NIGERIA AND
THE WORLD BANK

*-learning from the past
looking to the future*
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THE PEOPLE BEHIND THE BOOKLET

This Booklet is the culmination of an effort to inform interested readers about the Nigeria-World Bank Partnership. The Booklet was managed by Hazel Denton together with Maria-Franziska Kail. Initiating support was provided by Joanne Salop. Many have contributed to this work, including: Boubker Abisourour, Ladipo Adamolekun, Doug Addison, Surendra Agarwal, Carlos Algondona, Said Al-Habsy, Jennifer Alleyne, Manouchehr Ashouriipour, Athena Azarcon, Jane Banda, Philip Benoit, Geoffrey Bergen, Paul Bemingham, Anil Bhandari, Lewis Campbell, Alan Carroll, Yoo Whan Chang, Anil Chandramani, Eric Chinje, Patrick Connolly, Cynthia Cook, Alan Coulthart, Pamela Crivelli, Timothy Cullen, Alain D’Hoore, Alan Dratell, Cyril Enweze, Esther Gadzama, Yeshimebet Gonfa, Wadi Haddad, Gregory Hancock, David Henley, Indu Hewawasam, Myra Hodinger, Phyllis Hughes, Israrat Husain, Thomas Hutcheson, Dele Ilebani, Eriko Ishikawa, James Feather, Gerald Flood, Sarah Kebet-Koulibaly, Hugh Laotzke, Frans Lenglet, Judith Maguire, John Mitchell, Santiago Montenegro, Gary Moser, John Ngwafon, Faaiza Najm, Eileen Nkwango, Greg Nzekwu, Akin Oduolowo, Ken Ohashi, Anne Okezie, Eugene Okongwu, Ngozi Okonjo-Iweala, Foluso Okunmadewa, Samuel Onwona, Barbara Oppor, Aloysius Ordu, Bernard Pasquier, Nirmaljit Paul, David Peters, Ian Porter, David Radel, Balroop Rambocus, Sheela Reddi, Robert Roche, James Sackey, William Saint, Elie Saleebu, Lourdes Sandoval, Dieter Schelling, Goetz Schreiber, Mark Segal, Beth Sherman, Jasdeep Singh, Surjit Singh, Mary Oakes Smith, Jose Sokol, Gary Sterle, Yeni Suleiman, Townsend Swayne, Borje Tallroth, Klaus Tilmes, Turto Turtiainen, Hiroshi Ueno, Ray Unamma, Pietronella van den Oever, Olinda Vela, Oluyemi Vera-Cruz, Dunstan Wai, Peter Watson, Michael Wishart, Josephine Woo, James Wright, Gianni Zanini, and Ori Zysman.
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With its remarkable resource base — centering on large reserves of high-grade oil and a dynamic population in excess of 100 million, Nigeria should be Africa’s economic giant. From the time of independence (1960) to the mid-1970’s, Nigeria was building toward a vibrant economy based on its diverse agricultural output. The oil booms of the 1970s, which might have been employed to spur rapid and equitable growth, were lost opportunities. Today, the average Nigerian is less well-off than two decades ago (before the first oil boom), with an income of only about US$300 a year. The challenge is how to convert Nigeria’s enormous natural wealth into sustainable, equitable development that improves the lives of its citizens.

For a time, it appeared that the right equation had been found. In the mid-1980s, when low international oil prices had severely eroded national income, Nigeria undertook a comprehensive program of economic reforms. With these policy improvements, national income quickly turned around, growing by an average of 5 percent a year over the next six years. Unfortunately, by the early 1990s Nigeria had begun to dilute and back away from many of these progressive reforms, and by 1994 had abandoned them altogether. As a result, Nigeria fell back to its earlier pattern of economic decline. Hopefully, the recent changes in economic policy announced by the Government will be the beginning of a return to the path of economic reform.

To assist in efforts to improve the lives of Nigerians, the World Bank is currently funding 32 projects across the country — making it one of the Bank’s largest portfolios — in agriculture and rural development, education, health, environmental maintenance, water supply, transportation, energy, and private sector development, among others. In these operations, the goal is to reach Nigeria’s poorest and most vulnerable groups, particularly women and children. Yet these projects are no substitute for the immense task of forming the national economy, and returning it to the path of steady growth. Responsibility for doing so lies with Nigerians themselves. The Bank is — and will
remain — a committed partner for development, but only Nigerians can actually implement the economic and social policies that will bring about poverty-reducing, sustained national growth.

This booklet reviews the course of Nigeria's economic development, and responds to frequently-asked questions about Nigeria's partnership with the World Bank. I hope that all Nigerians will have access to the facts contained in this brochure, and will thus be more fully informed of the productive potential of their country.

Edward V.K. Jaycox
Vice President
Africa Region
World Bank Group
The World Bank's objective is to enhance the quality of hundreds of millions of individual human lives in partnership with its member countries. To this end, the World Bank promotes the adoption of policies and institutional arrangements designed to increase economic growth and to reduce poverty. It works through policy dialogue together with governments, makes loans for specific investments, supports reforms, undertakes studies and research, and coordinates assistance with donors and with Non-Governmental Organizations (NGOs). Over the past 50 years, the Bank has amassed a rich repository of knowledge, experience, and analysis of the development process.

The World Bank Then

The World Bank began in July 1944, in the small town of Bretton Woods, New Hampshire, in the U.S., where delegates from 44 nations met. The outcome of World War II was then still uncertain; Europe and Japan were in ruins; Asia was struggling with colonialism, and Africa remained under its sway; democracy barely existed in the developing world.

Against this background, the Bretton Woods conference set up the International Bank for Reconstruction and Development (IBRD) — commonly called the World Bank — to use global backing to reconstruct postwar Europe and Japan and to assist lesser developed economies everywhere. The Bretton Woods Conference also set up the International Monetary Fund at the same time. Since then, the Bank has conducted studies, given expert advice and technical assistance, and lent more than US$300 billion in support of over 6,000 projects in about 140 countries. Outstanding commitments to Nigeria — where the Bank is now funding 32 ongoing projects — are the largest in Sub-Saharan Africa.
IMF

Founded jointly at the Bretton Woods conference, the World Bank and the International Monetary Fund (IMF) play complementary roles. The Bank focuses on economic development in the context of long-term economic growth. The IMF helps countries to resolve short-to medium-term balance of payments problems. The Bank promotes economic progress and poverty reduction in developing countries through long-term financing of development projects and programs. The IMF oversees the international monetary system, promotes exchange stability and orderly exchange rates among its member countries, and provides credits to members in temporary balance of payments difficulties to assist them to adopt policy reforms and restore economic growth. Both the Bank and the IMF also offer technical assistance to member countries in areas of their special expertise.

Since it began fifty years ago, the International Bank for Reconstruction and Development (IBRD) has added four affiliate institutions: the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for Settlement of Investment Disputes (ICSID):

IBRD

The International Bank for Reconstruction and Development (IBRD) — founded in 1944 — is the single largest provider of development loans to middle income developing countries and a major catalyst of similar financing from other sources. The IBRD funds itself primarily by borrowing on international capital markets.

A Bank team first came to Nigeria in 1953, when it conducted one of its first economic survey missions anywhere.
The International Development Association (IDA) — founded in 1960 — assists the low-income developing countries by providing interest-free credits with 35-40 year maturities. IDA is primarily funded by government contributions.

Nigeria — a generous donor nation during the oil boom — regained eligibility to borrow from IDA in 1988. It thereby gained access to soft loans, particularly to finance social programs. IDA financing also enables some countries to borrow from other sources on harder terms. Nigeria is one of a handful of “blend” countries which borrow from both IBRD and IDA.

### WHO OWNS THE WORLD BANK?

The World Bank is a global cooperative owned by the member countries. The size of a country’s share in the Bank is determined by the size of its economy relative to that of the world. To date, 178 nations are members of the World Bank. Each member country is represented by a governor and an alternate governor — the Board of Governors which meets once a year jointly with the Board of Executive Directors. The Bank’s 24 Executive Directors are accountable for the conduct of the general operation of the Bank, with the President of the Bank serving as Chairman of the Board. According to the Bank’s Charter, known as the Articles of Agreement, the five largest shareholders (the United States, Japan, Germany, France and the United Kingdom) each appoint one Executive Director. The other countries are grouped into 19 constituencies, representing over 61 percent voting power. It takes 85 percent of the shares to change the Articles of Agreement, but virtually all other matters are decided by majority vote.

<table>
<thead>
<tr>
<th>IBRD/IDA Blend in Nigeria</th>
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<tbody>
<tr>
<td>1958-1969</td>
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<tr>
<td>IBRD</td>
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<tr>
<td>IDA</td>
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<td>1970-1985</td>
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<td>IDA</td>
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<tr>
<td>IBRD</td>
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<tr>
<td>1986-1994</td>
</tr>
<tr>
<td>IDA</td>
</tr>
<tr>
<td>IBRD</td>
</tr>
</tbody>
</table>
M I G A

The Multilateral Investment Guarantee Agency (MIGA) offers investors insurance against noncommercial risk and helps governments in developing countries attract foreign investment.

I C S I D

The International Center for the Settlement of Investment Disputes (ICSID) encourages the flow of foreign investment to developing countries through arbitration and conciliation facilities.

Over its 50-year history, the World Bank has become a global partnership in which 178 countries have joined together for a common purpose: to improve the quality of life for people throughout the world and to meet the challenge of sustainable development.
“Throughout...the [Bank] mission kept in their minds the need to see at first hand all aspects of Nigeria and to visit as many different areas of the country as possible....The mission spent a week in Lagos planning its course of procedure and talking to government and other officials [about] work to be done...then visited the capital of each region and met with local executive councils, businessmen, and farmers, political leaders, educators, and others in an attempt to understand local conditions and local aspirations and plans for economic development....Each of the full-time members traveled an average of 5,000 miles...by train, automobile, launch-and when necessary, by bicycle and on horseback....”

First World Bank Mission to Nigeria
Internal Memorandum, IBRD
March 26, 1954

THE WORLD BANK NOW

Over the past generation, more progress has been made in reducing poverty and raising living standards than during any other comparable period in history. The World Bank, through its development efforts, has made a contribution to this progress. In the developing countries:

- Life expectancy has increased from 40 to 63 years.
- Infant mortality has been reduced by 50 percent.
- Incomes per person have doubled.

While the improvements in Nigeria have been more modest, the gains have still been considerable. Although incomes have stagnated in Nigeria, basic social indicators such as health and literacy have improved since the 1960s. Life expectancy has risen to 52 years in 1990 from 40 years in 1960 and infant mortality decreased to 91 per thousand live births in 1990 compared to 189 per thousand births in 1960. (See Table on page 40.)

The Bank has changed as the world has changed — and as thinking about the development process has evolved. In the first three decades after World War II, the Bank chiefly supported infrastructure (such as the building of roads and ports) and agriculture projects expected to generate tangible benefits for the community — specifically, to increase employment and income.

But in the late 1970s, the increase in world oil prices threw many developing countries into financial crisis. It then became apparent that inappropriate macroeconomic policies had exposed both businesses and the very poor in those countries to economic shocks. This became even more apparent in the early 1980s as rising interest rates in international markets dramatically increased the cost of servicing the debts that developing countries had incurred to pay their higher oil bills; or, as in the case of Nigeria, that had financed overly ambitious investment programs.
WHERE THE MONEY COMES FROM . . .

IBRD, the main lending arm of the World Bank Group, raises most of its money on the world’s financial markets. It sells bonds and other debt securities to other banks, corporations, pension funds, insurance companies, and individuals around the world. For the twelve months ending June 1994, the Bank borrowed $8.9 billion. Other sources of Bank funds are capital contributions from the member countries and retained earnings. * The IBRD bonds have the highest possible investment rating, backed as they are by the callable capital of 178 member governments. Maintenance of a high credit rating also requires prudent financial policies, together with a strong portfolio of performing projects backed by timely repayments on funds loaned out. As a matter of policy, the Bank does not reschedule interest or principal payments on its loans, or participate in debt rescheduling agreements with respect to its loans. The Bank needs to maintain a solid credit rating so that it can borrow at the best interest rates, and thus pass the savings on to its Borrowers. * IDA funds, which account for one quarter of all Bank lending, provide the poorest developing countries with interest-free credits. Because of these soft terms, IDA cannot borrow on capital markets as IBRD does. However, the donor countries provide concessional resources through three-year replenishments of IDA, which enables IDA to lend on these low terms. Thirty-four countries are contributing to the current replenishment. IDA also helps mobilize and coordinate aid from other multilateral organizations and donor countries. On average, for every dollar IDA commits, 50 cents of cofinancing is mobilized.

. . . AND WHERE IT GOES

Countries come to the Bank for economic research, policy and technical advice, and for capital loans with the understanding that these will be repaid. The Bank is a cooperative, not a profit-maximizing institution. A portion of IBRD’s net income is allocated to its reserves to ensure a high degree of financial protection in the world capital market. Although IBRD does not pay dividends to its members, a portion of net income has been used to support commitment fee and interest rate reductions. * IDA money is lent without interest but with a small service fee of 0.75 percent against the outstanding balance of credits to meet administrative expenses. There is competition for these limited IDA funds, which are channeled to the poorest countries which cannot meet their foreign exchange needs from commercial sources, and demonstrate that they can use the funds effectively.
As the thinking about development evolved, the Bank determined to adopt a methodical approach to economic development, and saw the need for stricter — and more market-based — economic policies. It supported countries that adopted such reforms, with a new lending instrument — the structural adjustment loan/credit.

Since the late 1980s, the Bank has focused its development assistance on reducing poverty and raising the living standard of the poor. To do this, it has increasingly supported programs designed to provide basic social services to help build the human capital of the poor, and to empower the poor to reap the gains of economic growth.

The Bank also seeks to improve citizens' ability to carry out local development by assisting in providing training and technical assistance.

To improve its accountability to the public, the Bank began to publish environmental assessments and country economic and sector reports. Making information about Bank-sponsored projects more accessible offers client governments, NGOs, and community-based groups the opportunity to understand Bank operations better. (There are several sources from which to obtain World Bank documents in Nigeria. See Annex 5 for addresses.) A clearer understanding of Bank operations also lays out openly which policies work and which do not.
Nigeria first sought assistance from the Bank for basic infrastructure — to upgrade the railways (1958) and Apapa Wharf in Lagos (1963). Since then ninety-eight loans and credits have been approved, for a total commitment of $6.8 billion.

Nigeria has requested Bank assistance for projects not only at the Federal level (i.e., universities, NEPA, NNPC) but also for individual states (i.e., state water supply, highways, agriculture and health projects). (See Annex 1 for a summary of all Bank loans and credits to Nigeria.)

The size and complexity of Nigeria presents particular challenges for the creation of economic change and growth. Continuous efforts are needed: in some instances, NGOs are assisting in implementation; donors seek to coordinate their assistance, to avoid wasting resources in overlapping efforts; and initiatives aimed at expanding beneficiary participation at the community level are ongoing.

Assistance from the Bank has been spread widely, and currently includes support for state-level agricultural development projects, irrigation technology and agricultural research, highway construction, water supply and sanitation, primary and secondary health care, implementation of the National Population Policy, education at all three levels, urban development, a credit line for small and medium size enterprises, and development and implementation of Federal and State environmental action plans. The total funding in loans and credits currently allocated but not yet drawn down by the beneficiaries is $1.6 billion (March 1995).

During the 1980s when the collapsing oil market sent Nigeria reeling under the effects of the oil bust, the Bank provided help in reorienting its macroeconomic policies with two structural adjustment loans in 1986 and 1989.
HOW THE LOANS ARE DISBURSED

After a loan has been negotiated between the Borrower and the Bank, it is submitted to the Board of Executive Directors of the World Bank for approval. All member countries are represented on the Board. Once conditions have been met for the loan to become effective, Bank funds are made available and matched by local counterpart funds. The funds are drawn down by the Borrower over the life of the loan (around 5–7 years in Nigeria) only for the goods, works and services specified in the legal agreements for the loan. Procurement of such goods and services is handled in different ways, depending on the nature of the items, following the Procurement Guidelines of the World Bank which are based on international business practices. For example, purchasing may be done locally for small quantities of some goods and services such as office furniture for the implementing agency — but is generally advertised to enable a Borrower to achieve the most cost-effective purchase. For goods, works and services costing a large amount which are likely to be of interest to bidders in any other member countries, advertising must appear in appropriate journals with enough lead time to enable bidders’ participation. (A preference margin may be given to bidders in the advertising country when procurement is through international competitive bidding.) Each withdrawal of funding is subject to review by the World Bank. Supervision teams monitor the use of the funds on a continuous basis, with regular site visits. Annual audits are required by the Bank. At the end of a loan, an Implementation Completion Report is prepared by the Borrower and the Bank to evaluate the performance of both parties.
LEARNING FROM THE PAST, LOOKING TO THE FUTURE

World Bank lending policy and project design is not made in a vacuum. Nor is it simply an exclusive reflection of Government or of Bank wishes. It is rather the product of constant communication between the Borrowing country and the Bank. Government officials, Bank staff, project managers, project assessors, and — most importantly — the people affected by the projects, all contribute to World Bank lending strategies. The Bank constantly evaluates its own strategies together with the Borrowing countries to make sure that they are directed at promoting sustainable economic growth and reducing poverty.

Throughout its history, the Bank has also worked with countries to develop the baseline data needed to assess local economic and financial conditions and policies. It has been involved in studies of countries' fiscal, monetary, sectoral, and infrastructure development strategies and has gathered examples of best (and worst) practices from every corner of the globe and in every area of development. Joint workshops in all sectors are held to raise mutual awareness.

To help develop a Poverty Assessment for Nigeria, Nigerian research institutes are providing papers on issues related to poverty, and the Bank, with support from UNICEF and the Overseas Development Administration is assisting local experts to analyze household survey data.

In 1994, a Federal Ministry of Finance and National Planning Commission Task Force undertook a review, together with World Bank staff, of the Public Expenditure Program. The joint Nigerian/Bank team findings were that stabilization of the economy is an urgent priority.

Another Bank program of particular importance to Nigeria is the Economic Development Institute (EDI), which concentrates on institution-building and the training of policymakers and other essential personnel in such core areas of macroeconomic management as structural adjustment, foreign debt, trade, public and private sector institutions, and the delivery of public services. Nigerians who take part in the EDI-sponsored Research Fellowship Program bring to the Bank the Nigerian perspective.

ECONOMIC AND SECTOR WORK

Nigeria and the Bank keep talking to each other both to learn and to inform. A continuous dialogue on sector strategies helps provide a sounding board for Nigerian thinking, and a basis for project development. The dialogue may result in a formal report, a workshop, or identification of a project. Recent reports have reviewed the Energy Sector, Social Services, Land Resource Management, Development of an Environmental Action Plan, Infrastructure, Industrial Pollution, Banking and the Structural Adjustment Program. (Recent Economic and Sector Reports are listed in Annex 4.) These reports provide an independent review of critical issues, developed in partnership with Nigerian specialists, with the support and assistance of Government.
The World Bank report titled “Nigeria — Structural Adjustment Program: Policies, Implementation, and Impact,” published in May 1994 and covering the period 1986-92, attempts to clarify the important role played by external shocks, over which the country has little control, as opposed to the domestic economic policies adopted to manage these shocks and the other broader development challenges that Nigeria faces.

on such issues as capital flight, debt conversion, and financial market development. Alumni of EDI, furthermore, fill many important positions in Nigeria.

Nigeria and the World Bank learn from each other in a constant exchange of information, experience, and opinion, and Nigeria’s senior officials enjoy ready access to top management of the Bank. This process informs both sides, allowing them to develop a common, informed agenda for Nigeria’s economic future.

The breadth and depth of the partnership of forty years is shown in the sectoral summaries which follow. But first, a review of the story of SAP — the structural adjustment program which the Nigerian Government introduced in the mid-1980s.

THE STRUCTURAL ADJUSTMENT PROGRAM

“In the African countries that have undertaken and sustained major policy reforms, adjustment is working. But a number of countries have yet to implement the reforms needed to restore growth. And even among the strongest adjusters, no country has gone the full distance in restructuring its economy.”

The opening paragraph of a recent World Bank study of adjustment in Africa

Where does Nigeria fit in this general description? Has Nigeria really taken the
in the early 1980s and then collapsed in 1986. Nigeria’s export earnings fell from $26 billion in 1980 to $12 billion in 1985 and to $6.4 billion in 1986. The economy was devastated, and with it, Nigerians’ living standards, which reached their low point in 1986-87. Public policies hurt the Nigerian economy. Government controls over foreign exchange, pricing, and agricultural marketing stifled competition and economic growth. Little of the Government’s oil receipts was invested in the Nigerian people or in productive assets with high returns. Much was wasted on uneconomic projects and corruption.

After 1981 it took some time for public spending to come down, and throughout 1983, the Nigerian Government spent more adjustment cure? And has the cure worked? In recent reports on the SAP experience by both the Central Bank of Nigeria and the World Bank, the answer is, yes, Nigeria has taken the adjustment medicine. But often irregularly and never the full prescription. Even so, the Nigerian economy showed a remarkable turnaround in the second half of the 1980s, when compared with the period preceding the adjustment years.

BACKGROUND

Nigeria’s economy is heavily dependent on oil exports. In the 1970s, as crude oil prices climbed upwards, the Nigerian economy soared, together with Government’s expenditures. With the economy flush with foreign exchange, living standards also doubled.

Oil prices in the world markets dropped
EARLY PROPOSALS FOR ADJUSTMENT:
A MISSED OPPORTUNITY

The stabilization component of the 1983 reform package included prescriptions for raising tax revenues; phasing out subsidies on domestic fuel consumption; strict controls over current expenditures; a cutback in real capital expenditures (50 percent); and a significant devaluation of the currency. The structural elements of the reform package included improvements in the quality of the public investment program; commercialization and privatization of selected parastatals, to increase the efficiency of their operations; tighter discipline in the budgetary process; reform of the incentive policies in agriculture and industry to encourage efficient domestic production and non-oil exports, through elimination of import quotas and their substitution with (moderate) customs tariffs; upward adjustment in farm support prices; and streamlining of regulatory controls to encourage investments in industry and fiscal incentives to promote manufactured exports. It took three more years of worsening economic performance before a comprehensive package would be launched.
than it earned. The Government relied on borrowing from the banking system and money creation, which generated inflation. To finance its foreign expenditure, it ran down the country’s international reserves, borrowed heavily, and accumulated large-scale payments arrears. When oil prices collapsed further in 1986 and forced the Government to adopt a comprehensive package of economic reform, Nigeria’s economy was in a deep-seated crisis.

WHY THE SAP?

A first draft of a comprehensive reform program was discussed by the Shagari administration with the World Bank and the IMF as early as 1983, as the Nigerian economy was facing two critical issues: first, managing the immediate financial crisis and stabilization of the economy, and second, longer-term structural adjustment of the economy to lessen its dependence on oil and to develop a wider productive base.

However, that early attempt to introduce a reform package was shelved in 1984 by the new military government, as a number of the key SAP reforms proved politically indigestible, such as adjustment of the official exchange rate, abolition of quantitative import restrictions, and an increase in domestic fuel prices. Instead of a comprehensive reform package, the Government chose to introduce only budget-tightening measures. These measures, introduced without structural adjustment reforms to deal with the internal and external macroeconomic imbalances, plus the collapse of oil prices in the spring of 1986, failed to revive the economy.
The subsequent government launched a public "IMF debate" during 1985 in the hope of obtaining popular support for a structural adjustment package. The result was an overwhelming refusal to take an IMF loan with its associated conditionalities. The opposition among academics, students, labor leaders and business people to a program backed by an IMF loan was based on three main reasons: a) the defense by organized manufacturers and organized labor of the protective walls created by the system of import licensing; b) the belief that the loan proceeds would be wasted; and c) the perceived offense to the international status and internal sovereignty of Nigeria that an IMF loan with its conditionalities would bring.

Since the 1984-85 budget-tightening measures did not stop the continuing decline in the economy, or address fundamental economic and financial problems confronting Nigeria, the new Government realized it had to launch a comprehensive package of stabilization and structural reform measures anyway.

Thus, with the blessings of the IMF but without any of its money, the Government announced its own Structural Adjustment Program (SAP) to the nation on August 27, 1986. And instead of borrowing from the IMF, the Government took an adjustment loan from the World Bank for $452 million, most of which was used to increase the supply of foreign exchange to the private sector, thereby helping stabilize the exchange rate throughout 1987. This first loan was then followed by a second one in 1989 for $500 million. A proposed third loan for another $500 million was shelved at the end of 1990, when it became apparent that the reform program in the area of public expenditure management had gone off track. The dialogue between the Government and the World Bank on a reform program has, however, continued.

The Expectations From SAP

The promise by the Government of the SAP in 1986 was not a quick turnaround to high growth rates and pre-oil boom per-capita consumption levels, as some people perceived. Instead it was damage control in the short run and necessary restructuring for sustainable growth in the medium to long run. The goal
of policymakers was a return to moderate rates of growth in production and of living standards (around 4 percent). Only agriculture was seen as an area where improvements could make an immediate impact on the supply situation, and where dependence on the external sector for food and industrial raw materials could be quickly reduced.

**The Adjustment Process**

Nigeria's SAP was comprehensive. It combined exchange rate and trade policy reforms (aimed at revitalizing the non-oil economy) with stabilization policies (designed to restore equilibrium to the balance of payments and to make prices more stable). The program included efforts to limit government spending, downsize the public sector, improve the management of publicly owned assets, improve allocations to infrastructure and social sectors and rely more on market forces. It freed up the foreign exchange market, and eliminated import licenses, the agricultural marketing boards, and most price controls. It launched a program of privatization and commercialization of public enterprises, and took steps toward the deregulation of the banking system.

Although the Government sustained some reforms, others were abandoned while others were implemented unevenly. All suffered from the vagaries of the increasingly erratic macroeconomic environment. Nonetheless, the new approach worked.

During 1986 – 92, overall GDP growth averaged about 5 percent per year. This contrasts sharply with the average decline of 2 to 3 percent per year between 1980 and 1986. It represents a remarkable turnaround of 7 percent in growth rates.

Several factors can explain such a robust growth of GDP despite weak progress with reforms. First, the private sector — mainly the agricultural sector and those manufacturers who succeeded in shifting to local resources — performed well. Second, more efficient use of private capital and some increase in investment also contributed to the recovery of GDP growth. Third, the production and export of oil, generally unaffected by public sector inefficiency and other policy distortions, strongly picked up from 1989 and contributed substantially to GDP growth.

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**Economic Performance Before and After the Introduction of the SAP**

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<tr>
<th></th>
<th>1980-86</th>
<th>1986-92</th>
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<tbody>
<tr>
<td>Agriculture</td>
<td>0.5</td>
<td>3.8</td>
</tr>
<tr>
<td>Industry</td>
<td>-5.1</td>
<td>4.5</td>
</tr>
<tr>
<td>Mining</td>
<td>-5.9</td>
<td>4.3</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-1.8</td>
<td>4.9</td>
</tr>
<tr>
<td>Services</td>
<td>0.2</td>
<td>6.3</td>
</tr>
<tr>
<td>GDP</td>
<td>-1.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Oil-based value-added</td>
<td>-5.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Non-oil value added</td>
<td>-0.2</td>
<td>4.9</td>
</tr>
</tbody>
</table>

*Note: Compound growth rates based on value-added at factor cost in constant 1987 prices. Source: Federal Office of Statistics.*

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NIGERIA: WORKING TOGETHER WITH THE BANK • 23
Oil prices were still dropping even as the SAP was being introduced. Even so, Nigerians attributed to the SAP the impact of the drop in oil income on the economy, on their living standards and on the value of the naira. This undermined political support for the program, especially for the program’s stabilization policies, and caused it to be implemented erratically.

Overall growth performance could have been even better, if reforms had been pursued vigorously. But just as good policies were instrumental in the recovery, the retention of the failed old policies would have pushed the economy further down if they had been left in place.

People’s incomes and consumption grew at 2 percent a year in 1987–92 on a per capita basis. But even though the SAP revived growth, that growth has been insufficient to make up for the huge drop in purchasing power from the collapse of international oil markets which added to the burden of servicing the increased external debt. In real per capita terms, consumption and income are now no higher than they were in the early 1970s prior to the onset of the oil boom (see Graphs on page 19). The urban middle class — in particular workers in import-substituting industries — has borne the consequences of the economy’s adjustment to the downturn in oil markets and the collapse of foreign exchange earnings.

Public Expenditure Priorities

What happened to the social sectors, particularly health and education? By the time the SAP was adopted, the decline in oil revenues had been responsible for severe cutbacks in some areas of public funding, and the social sectors were hard hit. With the decrease in resources provided to the health sector, the quality and availability of services continued to decline — the import of drugs was cut sharply because of the lack of foreign exchange — and patients increasingly bypassed the public health system. In education, with the cutbacks in funding to the sector, the quality of teaching suffered, with a shortage of instructional materials and higher pupil to teacher ratios, and enrollments fell — a situation that was not reversed during the SAP period. A similar trend prevailed in the water supply sector.

Thus, contrary to the SAP objectives which specified a permanent shift in expenditure priorities toward infrastructure and social spending, the Government failed to attain that goal. For example, the share of total public expenditure going to education in 1988 was only about one half of what it was in 1980, and in the health sector the already very low pre-SAP share was not increased.

In other words, actual spending priorities were elsewhere (on Abuja, the Armed Forces, Ajaokuta, the Aluminum Smelter, the fertilizer subsidy, the petroleum subsidy, and the political transition program). These programs have not had a positive impact on the economy. And they have drained resources from necessary infrastructure improvements and from the needs of health and education, while generating the huge build-up of the budget deficit.

Conclusions

At the inception of the SAP, Nigeria undertook challenging and important reforms. However, the structural reforms were not fully
Why Has the Naira Collapsed?

Nigerian governments, reflecting strong popular sentiments, have tried on many occasions to resist or buck the pressures in the foreign exchange market towards a depreciation of the naira. Such a policy can only work if and when a country has foreign exchange reserves to draw down (or can borrow) to satisfy the market demand in excess of the market supply. Without such backing, attempts to fix an exchange rate at a low level will generate demand that outstrips available supply and leads to further devaluation. The only way to maintain stability in the exchange rate is to put in place policies that address the root cause of the pressures.

What have been the root causes of the naira depreciation since the inception of the SAP? The answer in the case of Nigeria is simple: government expenditure mismanagement. In addition to this, political instability has greatly contributed to the recent dramatic loss of confidence in the naira.

It is instructive to look at what has happened to consumer prices. Since 1986, the rate of inflation has fluctuated widely, reflecting variations in government management of revenue and expenditure. In 1986 and up to the middle of 1987, despite a 70 percent loss in the value of the naira, satisfactory management of money supply kept the inflation rate to below 16 percent.

Expansionary fiscal and monetary policies since 1990, instead, caused inflation to rebound, with rates in excess of 60 percent in 1993 and 1994. In parallel, the foreign exchange rate, that is, the naira price of foreign exchange, increased in the market from about N10 to the dollar in 1990, peaked briefly at over N100 in late 1994, and fluctuated in the N75-85 range in early 1995.

Perhaps the weakest part of Nigeria’s adjustment program has been the control of government spending. The public sector spent progressively more each year as revenue grew only slowly. The deficit, by and large, was financed by printing more naira. Since 1990, as the then anticipated democratic transition approached, fiscal deficits rose sharply and the economy was flooded with newly printed naira.

As more and more naira chased after the same or a slowly growing amount of goods and services, each naira became worth less. This was reflected in rising consumer prices. Those whose naira income did not rise at the same speed could buy less. Meanwhile, more and more naira were chasing the same or a slowly growing amount of foreign exchange. Thus more and more naira were needed to buy the scarce foreign exchange.

The attempts to tighten controls on the purchase and sale of foreign exchange in 1994 kept the official exchange rate artificially stable at N22 to the dollar. However, this “stability” came at a very high price to Nigerian exporters. Their competitive advantage, particularly towards neighboring countries, largely disappeared. The re-opening of the foreign exchange markets, as highlighted in the 1995 budget, is an important step toward stimulating exports from Nigerian producers.
implemented, and stop-go fiscal policies undermined the SAP's stabilization objectives and introduced uncertainty about the sustainability of the new policies. The large debt overhang was also a factor in discouraging some savers and investors. Reductions in large-scale unproductive public investment did not occur, and spending levels for the social sectors were not protected. Nevertheless, key economic distortions associated with the pricing and availability of foreign exchange were reduced in the SAP years, and the growth response over the 1987-92 period was good.

The erosion of the gains of macroeconomic stability in the 1990s is, however, due to growing extra-budgetary expenditures, which reflect narrower political concerns, associated in large measure with special interests and a very expensive electoral process. These large outlays have been financed primarily by printing money and by diversion of oil receipts into off-budget accounts. Consequently, the resulting inflation has reduced the purchasing power of consumers and aggravated dissatisfaction with recent economic policies. The climate for private investment has been undermined and the supply response choked off. The declining rates of real GDP growth in 1992 and 1993 barely kept up with population growth. Heightened political uncertainty since the middle of 1993 aggravated the gloomy economic outlook.

Moreover, the 1994 budget policies on exchange and interest rates dismantled to a large extent the remaining incentive framework introduced during the SAP years. The earlier gains from the SAP — including the improved international competitiveness of the Nigerian economy and the impact on growth — have been placed very much at risk.

But looking ahead, the central economic challenge facing Nigeria is to bring the macroeconomic situation back under control, as a necessary step in establishing an environment conducive to sustained growth and poverty reduction. But this will require many politically difficult measures, particularly expenditure restraint and a reordering of spending priorities, as well as a functioning market-determined exchange rate system and deregulated interest rates. Even more importantly, it will require transparency in the budgetary and spending processes — so that the people can judge for themselves how the Government is using its resources and the implications for their future. The first important steps were taken in the 1995 budget.

As consensus on the way forward emerges — and Nigeria decides resolutely to implement the needed reforms — external donors and creditors are likely to support the effort to help ensure its sustainability.
AGRICULTURE

What Constitutes Success?

In Nigeria today, state-wide Agricultural Development Programs (ADPs) exist in all thirty states and the Federal Capital Territory (FCT). These Nigerian-managed ADPs, supported in part through Bank loans, reach four-fifths of the rural population. Over the last twenty years they have been instrumental in improving rural infrastructure, introducing new farm technology, and measurably increasing Nigeria's agricultural productivity. From 1988 to 1993, for instance, Nigerian agriculture grew annually at a rate of 4 to 5 percent, much above that achieved by most Sub-Saharan nations.

The basis for Nigeria’s strong agricultural development program was laid in 1953, when the World Bank sent its first mission to Nigeria to study the country’s economy. At that time, the Emir of Kano confidently asserted that “the basis of [Nigeria’s] economy is its agriculture and will remain so, and every effort must be made to improve it.” Yet twenty years later, most Nigerians saw oil—not agriculture—as their future. As oil revenues rolled in throughout the 1970s, people bought imported foods, and local agriculture was all but forgotten. The Federal budget allocated less than 3 percent a year to the sector, and that rate dropped to 1 percent in the late 1980s, after oil revenues had dried up.

Nigeria’s use of Bank assistance began in earnest with a series of area development pilot projects in 1974/75. The northern projects — begun when oil money was plentiful — were a success: productivity rose, rural roads were built, and water was provided for rural people and for livestock in the dry season. The projects also created an extension organization that reached a large number of farmers. The middle-belt and southern zone projects which followed were more ambitious in design and were faced with diminishing government financial support. Although they made little impact on agricultural output, the projects left behind a useful legacy as they provided the nucleus for later extension services and improved rural infrastructure.

In 1980 Nigeria’s Federal Government vowed to break the country’s dependence on food imports and to increase local production 3.5 percent a year for five years. It established the first state-wide ADPs, which

The Agriculture Unit of the Lagos Office, with one representative from the Washington Headquarters and eight Nigerian senior staff, provides implementation assistance to the Bank-aided agriculture projects in Nigeria and assists with project preparation and appraisal.

NIGERIA: WORKING TOGETHER WITH THE BANK • 27
Women, in Nigeria as elsewhere, have many responsibilities. Broadly speaking, these fall into three main categories: bearing and rearing children, maintaining the welfare of family and household, and working to earn income in cash or kind. It is not surprising, then, that studies have shown Nigerian women to work considerably longer hours than men. Yet their contribution to the country’s social and economic development remains largely unrecognized in official statistics. Clearly, no country can aspire to achieve its full development potential unless all of its people, women and men, are full participants in this process. Add this to the fact that women’s earnings are very likely to be spent on the health and education of their children, and it is easy to see why about half of all the projects supported by the World Bank today specifically target and involve women. The great majority of Nigeria’s women work in agriculture and related activities. In fact, women provide well over half of all labor in agricultural production and processing. They also perform much of the rural transport work, carrying on their heads, over long distances, farm produce, fuelwood and water. Achieving agricultural growth and raising incomes in Nigeria’s thousands of villages is, therefore, crucially dependent upon directly reaching and involving the women. The World Bank has collaborated with the state agriculture ministries through the Agricultural Development Projects in efforts to make rural women more productive and to raise their incomes. Today, the agricultural extension services of all states include strong Women-in-Agriculture programs: large numbers of women work as extension agents, and farm technology advice is reaching
women farmers through women’s groups and female contact farmers. The Bank is also working closely with the forestry departments to address the fuelwood problem faced daily by many women. Projects supported by the World Bank help ease women’s workloads by providing sources of safe drinking water in the villages and by promoting more efficient tools and techniques for processing crops. The Bank has worked with Nigerian ministries and agencies to provide better health care, education, nutrition, sanitation and family planning services to Nigeria’s women and their families. Healthier and better educated mothers and children are essential for the country’s future. Nigeria’s women also work in, and often manage, a wide variety of small and micro businesses, ranging from food processing and trading to a multitude of artisanal and cottage industry pursuits. And, as many local agencies as well as development agencies have learned, if given the opportunity, women are excellent money managers and credit risks. Their enterprise and business acumen are renowned and represent a tremendous potential for spurring the country’s development. A group of women in the town of Moniya provides an example. A few years ago, these women formed a cassava-processing group, calling it “Stop Hunger.” Supplied with peeling knives, machinery, stoves and advice by scientists from the International Institute of Tropical Agriculture in Ibadan, they went to work. Today, they not only process food for their families faster and more easily in the community center, thereby freeing up time for other tasks, they also take on contract processing to earn extra income. Now they have organized a morning school before work, where they study reading, English, and arithmetic — to help them do their accounts.
cultural projects, these multistate ventures put the strengthening of planning and implementing institutions before infrastructure works, while continuing support to federal coordinating and evaluating units. They also emphasized the involvement of women’s groups, and set in motion the expansion of the Women-in-Agriculture program which now operates nation-wide.

Today, both Bank and government money has been made available for multistate projects on a competitive basis, replacing the past practice of preallocating set funds to each state. Projects that can satisfy eligibility and implementation criteria will have greater access to funds, and the Federal Government will need stronger supervisory oversight to administer the process.

Country-wide, the ADP system today has some 8,000 village extension agents and 1,200 specialists. It has formed 4,000 women’s groups to deal with production, post-harvest technology, storage, marketing, and savings. Its extension services cost just $2 per person per year. Among its successes are the fact that 80 percent of Nigeria’s farmers were using improved cassava and maize varieties in intercropping systems by 1993, 70 percent had access to soybeans (a cheap source of protein), and 35 percent had adopted the improved miniset yam.

Nigerian governments have consistently shown steadfast commitment to the agricultural sector and to the ADP system, even when the World Bank hesitated to support
rural development managed by parastatal organizations. The Nigerian experience showed that such a program must be nation-(or at least state-)wide and cannot be measured in terms of five-year projects or financial self-sufficiency only. It also demonstrated the need to involve the farmers through on-farm research and at all stages, and the benefits of using private local contractors to develop rural infrastructure. As a provider of public services which is not expected to be financially self-sustaining, the ADP system is a workable and effective means of channeling public funds for agricultural and rural development to the disadvantaged non-urban sector. Keys to its sustainability are its cost-effectiveness, the pursuit by Government of policies that are favorable (or at least not unfavorable) for agriculture and the rural sector, and the transfer to private entrepreneurs and beneficiaries of all commercial activities and the operation and maintenance of local infrastructure.

Under separate projects, the World Bank is also supporting essential activities such as agricultural research, seed production and distribution, livestock health and production, afforestation and forest management, and oil palm production and processing.

The Bank has not financed the import of fertilizer and its distribution for a number of years now because of the wide gap between official and market prices which has been the cause of enormous waste of financial and agricultural resources. The heavy subsidies on official fertilizer prices have been a huge drain on state and federal government budgets, provided vast windfall profits to intermediaries in the fertilizer distribution chain, stimulated substantial black-market and crossborder trading in fertilizer, but have rarely reached the intended beneficiaries — at government-decreed prices — Nigeria’s small-scale farmers. As of 1995, the fertilizer subsidy continues to absorb more public funds than all other government support activities to the sector combined, yet most agriculture farmers must pay many times the official price to obtain fertilizer at all.

TRANSPORT
Getting There

Over the years, Nigeria has built up one of the best trunk-road networks in Africa. Today, however, many of its roads have fallen into disrepair for lack of adequate maintenance.
RURAL ROADS WITHIN ADPs

Under various ADP projects supported by the Bank since 1980, more than 2,000 km of new all-weather resistant rural roads have been built, with bridges and culverts. Another 4,000 km of rural roads have been completely rehabilitated. These roads were in high-priority areas, crucial to facilitate the efficient movement of farm inputs to farmers and of agricultural produce from the villages to markets and towns. By providing good and year-round access to input and output markets and to the health, educational and other social and economic services available in towns and cities, these roads have helped improve the lives of millions of people in rural Nigeria.

With roads being Nigeria's major form of transport, the condition of those roads seriously affects its economic prospects.

World Bank support for the transport sector began in 1958 and for the next fifteen years covered a broad cross-section of Nigerian transport: railways, ports, civil aviation, roads, and a general loan to help the country repair the ravages of civil war. From 1973 to 1980, however, Nigeria financed its transport sector entirely from oil revenues. It devoted fully a quarter of its Third Development Plan to expanding Nigeria's infrastructure to relieve traffic bottlenecks caused by the country's sudden and unprecedented economic growth. In 1978, Nigeria asked for Bank support to help reduce the cost of highway construction and to train Nigerians in road maintenance. That support continues today, with ongoing projects at both federal and state levels.

While air, rail and sea transport are important to Nigeria and the Bank is working with the Federal Government to improve all of them, improving the road system and its management is absolutely crucial to the country's economic growth. Nigeria's federal highway system is far and away the most important and comprehensive means of transport, yet it is rapidly falling into ruin. In addition, there are secondary, or state, roads which connect up to federal highways, all of which need to be maintained. More than three quarters of the $645.9 million the Bank has lent to the transport sector so far (9.6 percent of all Bank lending to Nigeria) has gone into the highway system.

Since money spent on maintenance has the highest rate of return, routine road maintenance should top the transport agenda. A roads sector strategy study undertaken by the Bank in 1989 shows that Nigeria needs to undertake institutional and policy reforms, increase its allocations for road upkeep, involve the population in planning and carrying out road projects, agree on priority roads in need of rehabilitation, and take steps to ensure that funds go first to such budgeted activities as routine maintenance, rescaling, and regravelling.

U R B A N D E V E L O P M E N T

Wresting Order From Chaos

Nigeria's demand for urban infrastructure including affordable housing, safe drinking water and sanitation has far outstripped supply; a policy and financial climate is now needed to encourage state and local govern-
ments and the private sector to take over these tasks. So long as government supplies basic services, the Bank recommends a mix of market pricing (at times offset by subsidies for the poor), investment in maintenance, simpler and lower-cost technologies, and autonomy for publicly owned utilities.

Nigeria has a long history of urbanization, and its system of cities plays a vital role in the national economy. But services in those cities have not been able to keep pace with the burgeoning population.

Because Nigeria funded urban development out of its oil revenues for many years, the World Bank came late to the sector, which includes roads, housing, sanitation, and water supply. Nonetheless, over the last 25 years, it has supported nine water and sanitation projects — particularly favored because they benefit the poor directly — at a cost of $757 million and six urban development projects for $312.9 million, together accounting for 16 percent of the Bank’s total lending to Nigeria.

Although Nigeria has spent millions on water systems, less than half the urban population and less than a quarter of the rural population have access to clean water. Already these levels of access are grossly inadequate, and the quality of service is deteriorating. The major problem, it appears, is one of inefficient management and the fact that the service does not pay for itself. And then the all-important maintenance cannot be provided.

Throughout the 1980s, Nigeria used Bank loans to improve its urban housing with urban sites-and-services schemes and community improvement schemes, and promoted urban land development and better drainage and sanitary conditions. In 1990, the Infrastructure Development Fund Project, working through Nigerian merchant banks, began financing multisectoral urban infrastructure in twelve States — with sub-projects in road improvement, drains, water supply, sanitation, waste collection, markets, motor parks, and land development. The ongoing Oyo State Project not only took physical measures to improve flood control and solid waste management, it also established a line of credit to enable local governments to undertake such improvements themselves.
OIL IS A MIXED BLESSING

The Nigerian economy is highly dependent on a number of external variables beyond the control of policymakers and domestic agents. Most important amongst those variables is the price of oil, which is highly uncertain and determined in fluctuating international markets. With Nigeria’s oil sector accounting for almost all of the country’s exports and government revenues, a fairly small price change can have a significant impact. A $1 increase in the oil price in the early 1990s increased foreign exchange revenues by about $650 million a year and government revenues by $320 million a year. Nigeria’s reliance on oil production for income generation clearly has serious implications for its economic policy management. In the past, Nigerian policymakers tended to assume that oil price increases were permanent and oil price decreases temporary. This assumption has led to a number of difficulties. * During oil booms, expenditures have tended to increase with higher revenues, and since expenditure programs are difficult to contain or reduce when booms come to an end, macroeconomic imbalances have been a recurring problem. Given that these imbalances cannot be sustained indefinitely, expenditure cuts have been unavoidable, but have frequently been undertaken too late. The effect on the overall domestic economy, because of expanding and contracting public expenditure programs dependent on oil income, has increased the risks faced by investors in non-oil activities. Private investment is lower than it would be otherwise and consequently growth in the non-oil economy is reduced. * Oil-boom resources have financed additional, large government expenditure programs that exceeded the public sector’s programming, implementation and management capacity. Many investments did not pay for themselves, in large part because with the large number of programs, project selection criteria and procedures became very lax during oil booms. * Properly managing the country’s exposure to oil price volatility through an oil stabilization fund to smooth expenditures in line with sustainable income, and through the use of financial mechanisms available in international markets to insure against unanticipated price fluctuations, will be crucial factors in assuring a strong foundation for a sound macroeconomic policy environment.
In 1995, Nigeria and the Bank are collaborating on a comprehensive Urban Sector Review on which to base an updated strategy for urban development in the medium term. The study will address the issues mentioned above. But from the Bank's point of view, to have a lasting impact, government institutions dealing with the urban sector at the federal and state levels will have to concentrate on regulation, planning, and supervision — leaving maintenance, operation, and financial management to autonomous parastatals or to the private sector. As a result, market forces can ensure quality and that the provision of basic services can pay for itself.

PETROLEUM

Blessing and Curse

Petroleum production is Nigeria's largest and most important industrial sector. Yet while the country's upstream petroleum operations — exploration and production — perform well (except for environmental problems with flared gas), its downstream operations — such as refineries and power generation — need urgent attention.

In 1983, the World Bank conducted for the first time a major review of the country's highly complex energy sector and recommended, even at that early date, diversification of hydrocarbon production.

In 1992, the Bank reviewed again the energy sector with the hope of sparking reforms. For despite its considerable potential, Nigeria's domestic energy sector today is a financial and economic drain on the country. The report concluded that inefficiencies and operating problems in the downstream sector are causing financial losses equivalent to almost 10 percent of GDP every year. Widespread reforms including elimination of domestic pricing subsidies, and privatization of refining and distribution systems are necessary for this sector to become commercially successful and a productive segment of the nation, once again.

Since the 1970s, the Bank has provided support to the petroleum sector. In 1991, the Bank and the International Finance Corporation provided $293 million of financing for the $885 million highly suc-
Nigerians' demand for electricity far exceeds NEPA's workable capacity. Therefore, many Nigerians buy costly private generators while many others suffer power shortages.

Successful development of the Oso Condensate field — a joint venture of the Nigerian National Petroleum Company and Mobil Producing Nigeria Ltd. — that will earn some $5 billion in net foreign exchange earnings for Nigeria.

While other projects such as a refinery rehabilitation program have not been successful, the Bank is working with the Federal Government, NNPC and private oil companies to promote the concept of a private sector reforming and marketing strategy. Discussions with the Bank and IFC support projects that will use Nigeria's abundant gas resources and reduce the flaring of the valuable resource, including the possible development of a West African regional gas pipeline. The overall objective is to assist Nigeria, over time, like Indonesia and Mexico, to reduce its dependence on a pure oil-based economy while increasing its efficiency and productivity.

**POWER**

**Policy First**

Nigerians' demand for electricity far exceeds NEPA's workable capacity. Therefore, many Nigerians buy costly private generators while many others suffer power shortages. Nigeria has spent billions of dollars building the power system, but not nearly enough maintaining it. Hence, the power system is deteriorating, and important parts of it are perilously close to collapse. Solving this problem means redefining the roles of Government, NEPA and the private investors, and having consumers pay the reasonable cost of providing reliable service.

The Bank has supported seven power projects with $472.5 million of lending (7 percent of the Bank's total lending to Nigeria). Much of this was to build the system and to develop a core of technically competent staff to manage and operate it. Despite the progress achieved, the system has become increasing unreliable and costly to the economy. There are several key reasons. The system and its needs are too large for one company to manage effectively. There is little incentive to be reliable and efficient without either competition from the market or a system to recognize good performance. Tight governmental controls on NEPA management contribute to NEPA's operating problems, for example with respect to staffing, buying the materials and services it needs for maintenance, and charging the prices or collecting all the revenues needed to recover costs.

Nigerian specialists and World Bank staff have both assessed the situation and agreed that the power sector needs to be reorganized to induce efficiency and attract resources. The investment needed to rehabilitate the system is about $1.5 billion, which would require private sector participation. The benefits to Nigerians from reorganization and a private sector involvement would be numerous. The power supply would become reliable, the real cost of electricity would decrease, and the system would expand faster.

In November 1992, Nigerian and Bank officials together developed alternative ways of
Restructuring the power sector along the following lines:

- Separate and decentralize certain generation, transmission and distribution functions.
- Introduce market competition and private investors.
- Redefine roles of key actors: the Government sets policy enabling the sector to work and grow, the utilities operate on their own as commercial enterprises selling their services to the public, and — where competition is lacking regulations — ensure that service standards and tariffs are in the public interest.
- Charge prices which recover the reasonable costs of supply.

The key challenge now is to select and implement a program.

**Telecommunications**

**Missed Connections**

With only 0.2 lines for every 100 people, Nigeria's telecommunications system is definitely not getting out the word, but $2-3 billion is needed to achieve a rate of 1 line per 100. This level of investment requires the involvement of the private sector. Efficient service and competitive prices can best be achieved by dismantling the government-owned monopoly and licensing new operators. Private sector success in telecommunications has been amply demonstrated, most recently in Latin America.

As far back as 1969, the World Bank noted that Nigeria had one of the worst access-to-telephone line ratios in the world. Today — despite Nigeria's position as an economic leader in Africa — the situation is much the same. It is not for lack of state. Nigeria's government owned and operated telecommunications authority, NITEL, has approximately 30 employees per thousand direct exchange lines, as compared to Ecuador with 18 and Australia with about seven.

The country's present phone service falls short both in quality and quantity. Almost half of the installed telephone capacity remains to be connected to customers; equipment is incompatible, skilled personnel are few, maintenance practices are poor and the power supply fitful. Complex procurement and contract approval procedures cause
WMTOP NIGERIA

The African Women's Management Training & Outreach Program (WMTOP) was initiated in Nigeria in 1990. It aims at building NGO capacity to deliver management training to local women's organizations. It focuses on strengthening basic business skills of illiterate and semi-literate women managers of micro enterprises, and leaders of local women's organizations engaged in income-generating activities. WMTOP is also designed to develop and field-test management training materials and methodologies to enhance the capacity of training organizations to design and deliver such training themselves. Over 350 women have received training, with clear impact-reduced costs, new product lines, accurate price setting, timely accounts — and incomes are rising. To their delight, after skeptical interest from their husbands, women now report that the men are initiating their own new cooperative schemes spurred on by the women's example.
further delays in adding new phone lines.

In 1990, NITEL and the World Bank agreed to implement a $225-million project to help develop a long-term strategy for the sector; improve NITEL’s management, financial, and technical skills; expand the network, and rehabilitate existing facilities. The project failed to meet its objectives — in March 1995 only $13 million had been disbursed — mainly due to the problems noted above. Major changes are required in the way the sector is structured if Nigeria is to have an information infrastructure which will allow it to compete in the region and globally. A new policy on private sector participation in the telecommunications industry has been issued and the Nigerian Communications Commission has been established as the regulatory authority. Additional sector reforms that foster increased competition and private sector presence in the provision of basic telephone service will be needed to achieve significant improvements.

The importance of rapid movement in this area can hardly be over-emphasized, because efficient communications are so important to progress throughout the economy.

**PRIVATE SECTOR AND INDUSTRIAL DEVELOPMENT**

*David and Goliath*

The entrepreneurial spirit of Nigeria’s people is arguably her greatest economic asset. Yet policies left over from earlier times continue to strangle small business, while billions are poured into publicly owned enterprises which are not viable economically.

The World Bank has lent $352.3 million for seven projects between 1969 and 1989, or 5 percent of its total lending to Nigeria, for industrial development. During those years, the World Bank helped set up the Nigeria Industrial Development Bank (NIDB) as a vehicle for Bank lending to the industrial sector but steered away from large industrial projects, deeming them too ambitious and poorly planned to work. It did, however, make available lines of credit and technical assistance for smaller enterprises and private entrepreneurs.

For the last thirty years, the Nigerian Government has promoted large-scale industry. Throughout the 1970s, emphasis was put on downstream petroleum operations; iron, steel, and cement factories; and pulp and paper mills — all government-managed with little commercial success. By the late 1970s, most traded goods were being imported. Government trade and exchange rate policies, moreover, discouraged the production of domestic raw materials and intermediates in favor of operations that assembled imported parts. This policy proved disastrous when oil prices fell.

By the early 1980s, realizing that government regulation was stifling industrial growth, both the Government and the Bank shifted their focus to macroeconomic policy reform. In the second half of the 1980s, trade and investment restrictions were liber-
Nigeria has had some success in privatizing and commercializing many of the smaller enterprises, but it continues to invest in large public enterprises (such as NEPA, NITEL, and Ajoakuta Steel) despite clear evidence that it is losing money on those investments. And continued interference from ministries in commercialized enterprises has made the commercialization program a failure. To turn this situation around, the government should stop initiating new ventures which could be readily handled by the private sector, dramatically step up the scope and pace of the privatization program, and cease investing in enterprises to be privatized. Moreover, any public enterprise scheduled to remain under the purview of the public sector should be allowed to function like a fully commercialized enterprise under private sector management.

SOCIAL SERVICES
Help to the People

Nigerians today recognize that the toll of human suffering cannot be reduced nor the future of their children assured without substantially greater investment in the social and human services.

Bank support for the social sectors has increased significantly in recent years. To date the Bank has lent Nigeria $617.6 million for programs in education, health and population. Because social problems are systemic and interrelated, the Federal Government has
adopted comprehensive national policies aimed at improving access to and raising the quality of all of Nigeria’s social services.

EDUCATION

Nigeria increased the number of primary school pupils from 4.7 million in 1973 to over 14.5 million in 1982 — an impressive accomplishment by any standard. Yet since then, the pace of increase in enrollments has slowed and the quality of education has declined. Adult literacy hovers at 51 percent and secondary enrollment at 21 percent.

After a period of substantial investment in education, Nigeria now devotes only 9.7 percent of the total national budget to education. The country’s school buildings are run down, enrollments have dropped, and half of all students fail the Senior School Certificate Examinations.

Asked to help, the World Bank conducted several sectoral studies in the 1980s. It then worked closely with Nigeria to make instructional materials available and to improve the country’s capacity to plan and manage education at all levels. The 1988 Technical Education Project has already enabled three polytechnics to qualify for accreditation. The Federal Universities Development Project has started to provide books, laboratory equipment, and staff training to twenty federal universities and improved their financial viability. The 1991 Primary Education Project is aiming to get 90 million textbooks into the hands of 14 million Nigerian school children over a six-year period.

To improve early child care, and to help adults become more aware of development issues such as adequate diets, basic literacy, safe water and sanitary conditions, a new pilot project in Development Communication will produce and disseminate preschool programs and social messages.

The Bank is working with the Government to increase public funding for basic education, while mobilizing private funds for education at higher levels.

Efforts are also being made to improve the supervision of teacher training, spend proportionately more on instructional materials, reduce the curriculum, and set high standards in key subject areas.
While Nigeria has nearly four times as many doctors per capita as any other Sub-Saharan country, the quality of its health services is poor, and its rates of mortality and disease high. Greater investment is needed, along with a shift toward primary care.

Nigeria’s National Policy on Health stresses primary care as the most effective and least expensive way to prevent illness. Yet for the past ten years, about one in five children in Nigeria has died before the age of five — a tragic statistic.

In its effort to assist Nigeria in upgrading its health system, the World Bank supported a 1990 National Essential Drugs Project to develop an affordable and sustainable way to supply Nigerians with safe drugs and to train health workers in their correct use. The Health Systems Fund is assisting state governments in rehabilitating existing facilities. A new IDA-funded project is being proposed which will support the government program to reduce the incidence of sexually transmitted disease and to stem a potential HIV epidemic, and will train participants to gather data needed to control sexually transmitted disease in the future.

To improve the health of all Nigerians, the Government recognized that the problems of inadequate access to quality services, unpredictable budget allocations, and inappropriate resource distribution must be addressed, and the national policy of improving primary care put into action. The Bank and other donors are working with the Government to try and address these problems. Progress is being made but a lot more action is needed.
THE POPULATION PROGRAM

Nigeria's population is growing at an annual rate of 2.9 percent, with a total fertility rate of six children per woman. While this rate is falling in areas where health and education are above average, less than 10 percent of all eligible couples actually use modern family planning methods. A first step is to improve the access of girls to education and of women to good health care.

In 1989, Nigeria launched a comprehensive National Population Policy aimed at improving the quality of life of all Nigerians, setting ambitious targets for raising the average age for marriage, reducing the number of births among women who are too young or too old for safe motherhood, reducing the average size of families, and establishing goals for the provision of social amenities to rural areas and for universal access to family planning. Unclear lines of responsibility, weak leadership, and lack of consensus around a plan of action with clear priorities have, however, hampered the efficiency of the government population program.

As part of its contribution to Nigeria's overall development, the World Bank provided support for the National Population Project in 1991, with an IDA credit of $78.5 million. Presently, the National Population Project is helping the Federal Government implement this policy, while other health projects are working with the states and local government administrations to develop strong health delivery systems that include family planning services.

Through extensive support to both the education and health sectors, Nigeria and the Bank work towards improving basic health services, especially for women. As women are able to care for their children better, infant mortality is reduced, and they learn to space their births according to family preferences.
Nigeria may lose as much as US$5 billion worth of natural resources to environmental degradation every year without some form of remedial action. Nigeria's chief environmental problems are soil degradation, water contamination, and deforestation. While there is much awareness in the country of environmental concerns, Nigeria's institutional ability to address them remains weak. With population burgeoning, cities expanding, and ever greater numbers dependent on a shrinking pool of arable land, degradation continues to worsen.

In 1988, Nigeria issued a National Policy on Environment and established the Federal Environmental Protection Agency, or FEPA. Following an extensive study of the country's environmental problems and the costs, benefits, and priorities in addressing them, the World Bank and the Government published *Nigeria: Towards the Development of an Action Plan* and incorporated a number of its recommendations into a 1992, $25 million, IDA-supported Environmental Management Project.

In this project, Nigeria seeks to establish a national capacity for formulating environmental policy and legislation, developing institutions, data-gathering and analysis, and to raise public awareness levels. It also seeks to ensure that there is capacity in the country to take environmental considerations into account in investment and development planning. Yet FEPA's mission and role remain unclear, and responsibilities among state and central government overlap. FEPA's weakness is also reflected in the country's lack of capacity to gather, interpret, and disseminate environmental information.

The Bank Group is also assisting Nigeria to take measures to address problems in the areas of forestry, solid waste disposal, stormwater drainage, gas-flaring reduction, population control, health, coastal zone management, and industrial and hazardous waste management.

**IFC Loans**

**Boosting Private Enterprise**

Unlike many developing countries, Nigeria has a thriving private sector, and through its support of small and medium-sized businesses, the IFC seeks to encourage its entrepreneurial spirit. Yet recent bouts of fiscal and economic instability have discouraged many potential investors. Only by reassuring them that the Government is dedicated to enforcing responsible economic policies can Nigeria woo back investment in the country's future.

Since its first investment in Africa — a 1964 loan to Nigeria — the World Bank Group's International Finance Corporation (IFC) has used a combination of loan and equity financing, loan guarantees, technical advisory services, and the mobilization of additional financing from private sources to encourage Nigeria's private sector. (See inside back cover for IFC address.)

As of March 31, 1995, IFC has made...
LOOK BEFORE YOU LEAP:  
PLANNING FOR THE NIGER DELTA

Over-fishing, deforestation, oil pollution, urban wastewater, erosion, and flooding all take their toll on the Niger Delta, one of the largest river deltas in the world. People living in the Delta are faced with a range of environmental problems from health hazards to lack of availability of safe water and arable land. Despite the exploitation of its oil reserves, the Delta has remained underdeveloped and poor, the latter exacerbating environmental degradation. Nigerian government and Bank staff are working together to devise a plan for managing the resources of the Delta in a coordinated manner, to ensure sustainability. The aim is to safeguard the area's ecosystems and minimize environmental degradation, while promoting economic growth. Major stakeholders make up the urban and rural communities living in the Delta area, industries, federal, state and local governments, universities and NGOs. In the meantime, the Bank is helping Nigeria to collect and analyze baseline data on the area's biophysical, social, economic, and institutional needs and is preparing with local and international expertise, an environmental strategy for the Niger Delta.
IFC stands ready to assist wherever appropriate opportunities can be supported.

Gross allocations to Nigeria of US $286.5 million (including US$99 million in private cofinancing) for 24 commercial ventures.

The current IFC portfolio extends to companies in the petroleum, agriculture, banking, industry, manufacturing, textiles, transport, and tourism sectors. It also assisted in establishing one of Nigeria's first discount houses. In addition to direct financing, both Government and international oil companies have welcomed IFC's advice on structuring deals and have used it as an impartial arbiter.

The IFC is well positioned to expand its investments and advisory services. It could be particularly instrumental in promoting small-scale manufacturing for domestic and export markets, helping enterprises restructure, arranging private financing for infrastructure improvements, and helping Nigeria develop its money and capital markets. To date, the largest IFC investment in Nigeria was a $75 million investment in 1991 for the Oso Condensate Project.

For smaller Nigerian enterprises, the IFC provides technical assistance and financing through its Africa Project Development Facility (APDF) and Africa Enterprise Fund (AEF). In addition to providing direct funding, the APDF helps firms with the project preparation and documentation needed to apply for financing, including financing from the IFC itself.

But while IFC will continue its advisory role in Nigeria, prospects for an expanded investment there depend largely on the perception of both domestic and foreign investors on the pace and success of government policies in ensuring economic and political stability, reducing the role of the public sector, and expediting the deregulation of the economy as a whole. Progress on these fronts is needed to restore confidence in the Government's economic management strategy. IFC stands ready to assist wherever appropriate opportunities can be supported.

Bringing Partners Together
The Bank in Nigeria

Recognizing Nigeria as a major economic force in Africa, the World Bank established a Resident Mission in Lagos in April 1970. The purpose of the Mission at first was to gather economic information, to keep the Bank
informed on all matters relevant to its activities in Nigeria, and to represent the Bank’s view on the Government’s development programs and policies. In 1970 the Resident Mission had a total of six staff; there are now over 60, of whom six are non-Nigerians. The expansion of the number of senior higher-level Nigerian staff reflects the Bank’s commitment to partnership in local capacity and appreciation of national conditions.

In 1988, the IFC opened its Office in Lagos to understand better Nigeria’s dynamic private sector and to identify suitable projects for financing.

Nigerian senior staff and consultants at the Mission — now numbering 19 — have progressively taken on responsibility for project supervision. They are also involved in project identification and appraisal, bringing their country knowledge and experience into the process. With the growth in the Bank’s active lending program to include more state-level activities, the number of project implementing agencies has expanded to 131. The Staff of the Resident Mission play a key role in assisting the managers of these agencies.

In January 1988, the Bank moved to its current facilities on Victoria Island, and in 1992 established a temporary office in Abuja to work with government ministries that have relocated there. Construction is currently under way on a permanent Resident Mission in Abuja to be completed in 1995.

The upcoming opening of the Bank’s Resident Mission in Abuja is testimony to the close working relations Nigeria has maintained with the Bank’s Resident Mission since its arrival in Lagos 25 years ago. Regular visits by teams from Washington and supervision teams from the Lagos office have struck up excellent professional relationships with Nigerian agencies and their officials. The steady flow of staff between Nigeria and the Bank promotes mutual understanding and appreciation of the policies and perspectives of each.

The Bank continues efforts to recruit more young Nigerian women and men through its young professionals program, as well as the direct hire of highly experienced Nigerians.
PEOPLE ARE THE FUTURE

Nigeria is the giant of Africa, with enviable resources. With over 100 million people, it is the most populous country in Sub-Saharan Africa, and earns annual oil revenues of over $6 billion a year. Together the combination should produce economic leadership and dynamic growth. The missing link is the systematic utilization of these resources in a reliable and stable framework.

The population is growing at an estimated 2.9 percent per year. To be productive, people need adequate food, shelter, education, health and employment. This requires investment, planning and organization. And a harnessing of Nigerians' own energies. Resources must be invested to enable the people to be productive contributing members of society — this means access to basic education, primary health care and clean water, and to a stable and accountable system of governance.

The people of Nigeria hold the key to its future. With a significant number of educated people, extraordinary entrepreneurial energy, a productive agricultural sector and a well established transportation network linking the whole country, the population has the potential to return to one of the fastest economic growth rates exhibited in Africa — which reached an annual average of 5 percent growth of real GDP between 1986 and 1992.

The people are its precious resource. In partnership with its people, Nigeria can grow again. One of Nigeria's partners in its quest for development can be the World Bank.
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<td>1995</td>
<td>—</td>
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**Abbreviations:**
- FMEYD = Federal Ministry of Education and Youth Development
- FMIC = Federal Ministry of Information and Communication
- FY = Fiscal Year (July 1 – June 30)
- NRCI = Nigerian Bank for Commerce and Industry
- NEPA = Nigerian Electric Power Authority
- NIDB = Nigerian Industrial Development Bank
- NTDC = Nigerian Telecommunications, Ltd.
- NNPC = Nigeria National Petroleum Corporation
- NTA = Nigerian Television Authority
- NEPA = Nigerian Telecommunications Authority
### Ongoing Projects

*(As of March 31, 1995)*

**[: USD MILLION:]**

<table>
<thead>
<tr>
<th>NAME OF PROJECT</th>
<th>AGENCY/STATE(S) INVOLVED</th>
<th>EFFECTIVENESS DATE</th>
<th>CUMULATIVE DISBURSED</th>
<th>BALANCE UNDISBURSED</th>
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<td>Oyo State Urban</td>
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<td>9.6</td>
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<td>2.9</td>
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**Nigeria Annex 2 (continued)**

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<th>NAME OF PROJECT</th>
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<th>EFFECTIVENESS DATE</th>
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<th>BALANCE UNDISBURSED</th>
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**Nigeria Annex 3**

Lending and Disbursements

1987 - 1994
[FISCAL YEARS]

![Lending and Disbursements Graph](image)

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HEADQUARTERS

The World Bank
1818 H Street, N.W.
Washington, D.C. 20433 USA

Central Phone Number (202) 477-1234
Nigeria Unit Office Phones
(202) 473-4878 (202) 473-4895 (202) 473-4865
Central Cable Address INTBAFRAD
Central Telex Number (World Bank) 248423
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PUBLIC INFORMATION CENTER

The World Bank
1776 G Street, NW
Room G Cl-300
Washington, D.C. 20433 USA
Office Phone (202) 458-5454
Facsimile Number (202) 522-1500

NIGERIA OFFICE

The World Bank
1st Floor
Plot PC-10
Engineering Close, off Idowu Taylor Street
Victoria Island, Lagos, Nigeria
Office Phone (234-9) 2616016, 2616044, 2618956, 2616196, 2613989
Cable Address INTBAFRAD
Telex Number 28848
Facsimile Numbers (234-1) 2611074

TEMPORARY ABUJA OFFICE

The World Bank
Nicon Noga Hilton Hotel
Suites 112 to 116
P.O. Box 81
Abuja, Nigeria
Office Phone (234-9) 523-0568
Office Phone/Facsimile Number (234-9) 523-0569

IFC NIGERIA OFFICE

International Finance Corporation
3rd Floor
Plot PC 10
Engineering Close, off Idowu Taylor Street
Victoria Island
Lagos, Nigeria
Office Phone (234-1) 612081, 611400, 2617164
Cable Address CORINTFIN
Telex Address 21174
Facsimile Number (234-1) 2617164
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