early 1981.

10. Mr. Chaufournier emphasized that the sectors discussed above represent those in which the Bank could move relatively quickly, adding that as additional knowledge of other sectors is acquired, further discussion could take place on their inclusion in the lending program.

11. Mr. Musa Bello, Permanent Secretary, Ministry of Finance, thanked Mr. Chaufournier for the courtesies extended and for his opening remarks. Mr. Bello stated that the Nigerian Government is also quite concerned over the level of public spending and revenue pattern. He indicated that there existed broad agreement with the recommendations made in the economic report, and that a number of steps had already been taken along the lines suggested:

(a) Tariffs and charges for various public utilities have been raised and will be kept under constant review, as it is the Federal Government's view that the public must begin to pay for the costs of various social services;

(b) The housing program is under complete review;

(c) Government is already comitted to an upward revision of interest rates, and the whole structure of interest rates is currently under review;

(d) On the expenditure side, Mr. Bello stated that he was pleased to announce the recently-taken decision to freeze recurrent expenditures for two years; and

(e) In addition, capital expenditures are being reduced as a re-ordering of priorities takes place.

Mr. Bello quoted the reduction in size of the proposed fertilzier plant and a reduction in the number of proposed steel plants as examples of the re-ordering of Government's capital development plans, currently taking place. He stated that in the analysis of Nigeria's current economic situation and suggested solutions, "the Bank and Nigeria are speaking the same language".

12. In response to a query about the devaluation recommendation, Mr. Bello stated that the Government is not convinced that devaluation, as suggested by the Bank's Economic Report, is preferable to the recently established policies of allowing the exchange rate to be periodically adjusted to changing conditions. Additionally, it was pointed out that the exchange rate had been dropping since May of 1977.

13. In the discussion of the exchange rate issue, it became apparent that there were some areas of confusion arising from the choice of terminology. used. While the term "devaluation" seemed to have evoked considerable disquiet amongst the Nigerians, they seemed reasonably at ease in the use of such terms as "depreciation" or "allowing the rates to adjust downward". Furthermore, the Nigerian delegation had formed the impression that the Bank's recommendation implied a once-and-for-all realignment of currencies, rather than a series of small depreciations over a period of time as indicated in the Economic Report.

14. It was obvious that the Nigerians' basic concern regarding the effects of devaluation are the likely effects it will have on domestic inflation. However, no firm decisions were reached on this issue, and there is therefore ample room for further discussions on the matter.

15. Mr. Bello enquired about the prospects of a line of credit for the Nigerian Agricultural Bank (NAB), adding that the NAB is in need of funds which the Federal Government can no longer cover. Mr. Chaufournier stated that this could form one of the topics to be discussed at the meeting scheduled with NAB representatives later that week, indicating, however, that NAB's statutory obligation to lend at a flat rate of 5% would be one of the major issues to be resolved in this regard. Mr. Bello stated that NAB's onlending rates are currently being looked at as part of the Government's review of the interest rate structure in Nigeria. He did not think it would be inappropriate to look at NAB's or any one rate in isolation. Mr. Bello then asked if the Bank's program of assistance in agriculture included any of the River Basin Development Authorities. It was noted that this is an option being considered, since the terms of reference creating the Basins are broad enough to encompass practically any activity. However, the Bank's present knoweldge on the River Basin Authorities is rather limited, and it is intended to include a comprehensive study of such Authorities as part of an agricultural sector mission scheduled for June 1978.

16. Mr. Bello asked if the Bank had come to any decision regarding the size of its future commitments to Nigeria. Mr. Bello emphasized that, in addition to the need for an increased resource transfer, the Government is anxious to continue with its efforts to diversify the economy away from oil and regenerating agriculture. To this end, the Federal Government is also looking to the Bank to make a major contribution in the form of technical assistance. In addition, the Government has found that working with the Bank provides a system of checks which is extremely valuable in helping to ensure that projects are both effectively and efficiently implemented. In conclusion, Mr. Bello stated that the Government's desire is for an expanded Bank program that provides for an annual level of commitment of US$500 million.

17. Mr. Chaufournier responded that, if we are in agreement on all the various issues, then the Bank stands ready for a substantially larger commitment to Nigeria. The exact magnitude has not been determined at this point in time, as the planning, timing and the organizational issues to mount a long-term large program of this nature takes more lead time than what has been available. However, Mr. Chaufournier emphasized that the Bank can begin working toward the US$250-US$300 million per annum level in the next few years, with substantial flexibility to adjust as the situation becomes more clear.

18. The meeting was concluded after a schedule of further meetings at the staff level had been agreed upon. It was also agreed to review further the Nigerians' request for technical assistance in external borrowing, management of liquid assets, EDI and training; and possible future Bank assistance in support of secondary education.

Attachment

cc: Messrs. Chaufournier, Gué, Thalwitz, de Azcarate, Van Gigch, Bottelier,
Reitter, Dyck, Guetta, Grimshaw, Taylor-Lewis, Myers
Salazar, Perram, Soges, D. Singh, Brandreth, Cole

Cleared w/P. Taylor-Lewis

CSenf/lgl

ATTENDEES

at

Regional Meeting with Nigerian Delegation

to Annual Meetings on September 26, 1977

Federal Republic of Nigeria

Mr. M. Bello, Permanent Secretary, Federal Ministry of Finance
Mr. G. Chikelu, Permanent Secretary, Federal Ministry of Economic Development and Planning
Mr. S. B. Falegan, Director of Research, Central Bank of Nigeria
H. E., O. Joloaso, Nigerian Ambassador to the United States
Mr. S. N. Mbamarah, Principal Secretary, Federal Ministry of Economic Development
Mr. P. O. Ononye, Deputy Director of Research, Central Bank of Nigeria
Mr. B. Boroda, Economic Counsellor, Embassy of Nigeria
Mr. E. A. Ajayi, Economist, Central Bank of Nigeria

Bank Staff

Mr. R. Chaufournier
Mr. A. Gue
Mr. W. Thalwitz
Mr. L. de Azcarate
Mr. F. Van Gigch
Mr. P. Bottelier
Mr. P. Reitter
Mr. J. Dyck
Mr. S. Guetta
Mr. R. Grimshaw
Mr. P. E. Taylor-Lewis
Mr. R. Myers
Mr. C. Senf

The News Media in Nigeria

General

The Nigerian Press is among the largest and most dynamic in developing countries. There are over a hundred news publications in the country. These include about 33 daily and Sunday English-language newspapers, about 30 weekly and monthly magazines, a dozen quarterly and half-yearly periodicals, and scores of house journals published by companies and professional organizations.

Radio broadcasting in Nigeria is both a national and state responsibility. The national radio network, operated by the Nigerian Broadcasting Corporation (NBC), has both a public affairs and a commercial channel. Many of the 19 states in the Federation also operate local radio stations, and efforts are being made to start broadcast services in those states where they do not exist at the moment.

Television, which became a national responsibility in 1975, is also operated by the NBC.

Status of the Press

Editorially, the Nigerian press is relatively free, when compared with much of the press in the rest of Africa. There is no official censorship. But given the structure of ownership, together with the aura that surrounds a military government, newsmen in Nigeria exercise some form of self-censorship. Newspaper editors, however, circumvent editorial responsibility by giving space to articles or statements by intellectuals from the universities and influential people of all shades of opinion, particularly the old-time politicians and their would-be successors.

Since Nigerians have always enjoyed public debate, the newspapers seldom lack controversy. The current gradual movement towards a return to civilian rule, exemplified by elections to local councils and the Constituent Assembly, has returned some of the former vitality to Nigerian newspapers.

Newspapers and journals

Although most newspapers and periodicals are published in the states, all of them are trying to appeal to the national audience. The most influential is also the oldest and largest: the Daily Times, published in Lagos, with a circulation of about 350,000. Its Sunday edition runs over 410,000 copies. The two papers together form the flagship of the publishing fleet that is the Daily Times Group; a group that includes an evening edition, the Evening Times, and one weekly paper each day of the week: Headlines; Times International, Business Times, Lagos Weekend, etc.; and other magazines and periodicals. The Daily Times Group was a privately-owned independent institution until late in 1975 when the government decided to participate in its operations by buying, through a para-statal corporation, 60 percent of the Daily Times Group's shares.

Rivalling the Daily Times in influence, if not in circulation, is the New Nigerian, published as a daily simultaneously in Kaduna and Lagos, by a government-owned corporation, the New Nigerian Newspaper Ltd.

Many of the remaining newspapers and magazines are also run either by para-statal corporations or institutions. But a few are independent and privately-owned. Most important of the latter are the Punch, with its Sunday edition Sunday Punch (circulation 100,000), the West African Pilot, the Daily Express, all published in Lagos, and the Nigerian Tribune, published in Ibadan.

Nigerians are very interested in international affairs. The news media try but very often fail to satisfy this need. The level and choice of their reports and commentaries reflect a dearth of newsmen who are really knowledgeable in foreign affairs. There are a few exceptions, e.g., Times International, New Nigerian, Afriscope Magazine, Sunday Punch and the Daily Times. The huge demand for foreign news is partially being met by international newspapers and magazines from Europe and America. These are readily available in newstands and all good hotels.

Radio

National radio and television broadcasting are carried out by the Nigerian Broadcasting Corporation, a statutory corporation set up in 1957. It is financed by government subsidy, licence fees and commercial advertizing revenue. The NBC is charged with the responsibility of providing, as a public service, independent and impartial radio and television programs. The principal languages used are English, Yoruba, Hausa and Igbo, with some programmes in Efik, Ijaw, Fulani, Kanuri, Tiv, Edo and Urhobo. The NBC began an external service, the Voice of Nigeria, in 1962. This service broadcasts programmes in French, English, Arabic and Hausa for about 9 hours a day, beamed to all parts of Africa, Middle East, Europe and the Mediterranean.

By the end of this year, virtually all the nineteen states in Nigeria will have local radio stations. The existing ones currently operate in a dual capacity of a public service and a commercial station.

Television

Television in Nigeria is national, operated by the NBC. Each state, however, has the authority, and most of them the capacity, for local program planning and production. A Nigerian Television Authority was created recently to coordinate and supervise the operations of all efforts in public and future private television broadcasting.

NBC-TV programs are beamed in both color and black and white, not only in the main languages (English, Yoruba, Hausa and Igbo), but also a number of other local languages.

Coverage of Bank affairs

The Nigerian press gave good and sometimes lengthy coverage this year to the Annual Report (coverage of the Annual Meetings is still be monitored). This is partly the result of IPA's resuming its public affairs missions to Nigeria, where the climate for this kind of work has improved. A Nigerian editor was invited in May 1977 to attend IPA's press seminar in Washington. And 13 Nigerian journalists attended a briefing and luncheon by IPA in October this year at the time of Lt.-General Obasanjo's visit to the U.S.

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Bureau of International Commerce

Nigeria Key Economic Indicators

In $ millions unless otherwise indicated

US$1.00 = .633 Naira	1975	1976	% change	1977 estimated
INCOME, PRODUCTION, EMPLOYMENT				
GDP (fiscal year)*	23,143.5	25,518.8	10.3	28,071.
Population (estimated)	75.75	77.72	2.6	79.74
GDP (per capita)	305.5	328.3	7.5	352.0
Crude Petroleum Exports (million bbls/day)	1.785	2.067	15.8	2.102
Manufacturing Production (1972 = 100)	147.7	170.6	15.5	190.6
AGRICULTURAL PRODUCTION (000 tons)				
Cotton	59	69	16.9	75
Cocoa	216	170	- 21.3	190
Peanuts	3	5	66.6	200
Palm Kernels	290	250	- 13.8	270
MONEY AND PRICES				
Money Supply	3,229.7	5,202.9	61.1	8,844.9
Consumer Price Index (1960 = 100)	285.1	348.1	22.1	487.3
Commercial Minimum Lending Rate	6	6	--	6
Treasury Certificates (one year)	3	3.5	--	3.5
BALANCE OF PAYMENTS AND TRADE				
Foreign Exchange Reserves	5,840.3	5,500.9	- 5.8	4,800.0
Balance (basic)	249.6	- 381.7	--	- 750.0
Exports (FOB)	8,288.8	9,320.9	12.5	10,486.0
U.S. Share	2,255.1	4,930.9	118.6	N/A
Imports (CIF)	5,547.3	7,311.9	31.8	9,637.0
U.S. Share	644.6	769.9	19.4	N/A

*1974-75 factor cost

Main imports from U.S. (estimated values) 1976: Wheat ($91.8), Rice ($25.5) Machinery and Transport equipment ($144.4), Parts of telecommunications apparatus ($44.0), Chemical elements and compounds ($16.2).

Sources: Central Bank of Nigeria, Lagos
Federal Office of Statistics, Lagos
All 1977 estimates U.S. Embassy Lagos

SUMMARY. Nigeria's expansion continues at full steam fueled by rebounding petroleum revenues. Intent on doing everything at once, the country is beset by congestion, inflation, shortages of trained manpower and the myriad problems that accompany an over-heated economy. Nevertheless, firm political commitment for development and continued high oil export earnings promise to keep the growth surge rumbling forward. Having successfully handled the challenge of the International Black Arts Festival, the FMG should now find time to focus on needed infrastructure projects. The revised five-year plan calls for more attention to the common man's needs, accenting roads, housing, water systems, and agricultural development.

There have been several noteworthy events in the last six months affecting trade and investment. Although the trade account stayed in surplus, swelling purchases and a pronounced deficit in invisibles turned the balance of payments negative, a situation which will soon lead the government into offshore borrowing. Budget constraints have also prompted increased strictures on imports and more exacting scrutiny of contracts by the government. Positive signs include increased public sector outlays generated by the upwardly revised national plan and some encouraging new incentives for oil exploration and production. The latter should improve the foreign investment climate which previously had been cooled by regulations on "indigenization" or increased Nigerian ownership of companies. American firms will have an opportunity to impact on the Nigerian market through participation in the Lagos International Trade Fair scheduled November 27 - December 11, 1977, the first major international exhibition ever hosted by Nigeria. Political conditions appear more settled and progress continues toward promised civilian rule in 1979.

Political outlook steadies. The political scene is becoming more stable as the trauma of the Head of State's assassination in early 1976 recedes into the past. Pace of development, especially in construction; movement on schedule toward civilian rule; successful creation of seven new federal states; reform of local government (elections were held in late 1976); and assertion of Nigerian leadership in Africa all contribute to popular approval of the present government. Inflation remains a potential cause of unrest, but the government recognizes the danger and is making well publicized efforts to combat it. Nigeria is in the process of adopting a new constitution to go into effect with the return of civilian government in 1979. While a minority of students and intellectuals criticize the draft constitution as capitalist and elitist-oriented, the majority of Nigerians appear to favor a mixed economy with ample opportunities for free enterprise and resist the imposed ideology and regimentation attendant in a socialist "people's state."

Equally meaningful has been continuing insistence by top officials of federal and state economic ministries that American investment and management are ~~very needed~~ here. In the sphere of trade as well, top government leaders have stated that more of America's leading companies should be active in Nigeria.

Growth rate spurts, but budget squeeze obliges borrowing. In the April 1, 1976 - March 31, 1977 fiscal year, Nigeria's Gross Domestic Product, measured at 1974/75 factor cost, was $25.5 billion, a real growth gain of 10.3% over the previous year. With petroleum accounting for roughly 40% of GDP, the 16.8% increase in crude oil exports was the prime factor in the economy's expansion. Agriculture, fishing and forestry, which together make up 25% of GDP, grew only 3%. Projections for another 10% GDP gain in fiscal year 1977 rest on an expected increase of 15% in oil revenues. Post-1977 prospects have been muted because of stagnant investment in the petroleum sector, but fresh government incentives furnish new hope.

For the fiscal year ending in March 1978 total gross revenue for the FMG is estimated at $12.09 billion, a 25.3% increase over the previous year. Of this sum, $2.84 billion will be allocated to the state governments as statutory revenue leaving $9.25 billion for federal spending, now projected at $13.6 billion. As $4.9 billion are necessary for recurrent expenditures, only $4.35 billion will be available to fund the $8.7 billion expenditures on capital or development account. According to the FMG, internal and external loans must cover the resultant $4.34 billion gap. It is unlikely that such a large deficit will occur, however, as bottlenecks in plan implementation will probably hold actual disbursements to no more than 60% of estimated expenditures. If this assumption holds for the current fiscal year, less than $800 million will be needed in loans. Additional financing may be done by state and local governments which this year were given the right to float bonds in the capital market.

Five-Year plan expanded. On April 4, 1977 the government unveiled a revised development plan for the period 1975-80. The total nominal public sector spending program rises to $68.4 billion from the previous total of $48 billion. As planners estimate that only 60% of the plan will be implemented, expected disbursements have really risen to $41 billion from $31.2 billion. The increase in spending stems from inflation in project costs, the requirements of seven new states and a new federal capital, and more attention to the practical needs of the population at the expense of prestige projects. While the revision does not list priorities, the largest sectoral gains appear in transportation, communications, defense and urban and regional planning.

Balance of payments goes negative. Export earnings hit $9.321 billion in calendar year 1976, 93% of which derived from petroleum sales. Merchandise imports were valued at $7.312 billion, resulting in a trade surplus of $2.009 billion. Non-merchandise imports, including insurance, transportation, and other services, came to $2.215 billion causing a current account deficit of $206 million. The capital account had a deficit of $176 million for an overall balance of payments deficit and foreign exchange outflow of $382 million, sharply in contrast to the 1975 surplus of $250 million. The FMG has reacted with a series of measures to staunch exchange losses. Insurance must now be written by local companies; only 50% of contract fees on consultancy contract fees can be remitted; limitations on dividends have been extended for a year; import prohibitions and upward tariff adjustments have been widened and "conspicuous consumption" has been officially denounced. Recently barred from entry are such items as champagne, lace, bottled water, madras, carbon paper and cars above 2500 cc engine capacity. Items newly requiring an import license include common salt, carpets, furniture, watches and passenger cars with engine capacity between 2000 and 2500 ccs. Other hardly luxury items like preserved fruits and vegetables have remained on the license list for over a year. Tariffs have been altered to further protect such local industries as tires, clothing, footwear, brewing and textiles.

Inflation eases. Better news comes in the official consumer price index climbing 22% in 1976, compared to a rise of 33% in 1975. However, many analysts dispute these figures (not surprisingly as the index is based on expenditures of urban workers with a maximum income of $1,264 per annum) and see the rate lower than last year but still hovering around 30%. In any case, several measures appear to be working. Money supply, for example, increased 61% in 1976, as against 74% in 1975. Dividends will continue to be restricted to a nominal rate of 40% in the coming fiscal year, but due to the corporate income tax provisions this amounts to an effective rate of 16%. Price and wage controls continue, and credit ceilings and cash reserve requirements have soaked up some liquidity. Rent control edicts, however, for the most part appear to be circumvented. Heavy penalties against smuggling have been announced. But underlying problems remain. There still is relatively little growth in domestic industry or agriculture. Indigenization regulations have discouraged foreign manufacturers from setting up operations, depriving the country of new productive capacity that was definitely in the offing. The awaited breakthrough in distribution channels is still somewhere in the future. Port congestion has eased, worsened, eased and then worsened again, and the needed road network linking urban and rural areas is not yet operative. Losses in trucks from accident and break-down remain excessive. Storage space continues to be seriously deficient. Demand will outrace supply for long into the future. Yet in all fairness, Nigeria has worked hard and spent lavishly to remedy these ills, and some results should become visible by early 1978. In Lagos alone, the new ring road should loosen the traffic stranglehold on the city, and 10 new maritime berths should soon be inaugurated.

Oil output climbs. In 1976, Nigerian earnings from petroleum exports totaled $8.6 billion, up from $7.1 billion in 1975 with first quarter 1977 exports averaging 2.102 million barrels per day. Nigeria should be able to maintain its current rate of production and exports through the year. In view of price increases in December and April totalling just over 10%, oil revenues could reach $9.5 billion this year. Outlook beyond 1977, however, is less certain. Increasingly restrictive government policies over the past four years have shrunk profits and caused investment in exploration and development of new production facilities to dry up. Consequently, a real possibility exists that net depletion of oil reserves in developed wells could force actual cutbacks in production by 1979. Aware of this, the FMG in April began discussion of proposed new investment incentives with the oil companies. The reaction of the latter has generally been that the proposals, while not sufficient to stimulate new activity in all areas the FMG wishes to see developed, will at least make some projects viable. Given strong demand for light, low-sulphur Nigerian crude, particularly in the U.S. market, these new incentives should stimulate enough new investment to keep production at or near present levels over the next 3-5 years. Maintaining or increasing production in the early and mid-1980's, however, depends on beginning exploration now in deep offshore and far inland areas, and the present investment incentive proposals do not appear sufficient to accomplish this. Although OPEC may increase prices annually, Nigeria cannot look forward to increases in oil revenues of the magnitude required to meet Third Development Plan expenditure forecasts.

Agriculture sector is large buyer. With population and consumption trends clearly outrunning farm yields, the past year has seen a heady spree of purchases from abroad. In 1976, imports of foodstuffs and live animals topped $600 million, of which $150 million came from American suppliers. Purchases from the U.S. in 1976 were 55% ahead of 1975 and are expected to double in 1977. Items to watch in the U.S. share are rice, wheat and frozen poultry. Sluggish domestic agriculture expanded only 3% during the year, and yields of the largest commercial export crops, peanuts and cocoa, are a fraction of what they were several years ago. Inadequate inputs, flow of rural workers to the city, difficulty in getting credit, skimpy storage and transport facilities, and lack of guaranteed prices combine to depress output despite a variety of government improvement schemes. Nevertheless, official emphasis on lifting agricultural productivity appears more intense than ever. The National Accelerated Food Production Program, placing technical assistance centers in strategic locations, promises to implant new muscle. The FMG has also begun to establish giant 3000 square mile plantations on which small farmers continue to live and work, supported by a modern facility from which a contracted management company supplies farmers with needs ranging from tractors to advice to seeds and fertilizer. Banks have again been ordered to reserve higher shares of lending portfolios to farmers, all farm equipment and fertilizers are now free of import duty, and a streamlined structure of commodity boards has replaced the former state marketing board system. Seven boards, each responsible for one commodity, have been set up around the nation in respective growing areas (e.g., Cocoa Board in Ibadan, Groundnut Board in Kano, etc.). Agricultural sector purchasing is increasingly decentralized in the states and sellers should direct their efforts there.

Indigenization policy formalized. Six months after the first notification of a new Nigerianization ownership policy for business, the Nigerian Enterprises Promotion Decree was published in January 1977. The three-schedule decree supercedes all previous measures and must be implemented by December 31, 1978. Schedule I contains 40 categories of business reserved exclusively for Nigerians, including wholesale distribution of locally produced goods, advertising, garment manufacture, and blending and bottling of alcoholic drinks. Schedule II contains 56 categories of business which must have at least 60% equity participation by Nigerians including commercial, merchant and development banking, beer brewing, construction, distribution and servicing of motor vehicles, manufacture of plastic and rubber products and mining and quarrying. Businesses not covered in Schedule I and II fall into Schedule III which requires at least 40% ownership of equity by Nigerians. These schedules provide only a rough guide and some companies with activities in more than one schedule must seek further clarification of their status. Strict penalties oppose sale of ownership to a Nigerian front man to mask continued alien control, and no individual may be allotted more than 5% of the equity of a company or a portion valued at $79,000, whichver is higher. According to some sources the indigenization decree will result in 200 new issues in the Lagos Stock Exchange with new shares valued well in excess of $316 million. Most companies will probably wait until the end of the 1978 grace period to dispose of equity, but large trading companies have been given incentives to do so by June 1977.

Nigerian officials explain at least 70% of vital economic sectors were in the hands of foreigners, a situation which Nigerians felt called for the "commanding heights" to be passed back into local hands. Moreover, they point out that the most practical way to transfer technology is to have Nigerians involved in the ownership of the organizations receiving the transfer. No new changes in the rules loom in the foreseeable future. Ministry spokesmen as well as local businessmen state that foreign management and organizational skills, especially American, are crucial for success and these will not come without foreigners having equity. Investment interest from abroad is again picking up, one pragmatic approach being for the foreign firm to make its investment in the form of equipment sold to the joint venture and then enter into a management contract. Anyone considering investment, however, must take ample time to survey the whole Nigerian scene, select suitable partners and carefully scrutinize all the legal requirements, particularly repatriation limitations on dividends and fees.

Implications for the U.S. Some noteworthy facts cannot be overlooked. American exports to Nigeria have more than doubled in the past two years, rising from $346 million in 1974 to $770 million in 1976. Sectors have been penetrated by U.S. goods and services for the first time. Nigeria is the eighth most populous nation in the world, and the fifth largest trade supplier to the U.S. It enjoyed a $4.1 billion trade surplus with us in 1976, its sales to us being six times greater than our sales to Nigeria. Since 1969 Nigeria's growth rate has been in excess of 8%. But as roughly 11% of Nigeria's imports and 20% of its foreign private investment come from America, there is room to do more. Reinforcing the message of the statistics is a perceptible improvement in political relations in the past year, a development which has seen Nigerian leaders invite more activity on the part of American firms. Another factor to be considered is Nigeria's timetable to return to civilian rule in 1979, a date by which the regime wants to achieve as much as possible. In many cases, Americans offer the best means to get the job done well and on time.

An analysis of development objectives and purchasing trends indicate that certain sectors offer special promise. Transport is needed more than ever to bind the nation together with trucks, buses and rail equipment. Water resources are receiving urgent attention and strong demand exists for related machinery and services, including borehole drilling, submersible pumps, and pipe-making equipment. A survey of timber resources has recently been completed and sawmill and woodworking machinery sales are brisk. Communications equipment is much wanted, as are companies that will produce items here. Medicinal products, which accounted for $210 million in imports in 1976, should swell with upward budget adjustments in health care sector; stocks were very low last year and need replenishment. After painful delays, education programs are expected to get off the ground with requirements extending from visual aids to teachers colleges to laboratories. Agriculture offers strong potential in all its segments. One leading U.S. tractor manufacturer recently held a two-week seminar in the north and sold every piece of equipment it could bring into the country. The trend is for larger horsepower units to serve larger farms. Food producers and handlers, the latter increasingly busy with growing imports, need more and better storage facilities. Reefer trucks are sought, as are other specialized units such as garbage trucks.

Still lagging is the presence of large U.S. construction firms, competent and tried in international business. Negotiations are now going on with several leading construction firms to form joint ventures with the FMG. Strengthening the U.S. image, the Nigerian capital development authority responsible for the building of the new federal capital city selected the U.S. Geological Survey to perform basic services for the project and has recommended a consortium of U.S. firms to do the master planning. Able companies are wanted to compete for projects ranging from hospitals and roads to factories and power plants.

Responding very favorably to U.S. sources is the long-neglected consumer goods sector. Department store buyers' reaction to calls made by American representatives frequently is "Where have you been?". The populace is increasingly attracted to U.S. styles, materials and appliances. A trend-setting Nigerian company, recently ordering U.S. boots and pants for the first time, predicts a swing to "western cowboy dress" in 1978-79.

The major potential for exports to Nigeria will remain in the field of machinery and transport equipment. Imports of this type were roughly \$3.3 billion in 1976. The second largest import category, valued at \$2 billion, is manufactured goods. Promising markets in this field are iron and steel sheet, yarn and cement. The U.S. should continue to dominate in food exports to Nigeria, and another sector for expansion is chemicals.

Many of the projects in the 1975-80 Plan have been contracted for. But those still available include a petrochemical complex expected to cost \$474 million, two export refineries expected to cost \$158 million, two liquefied natural gas plants expected to cost \$2 billion, the installation of standard gauge railroad track expected to cost \$930 million and several major highway projects.

The FMG is mainly encouraging investment in the fields of medium to high technology manufacturing. Businesses which fall into Schedule III of the indigenization decree requiring only 40% Nigerian ownership are largely made up of such firms. Examples include manufacture of agricultural machinery, of motor vehicles and motorcycles, of radio, television and communications equipment, and of drugs and medicines. The same products loom large in Nigeria's imports. At the beginning of the five-year plan only 15% of the consumption of drugs and medicines, 14% of basic industrial chemicals, fertilizers and pesticides, and 1% of machinery and equipment excluding electrical equipment were produced locally. Other promising areas for which only 40% Nigerian ownership is required include hotels, oil servicing companies and data processing services.

In their activities, American firms must remember certain basic points. Patience and market research are crucial. Successful ventures do not come from hurried visits. Local partners or agents need very careful study before selection; the prospective Nigerian representative who makes a good impression when calling on the home headquarters of an American firm may turn out to be a very weak reed in his own homeland. In all sales packages, a comprehensive training component is vital; Nigeria does not simply want to buy, it wants to learn. A rightfully proud, increasingly strong developing nation, it expects the same attention and reliable back-up service accorded industrialized western countries. The groundwork and effort needed to complete transactions often exceed that required elsewhere; long delays, problems and frustrations can be expected. But there is a powerful market that continues to expand, and a wealth of investment opportunities which are only lightly tapped. It should also be kept in mind that Nigeria's actions and her preferences exert a significant demonstration effect in much of Africa. An excellent way to make the most of the potential which Nigeria offers is participation in the Lagos International Fair which will run from November 27 to December 11, 1977.

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