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Report No. P-3806-UNI

REPORT AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

TO THE

EXECUTIVE DIRECTORS

ON A

PROPOSED LOAN

IN THE AMOUNT EQUIVALENT TO US$5 MILLION

TO THE

FEDERAL REPUBLIC OF NIGERIA

FOR AN

INDUSTRY TECHNICAL ASSISTANCE PROJECT

August 19, 1985

CURRENCY EQUIVALENTS

		Calendar 1984	June 1985
Currency Unit	=	Naira (₦)	₦
US$1	=	₦ 0.76	₦ 0.89
₦1	=	US$1.31	US$1.12

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

EEC	-	European Economic Community
EFC	-	Economic and Finance Committee
FEC	-	Federal Executive Council
FMGN	-	Federal Military Government of Nigeria
FMF	-	Federal Ministry of Finance
FMCI	-	Federal Ministry of Commerce and Industry
FMNP	-	Federal Ministry of National Planning
IPPPT	-	Industrial Policy Promotion and Planning Team
IDCs	-	Industrial Development Centers
IDCC	-	Industrial Development Coordinating Committee
NNPC	-	Nigerian National Petroleum Corporation
PAD	-	Policy Analysis Department
PAU	-	Policy Analysis Unit
SDD	-	Steel Development Department
UNIDO	-	United Nations Industrial Development Organization
UNDP	-	United Nations Development Program

NIGERIA - INDUSTRY TECHNICAL ASSISTANCE PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Federal Republic of Nigeria.

Amount: US$5.0 million equivalent.

Terms: Payable over 20 years, including 5 years of grace at the standard variable rate.

Project Description: The project is designed to provide technical assistance to the Government to formulate specific policy measures for a medium-term program of industrial policy reforms aimed at assisting in restructuring of the industrial sector in Nigeria. More specifically, the project will assist the Government in (a) strengthening the institutional framework for formulation and coordination of industrial policy by providing experts, training of staff, and computer hardware and software; (b) developing a set of industrial incentives policies and industrial promotion measures aimed at stimulating more efficient private sector industrial growth, by financing the policy analysis studies required for this purpose; and (c) improving the efficiency of public sector industrial investments in major subsectors by financing technical assistance and studies aimed at (i) overcoming bottlenecks to realization of full benefits from investments; and (ii) reevaluating viability of selected investment projects.

Benefits and Risks: The principal benefits of the project would be the formulation of a phased medium-term program of industrial policy reforms to help accomplish the goals of restructuring and growth in the industrial sector overall and the private sector in particular, and the strengthening of the institutional framework for industrial policy making, ensuring better coordination and increased effectiveness in implementation of the Government's strategy for development of the industrial sector. There is some risk of delays in recruitment of consulting and expert services under the project. This risk was taken into account in designing the project by identifying possible sources of consulting services and initiating the selection process early.

Estimated Costs:

	Local	Foreign	Total
	(US$ thousands)		
Advisory Services	980	980	1,960
Counterpart Support	1,580	-	1,580
Training and Study Tours	200	750	950
Computer Equipment and Services	88	77	165
Studies	713	1,808	2,521
Total Base Costs:	3,561	3,615	7,176
Price Contingencies	890	506	1,396
Total Project Costs:	4,451	4,121	8,572

Financing Plan:

Bank	2,077	2,923	5,000
Government	1,976	-	1,976
Cofinanciers (EEC and UNDP/UNIDO)	398	1,198	1,596
Total Financing	4,451	4,121	8,572

Estimated Disbursements: 1/

Bank Fiscal Year	1986	1987	1988	1989	1990
	US$ thousands				
Annual	500	1,500	1,750	750	500
Cumulative	500	2,000	3,750	4,500	5,000

Staff Appraisal Report: No separate report

Rate of Return: Not applicable

1/ Based on Bank-wide sectoral profile, but adjusted to reflect the fact that the bulk of expenditures are for tasks at an advanced stage of preparation and procurement, and form part of a contract that has a three-year timeframe.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN TO THE FEDERAL REPUBLIC OF NIGERIA FOR AN INDUSTRY TECHNICAL ASSISTANCE PROJECT

1. I submit the following report and recommendation on a proposed loan to the Federal Republic of Nigeria for the equivalent of US$5 million for an Industry Technical Assistance Project. The loan would have a term of 20 years, including 5 years of grace, at the standard variable interest rate.

PART I - THE ECONOMY 1/

2. The assessment of the Nigerian economic situation in this report is based largely on the work of an economic updating mission of November 1984 supplemented by further analysis undertaken by Bank staff on the basis of the 1985 budget speech. The findings of a 1982 economic mission were more fully reflected in a Country Economic Report (No. 4506-UNI) which was distributed to the Executive Directors on August 15, 1983. Annex 1 presents selected social and economic indicators for Nigeria.

Background

3. Nigeria, with a population of about 97 million in 1984, is the most populous country in Africa. Among sub-Saharan Bank members, in 1980 Nigeria accounted for about 45 percent of gross output and more than 60 percent of regional investment. Its GNP per capita is estimated at about US$770 in 1983, which is twice the average for sub-Saharan Africa. While Nigeria as a major oil exporter since the early seventies enjoyed a substantially improved resource base from increased oil revenues, it still remains at a very early stage of development in terms of socio-economic indicators, in which it compares with other sub-Saharan countries.

4. Following a civil war and 13 years of military rule, a new federal constitution was adopted, and an elected civilian government came into power in 1979. This Government was reelected in September 1983. However, a military government, led by Major-General Muhammadu Buhari, took power in December of the same year.

1/ This section is substantially unchanged from Part I of the President's Report for the Second Urban Development Project for Imo State (P-4122-UNI), which was approved by the Executive Directors on July 23, 1985.

Macro-economic Developments

5. Nigeria has been undergoing a rapid socio-economic transformation since the upsurge of oil prices in 1973/74, which dramatically altered the country's resource position. Between then and the late seventies, Nigeria's development strategy was based on sustaining a high rate of growth and diversifying the economy through the resources generated by the oil sector. The principal objective of the policies pursued by the Nigerian decision-makers was to translate the large oil revenues accrued -- about US$100 billion in current prices during the 1973-81 period -- into investments in economic, social, and physical infrastructure. While there have been "non-economic" investments and waste, significant development gains were made in both economic and social infrastructure. Transport infrastructure, particularly roads and ports, expanded considerably. Power generating capacity tripled, and refining capacity has more than quadrupled since 1973. Manufacturing grew at an average annual rate of ten percent during the 1973-82 period, although there was a highly distorted investment structure due to large variations in the rates of effective protection provided to various industrial sub-sectors. There also has been a rapid spread of education at all levels; in particular, the primary enrollment ratio which was about 35 percent in the early seventies has more than doubled.

6. Developments were not as positive in some other areas. Overall output in agriculture remained virtually stagnant during the 1970-82 period, with the production of staple foodcrops stagnating or at best increasing at about the same rate as the population growth rate, but the production of export crops declining substantially. Within a decade, Nigeria became a major food importer (US$2.7 billion of imports in 1982) as domestic terms of trade moved against agriculture. Inflation, coupled with an appreciating domestic currency, pushed up domestic costs of production, thus putting the commodity-producing sectors at a disadvantage vis-a-vis imports and non-traded goods. This encouraged diversion of resources from commodity production to services (including trade and construction). Both agriculture and industry became "high-cost" activities. Trade and exchange rate policies, which were formulated in response to frequent swings in oil export earnings, were largely used to dampen inflationary pressures or ration imports rather than to provide appropriate incentives to domestic production. This was partly due to the fact that, as a result of the fluctuations in the world oil markets and their impact on the balance of payments and government revenues, Nigerian policy-makers were preoccupied with short-term crisis management. This diverted attention from the formulation of longer-term policies to reduce the country's dependence on oil and to strengthen the domestic productive sectors.

7. The Fourth Development Plan (1981-85) was prepared in 1980 when the world oil markets presented a favorable outlook. Nigeria's oil exports for the year amounted to US$25 billion and foreign exchange reserves stood at US$10 billion. The Plan, accordingly, reflected an ambitious investment program. It envisaged a total capital investment of ₦80 billion (about US$145 billion at the 1980 rate of exchange) over the period 1981-85, half

of which was to be invested directly by the Federal Government and a quarter directly by the states -- with the remaining quarter to be invested by the private sector. Emphasis was placed on the development of agriculture (through statewide agricultural support programs and massive irrigation schemes) and on heavy industry based on cheap energy (steel, petrochemicals, etc.), both supported by substantial investments in infrastructure. Nigeria's development plans, however, were overtaken by the sharp decline in oil export revenues since 1981. Its economic problems during 1981-83 were exacerbated by the inability of Nigerian decision-makers to cut back the public investment program sufficiently, partly because of a continuing belief that oil markets would soon recover.

8. Nigeria's oil production fell by one-third from its 1980 level of 2.06 mbd to 1.44 mbd in 1981, and subsequently declined further to 1.23 mbd in 1983. Coupled with a decline in the oil price from a peak of US$39 per barrel in 1981 to US$29.9 per barrel in 1983, oil export revenues declined from US$23.4 billion in 1980 to US$17.4 billion in 1981 and to only US$10.1 billion in 1983. Imports peaked at US$24.2 billion in 1981, resulting in a current account deficit of US$6.5 billion, which was financed largely through the drawing down of foreign exchange reserves and external borrowing.

9. Confronted by a worsening balance of payments situation, the Government reacted in April 1982 by introducing a number of austerity measures aimed at stabilizing the domestic and external financial situation. However, these measures failed to achieve their stabilization objective; imports of goods for the year 1982 declined only marginally to US$17 billion (from the 1981 level of US$19.1 billion), resulting in a wider current account deficit of US$7.7 billion. Reserves declined further to only US$1.4 billion by the end of 1982, while trade payment arrears of US$4 billion were accumulated.

10. By 1983, however, previous measures in the form of quantitative restrictions, together with a growing reluctance of the trading partners to extend further trade credits to Nigeria, led to a reduced import level of US$12.2 billion. This was largely financed by further accumulation of trade payment arrears (US$3.8 billion). Discussions with major overseas creditor banks resulted in the rescheduling of the arrears owed to these institutions (for confirmation of letters of credit) of about US$2.1 billion accumulated prior to August 31, 1983, with repayments to be made over a period of 31 months starting January 1984. In April 1984, the Government completed negotiations to reschedule US$4-$5 billion of the remaining arrears incurred through "open-account" inter-company import financing. This agreement included only those arrears not covered by export credit insurance and rescheduled the payments over a period of six years including a grace period of two and half years at an interest rate of 1 percent over LIBOR. Outstanding arrears at this point are about US$2 billion insured by export credit agencies (ECAs). The terms under negotiation for these remaining arrears are similar although formal agreement to reschedule has been made conditional by the ECAs on Nigeria reaching an agreement with the IMF. The Federal Military Government of

Nigeria (FMGN) has so far been regular in making repayments due on earlier medium- and long-term debt, as well as on the 1983 reschedulings.

11. The deterioration in the external financial situation had a severe impact on the fiscal position of the Federal and State Governments as well as on growth. Federally collected revenues fell about one-third in real terms between 1980 and 1983, because oil revenues account for such a large percentage of total public sector revenues (more than two-thirds in the early 1980s). Until 1984, the Federal Government did not reduce expenditures in line with the reduced revenues, thus large budget deficits emerged over the period 1981-83, with deficit/GDP ratios hovering around 10 percent. In order to finance these deficits, the Government borrowed from the Central Bank. This, coupled with the physical shortages of many imported commodities, led to an acceleration in the inflation rate, which rose to about 23 percent in 1983. As a result of a decline in imports of about 30 percent in real terms, output contracted by 6.0 percent in 1983 following declines of 5 percent in 1981 and 2.3 percent in 1982; as a consequence, much of the manufacturing sector, starved of imported raw materials and spare parts, is now operating at very low capacity levels. In addition to the decline in manufacturing output, the construction sector suffered from an almost one-third decline in gross output in 1983.

12. In order to get the balance of payments situation under control, and to accommodate the projected increase in debt service, in early 1984, the Government imposed very strict limitations on imports through the use of an import licencing/foreign exchange allocation scheme. As a result there was a sharp curtailment of imports which are estimated to have amounted to only US$10.6 billion in 1984. Since oil export revenues increased by about $1.4 billion over the 1983 level, there was also an improvement in the external balance with the current account estimated to have been in surplus by about US$200 million in 1984. The improvement of the external balance through measures to constrain imports carried with it, however, very high costs for the economy in the form of further decreases in industrial production, construction and investment, accelerated inflation (officially estimated at 37 percent in 1984) as well as increased unemployment. The manufacturing sector as a whole is estimated to have operated at only about one-third of capacity in 1984 with even lower levels in certain major sub-sectors. However, due to the increased oil revenues as well as relatively good performance in the agricultural sector -- in part explained by a return of workers to farming following recent years' increases in agricultural prices -- Nigeria was able to break three consecutive years of fast decline in overall production, and limit the decline in GDP to about 0.7 percent in 1984.

Adjustment Policy Issues

13. At present, the Nigerian economy faces two critical issues: first, the management of the short-run financial crisis and stabilization of the economy; and second, the longer-term structural adjustment of the economy by stimulating productive sectors, lessening dependence on oil, and developing a wider resource base. With regard to the short term, although

the measures that the Government has taken since January 1984 to reschedule trade arrears, control imports and restrain domestic expenditures (which were reconfirmed in the 1985 budget released in January), may help to arrest a further deterioration of the external and internal financial situation, substantial improvements in the current account situation will be necessary in view of the sharp increases in debt service payments projected for the near future.

14. While a rebound in oil revenues would help Nigeria to overcome the current crisis, it will not resolve the structural issues facing the economy. More vigorous and consistent policies, beyond the measures taken to restore financial stability, will be needed to bring about structural change. The chief requirements comprise: (i) further incentives for efficient export promotion and import substitution, including appropriate exchange rate, tariff, and credit policies; (ii) complementary steps to strengthen the balance of payments through judicious management of foreign borrowing and external reserves; (iii) continued control of aggregate demand through prudence in monetary, fiscal, and wage policies; (iv) improvements in the composition and implementation of public investment to increase its efficiency; and (v) steps, such as raising interest rates and improving tax collection, to increase private and public savings and investment.

Prospects and Financing of Development

15. Although Nigeria's exportable crude oil surpluses are expected to be significantly reduced well before the turn of the century, the bulk of its foreign exchange resources will continue to come from the hydrocarbon sectors during the next twenty years. In addition to oil exports, this could include exports of liquefied natural gas (LNG) -- although the market prospects for LNG during the 1990s now appear more uncertain than before. To maintain economic growth, major structural changes are needed in order to adapt the economy to lower levels of oil export earnings. In the short run, the volume of Nigeria's oil exports will continue to be determined by the volatility of world oil markets rather than by the deliberate extraction policies of the Government.

16. The prospects for the Nigerian economy over the medium term are closely related to the kind of economic policies FMGN pursues over the next few years. One option open to government is to pursue a "high growth/economic reform" strategy comprising policy measures which have been discussed in the context of a possible Extended Fund Facility (EFF) with the IMF and a Structural Adjustment Loan (SAL) from the Bank. Such a strategy would also give Nigeria renewed access to international borrowing from commercial banks, although the amounts that would be available are difficult to quantify. On the estimation that about US$2-3 billion per year of international lending would be available from all different sources, this would permit a moderately high growth rate of up to 4 percent per annum over the period 1985-1992. It would prevent a further deterioration in the average standard of living and allow employment to expand broadly at the same pace as population growth. In addition, it

would over time stimulate non-oil exports, which, in the longer run, will need to replace oil as the engine of growth. In the "low" case, on the other hand, assuming no agreement is reached on an EFF/SAL package and the only "reform" is in maintaining enough macro-economic discipline to avoid the reemergence of trade arrears as a major problem, the possibility of foreign borrowing would be very limited and balance of payments constraints would necessitate the continuation of more restrictive policies. The result would be lower growth rates for the rest of the decade leading to a further deterioration of the average standard of living, still lower capacity utilization rates in many sectors and increasingly severe unemployment problems.

17. At present the Government is pursuing an intermediate strategy. In addition to the adjustments in the investment program mentioned above (para. 12), FMGN has recently introduced new schedules of customs and excise duties that move in the direction of equalizing effective tariff protection across industries. In the 1984 budget FMGN made reductions in public expenditures in line with Bank recommendations and, to help rationalize future investments, instituted a Project Review Committee which reviewed projects funded under the capital budget. The Committee has proposed that all projects be categorized as "core" or "non-core" with the former to receive full funding and the latter being shelved pending availability of funds or abandoned. The recommendations of the Review Committee have to a significant extent been taken into account in the 1985 federal capital budget. A freeze on public sector salaries and wages has been introduced; measures have also been taken to reduce expenditure through cutbacks in public sector employment, in particular at the state level. Together these measures are estimated to have resulted in a reduction of the federal budget deficit from about 13 percent of GDP in 1981 to about 5 percent in 1984. The 1985 budget continues the policy of stabilization and the sectoral allocation of public expenditures is once again in line with the Bank's recommendations. FMGN has also enforced much greater financial discipline on state governments which has resulted in greater revenue raising efforts by the states together with improved focus on development priorities. Tighter monetary policies including increases of 1.5 to 2 percent in interest rates have also been introduced. With this progress on fiscal reform, but little progress on incentive reform, growth would be higher than in the low case, but would result at best in a stagnation of per capita incomes.

18. The three policy scenarios differ more from each other in their impact on growth than in their impact on Nigeria's ability to service external debt. This is because in the low and intermediate cases, lack of confidence on the part of commercial lenders would mean severely limited access to international borrowing. Of course, if the moderate fiscal discipline assumed even in the low case is not maintained, there would be pressure on imports and an eventual risk of a build-up of trade arrears with a resultant further decline in access to external credits. At the present time, though, this does not appear likely, given the Government's firm commitment to austerity. Under all these scenarios there will be severe liquidity problems over the next few years, with the debt service

ratio likely to increase from 39 to 45 percent between 1985 and 1986. Under all the scenarios, the debt service ratio begins to decline after 1986. The decline is somewhat slower -- although still marked -- in the high case, because with better growth policies, access to international borrowing is higher. Should oil prices fall from present levels, Nigeria's debt service position would be severely affected and debt service payments absorbing a much higher share of exports earnings would result. The volume and composition of Bank lending would be determined by the policies pursued by FMGN -- ranging from an expanded lending program including a Structural Adjustment Loan in the high case to a limited program focussing primarily on social and physical infrastructure in the low case.

PART II - BANK GROUP OPERATIONS IN NIGERIA 1/

19. Bank and IDA lending to Nigeria as of March 31, 1985 amounted to US$2,561.0 million (net of cancellations). The amount of loans and credits disbursed as of March 31, 1985 was US$1,418.8 million, leaving an undisbursed balance of US$1,142.2 million. Agriculture accounts for about 49 percent of total commitments; transport, power, and water supply together for about 34 percent; and education, industry, urban, and the post-war rehabilitation loan for the remaining 17 percent. There have been only two IDA credits to Nigeria, for US$35.3 million; both are fully disbursed. IFC has made six loans to borrowers totalling US$24.5 million, and six equity investments totalling US$4.5 million. Of these amounts, US$7.4 million have been repaid, terminated, cancelled, or sold. Annex 2 contains a summary statement of Bank loans, IDA credits, and IFC investments.

20. As a result of the abrupt decline in earnings from oil, public revenues have fallen sharply, causing many of the ongoing projects to run into serious counterpart funding problems. The Bank, the Federal Government, and the relevant state governments are making concerted efforts to alleviate the situation. The Bank, under the Special Action Program, reallocated proceeds of several loans and increased disbursement percentages to speed up disbursements. Working within the resource constraints (which are likely to continue in the near future), the Federal Government supplemented the funding for selected projects for 1984 and has agreed to ensure that adequate funding will be provided for projects for 1985 on the basis of updated estimates of funding requirements. The state governments are instilling a greater degree of discipline in their budgeting process and cutting back on new capital expenditure in order to

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1/ This section is substantially unchanged from Part II of the President's Report for the Second Urban Development Project for Imo State (P-4122-UNI) which was approved by the Executive Directors on July 23, 1985.

fund existing obligations. As a result, the prospects for counterpart funding for Bank-assisted projects are expected to improve.

21. Provided appropriate policy changes are undertaken, the Bank's lending program would aim primarily at the urgent diversification of Nigeria's economy to reduce its excessive dependence upon petroleum as a source of foreign exchange and fiscal revenue. At the same time, the Bank would continue to support efforts to raise the productivity of the lowest income groups and thereby diminish the incidence of absolute poverty in Nigeria. As in recent years, the Bank would continue to provide support for agriculture and rural development with emphasis on institution-building and transfer of technology. These objectives are in line with the Federal Government's priorities and with the emphasis it is placing on the need to use the proceeds of the country's oil revenues to increase the productive capacity of the economy, and thereby raise the standard of living of its population, particularly the rural poor. The Bank would similarly support efforts to stimulate a well-balanced and integrated development of Nigeria's industrial sector. This approach would entail a combination of intensive sector work and policy dialogue with the Government, as well as Bank assistance for industrial projects in crucial sub-sectors.

22. Projects in the agriculture, water supply and urban sectors together should account for a large share of Bank lending in the coming two to three years. Effective support for the commodity producing sectors will also require strategic investment in production-related infrastructure. There are good opportunities for the Bank to make a significant contribution in energy and highway maintenance. Similarly, there is a strong case of continued lending for education. In this context, vocational, technical, and teacher training would be given special emphasis. Finally, the Bank would support the Federal and State Governments' efforts to spread the benefits of growth to the social sectors. It is envisaged that some of the pressing problems of rapid urbanization will continue to be addressed through a number of urban development projects focussed on the needs of the urban poor and resource mobilization for urban areas. The Bank is also assisting the Government in overcoming the country's health problems with a project aimed at both federal and state (Sokoto) levels, and is continuing a dialogue with the Government on population issues, perhaps leading to lending in this area.

23. Although annual disbursements have increased from US$52 million in FY78 to nearly US$272 million in FY84, Nigeria's disbursement performance has lagged behind that of other countries in the region. The undisbursed balance now stands at 45 percent of the US$2.6 billion in loans and credits approved. One of the reasons for this development is the rapid expansion of the Bank's loan portfolio since 1979 as well as the fact that a number of large loans, with relatively large, planned disbursements during the early years, were extended during this period, mainly for agricultural projects. In many cases, however, disbursements have been slowed by long delays in loan effectiveness and institutional and management problems. Recently, the inadequate counterpart funding of projects by federal and state governments, resulting from lower oil

revenues, has further slowed disbursements. The FMGN, with the assistance of the Bank's Resident Mission, is now carefully monitoring loan disbursements with a view to identifying problems early and taking corrective action. Also, the Bank has been taking a series of measures aimed at accelerating disbursements under both ongoing and new projects (para. 20). These efforts are showing results.

PART III - INDUSTRIAL SECTOR ADJUSTMENT POLICIES

An Overview of the Industrial Sector and Policy Issues

24. In the past two decades, the industrial sector has been one of the more dynamic in Nigeria and it occupies a prominent position in the country's development plans and goals. Since the 1973/74 oil-boom, the sector's development gained substantial momentum. During the period 1973-1982 the average annual growth rate of the manufacturing sector was about 10 percent compared to an overall GDP rate of 4.4 percent. As a result the share of manufacturing in the overall GDP (in constant 1977 prices) increased from about 4 percent in 1973 to about 8 percent in 1982. However, a number of structural weaknesses emerged which have become more apparent in the current economic crisis. The increasing shortage of foreign exchange since 1981 has led to drastically reduced imports of industrial raw materials and spare parts, and to widespread plant closures, extensive retrenchment of the industrial workforce, and a very substantial overall drop in manufacturing capacity utilization to an estimated 25-35 percent in 1984 and even lower levels in certain major industries. The stringent quantitative controls on imports introduced by government have resulted in: (a) a contraction of domestic supply of manufactures below the reduced level of domestic demand; (b) a sharp rise in unit prices of manufactures reflecting increased unit production costs and scarcity premia, accruing in part to the manufacturers but mainly to the trading sector; (c) some substitution of imports by local production but at the cost of inefficiencies in resource use; and (d) increased uncertainties and administrative costs to firms in importing raw materials and spares. The Government has sought to contain the impact by giving priority to industry in allocating foreign exchange and by trying to encourage a restructuring of industry to reduce its import dependence.

25. In the 1970s accelerated inflation and the appreciation of the Naira contributed to a significant decline in competitiveness of domestic industry. In response, selectively higher tariffs and quantitative import controls were introduced. With the rapid deterioration in the balance of payments situation since 1981, tariffs were increased and quantitative controls extended to a wider range of imports. In 1984, the Government took additional measures aimed at addressing the crisis situation (para. 12). The measures affecting the industrial sector include: (a) major changes in the customs and excise tariffs structure by narrowing the range of import duty rates and by substantial simplification and rationalization of the customs tariff; (b) placing of all imported goods under import

license, with raw materials, spare parts and essential commodity imports given priority in the allocation of foreign exchange; (c) substantial cuts in the public sector investment program: it also announced but has yet to introduce; (d) incentives for use of local raw materials by private sector industry; and (e) export promotion measures to encourage manufacturing exports. While certain of these measures represent a movement in the direction of the policy framework required for restructuring the industrial sector, major issues still remain unresolved, and further adjustments will be needed in other areas, notably tariffs, trade and exchange rate policies and the public investment program in industry. The proposed project is designed to help government to formulate needed industrial policy reform measures.

26. Although the general business environment in Nigeria has always been strongly private sector orientated, Government policies have greatly influenced industrial development both directly and indirectly. Directly, as in other oil economies, the Government has undertaken most of the country's investment in large basic industries considered beyond the scope and financing capacity of the private sector alone. Meanwhile, with implementation of the 1972 and 1977 indigenization decrees, divestiture of foreign equity holdings diverted substantial Nigerian private capital into acquisition of existing assets. Public investment in manufacturing thus grew more rapidly than private investment, and the public sector now dominates manufacturing investment with about two-thirds of the total since 1975. Over the 1975-84 period, Federal capital investment in manufacturing totalled about ₦7.6 billion. This has focussed principally on intermediate and capital goods industries -- iron and steel, pulp and paper, petroleum refineries, cement, vehicle assembly, and sugar refining -- with the aim of catalyzing the development of a more diversified and integrated industrial base.

27. A 1983 Bank review of the public expenditure program in Nigeria found that a number of public sector projects suffer from inadequate project design, high initial project costs and cost-overruns following implementation delays, and excess capacity once completed. In the past there has also been an overcommitment of resources across a large number of projects. Current resource constraints have further contributed to implementation delays and cost escalations. As a result, by 1984, few of the major public sector industrial projects had yet started operation, and an estimated ₦12.4 billion (in 1984 prices) was still required to complete ongoing and planned new projects mainly in steel and petrochemicals. The expenditures required far exceeded the resources likely to be available over the next five years. The Bank's review concluded that unless steps were taken immediately to control the costs and to improve the quality and efficiency of public investment in basic industries, the longer-term effect would be an inefficient and high-cost basic industries structure which would have serious adverse consequences for industrial development and competitiveness. The Government recognizes the need to consolidate and determine priorities in its public investment program and, in 1984, appointed a Projects Review Committee that helped shape the Government's 1985 capital budget, largely in line with the Bank's recommendations.

28. Indirectly, private sector investment decisions and production patterns have been affected by the industrial incentives policies pursued, most notably tariffs, trade and exchange rate policies. The present industrial incentives structure, as it has evolved over the years, has provided low or negative net effective protection to domestic resource-based industries, e.g., agro-industries and mining and forest products, while much higher incentives have been provided to consumer goods and assembly industries. Thus while local resource-based industries have been among the worst performers in recent years, import-intensive consumer goods and assembly industries, contributing little to value-added, have grown rapidly under high protection. The net effect has been that manufactured exports based upon agro-processing, which were about 10 percent of exports in 1970, have all but disappeared and the import dependency of the industrial sector has substantially increased. Equally important, industrial productivity and competitiveness have been adversely affected by major bottlenecks in industrial infrastructure and skilled manpower availability.

29. Although Nigeria is essentially a market-orientated economy endowed with a sizeable and dynamic pool of private entrepreneurs, the past decade has seen major shifts in the role of the private sector: it still accounts for a dominant share of total industrial output and employment, but its share of total manufacturing investment has declined to less than one-third of total investment. Private sector investments have expanded substantially in trade, construction and real estate, where returns have been higher, quicker and less risky. The capital-intensity of industrial investment has increased, and productivity has stagnated if not declined slightly. In the recent past there has also been a substantial decline in foreign direct investment from US$382 million in 1977 to an estimated US$29 million in 1981 and indications are that this trend has continued in recent years. Although the prevailing crisis in the economy will probably inhibit any significant short-term expansion of private industrial investment, the sound long-term development of many of the key manufacturing subsectors -- textiles, engineering goods, agro-industries, cement and construction materials -- will need substantial increases in private -- domestic and foreign -- investment. Reform of the incentives system will be a key factor in stimulating the private sector. This would need to be complemented by a clear-cut government policy regarding the respective roles of the public and private sectors in manufacturing industries and concerted efforts to strengthen financial intermediation, industrial infrastructure facilities, and industrial promotion services to support private sector industrial development. The potential for industrial growth in Nigeria is substantial, based on a large domestic market, high per capita income by Sub-Saharan African standards, substantial agricultural and mineral resources and a dynamic pool of private entrepreneurs.

The Government's Industrial Development Objectives

30. In recent planning and policy documents, the Government has assigned a high priority to industrial development in the growth and structural transformation of Nigeria's economy to contribute to efficient

import substitution, diversification of the economy away from oil, exploitation of key natural resources and a deepening of the industrial base. To achieve these objectives, priority will be given to local resource-based industries and to intermediate goods industries, such as agro-industries, textiles, building materials, engineering goods, chemicals, and household durables. Labor-intensive industries will also be encouraged and increased support provided to export-oriented as well as small-scale industries. Emphasis is now being given to encouraging industrial restructuring, to reduce the import dependence of existing industries through development of local raw materials, where these can be effectively tapped. The private sector is expected to be the prime agent for growth with the role of the Government focussed on infrastructure investment, establishment of an appropriate legal and regulatory climate, and investment in basic heavy industries such as steel, fertilizer, and petro-chemicals clearly beyond the scope of the private sector alone.

31. Realization of the above objectives requires a major effort on the part of the Government, particularly in identifying and implementing the necessary policy changes and establishing an appropriate institutional framework. The Government has asked the Bank to assist in this regard by financing the proposed project. In mid-1984 the Government appointed seven Study Groups to propose measures to revitalize major areas of the economy; one was for industrial policy; another was for commercialization of public enterprises and a third was for financial management. The Groups' reports were submitted to FMGN in October/November 1984 and are currently under consideration. The White Paper on Industrial Policy is to be published shortly. The Study Groups, as well as the concept of a Projects Review Committee (para. 27) are indicative of the Government's resolve to attempt a restructuring of the industrial sector in Nigeria; this project would help the Government in this critical endeavor.

Industrial Policy-making and Institutional Framework

32. The highest level of policy-making body of the Government is the Supreme Military Council which determines national policy on major issues. The next highest level is the Council of State which lays down policy guidelines on financial and economic matters and approves and administers the National Development Plans. The Federal Executive Council (FEC), comprising all Federal Government Ministers, is responsible for the day-to-day affairs of the Government including policy decisions. The next level of policy-making is the Federal Ministries. The Government's Economic and Finance Committee (EFC) has the responsibility for reviewing the recommendations emanating from the line ministries concerning all economic and financial matters. The EFC consists of Permanent Secretaries from the line economic ministries as well as the Deputy Governor of the Central Bank (CBN) and the Managing Director of the Nigerian National Petroleum Corporation (NNPC), empowered to take binding decisions on behalf of their ministries/agencies. While the EFC plays an important role, there is a need to strengthen coordination on policy issues involving several agencies/ministries. In Nigeria, as in other countries, a number of

different agencies have responsibility for different aspects of industrialization and trade policies. Coordination among them is relatively weak, the policy-making system is relatively decentralized, and there exists both a fragmentation of responsibilities and also significant overlaps in jurisdiction. The Federal Ministry of Commerce and Industry (FMCI) is the primary agency responsible for industrial policy-making. As regards the incentives system, the FMCI, FMF, and CBN are variously involved in determining and administering tariffs, trade, exchange and fiscal incentives policies. Tariff policy changes have generally been prepared as part of the annual budget exercise by an inter-ministerial Tariff Committee, then reviewed by the EFC before presentation to the FEC. Meanwhile, fiscal incentives for industry have been administered by the FMCI and FMF.

33. In order to strengthen policy coordination in these areas, the FMGN has recently upgraded the interministerial Industrial Development Coordinating Committee (IDCC) into a high-level policy review body, chaired by the Permanent Secretary, FMCI, and with permanent secretary level representation of the line economic ministries and other key agencies involved in industrial development policy. The IDCC will be responsible for reviewing industrial and trade policy issues, and for ensuring overall consistency and coordination of policy-making and implementation. The IDCC is supported by a Secretariat in the FMCI.

34. Regulations governing private investment, such as those relating to foreign equity investment, expatriate quotas, technology transfer, repatriation of dividends and royalty payments, are variously set and administered by a number of ministries. The Government has recognized the need to streamline and rationalize the regulatory framework so as to reduce "red tape" and foster domestic and foreign private investment. To this end, the inter-ministerial Industrial Development Coordinating Committee (IDCC) was originally established in 1981 inter alia to help expedite the processing of applications for the major permits and licenses which industrial enterprises need to obtain from the Government, although it did not effectively fulfill these functions. With the upgrading of the IDCC into a policy review body (para. 33), a division has been established within the FMCI to act administratively as a "one stop" agency for industrial approvals and this function is in the process of being strengthened. The November 1984 reorganization of FMCI, following the merger of the former federal ministries of commerce and industries, was a first step in this direction by consolidating industrial incentives administration and regulations into a single Incentives Administration Department.

35. As regards public investment, three principal agencies have been responsible for planning, implementing and monitoring federally-sponsored industrial projects: FMCI for pulp and paper, cement, agro-industries, fertilizers, engineering goods and other industries; the Nigerian National Petroleum Corporation (NNPC) for petroleum refineries and petro-chemicals; and the Steel Development Department (SDD) of the Federal Ministry of Mines, Power and Steel for iron and steel. The 1983 Bank review of the

public investment program has recommended that a mechanism be established for preparation of a consolidated industry investment program coordinated by the Federal Ministry of National Planning (FMNP) and based upon three-year forward investment programs, to be prepared by FMCI, NNPC and SDD for their respective subsectors. This could help to prioritize Federal Government investments based upon their economic merits and strategic importance, and thus ensure adequate timely funding for "core" projects. This would complement efforts to improve coordination of the planning process at the macro-level, to be assisted by the Bank's recently approved Technical Assistance Project Loan.

36. As regards industrial promotion for the private sector, information and technical support services are currently provided on a limited basis by FMCI through its Trade and Industrial Promotion Division and Industrial Development Centers (IDCs) which assist small- and medium-scale industries. However, in practice much less emphasis has been placed upon infrastructure and support services to foster private sector activities than on direct public investment, and these efforts have so far been unsystematic and inadequate. Nigeria still needs to develop well-established industrial promotion and information services in close coordination with the private sector such as exist in other middle income industrializing countries.

37. The 1984 merger of the Federal Ministries of Industries and Commerce should contribute to streamlining of industrial policy-making particularly as regards tariffs and trade policies. However, the quality and effectiveness of industrial policy-making is limited by: (a) weaknesses in analytical work on which the policy recommendations are based and lack of a centrally coordinated capability to assess the overall impact of industrial policies to ensure that they are in line with Nigeria's industrial development strategy; and (b) inadequacies in project evaluation, implementation and monitoring capabilities of direct public investments. These weaknesses stem from a lack of sufficient professional staff skilled to undertake the analysis, lack of sufficient information on which to base the analysis and lack of a clear-cut organizational mechanism with responsibility to perform the coordination and monitoring functions at both the working technical level and the higher policy-making levels. The strengthening of the institutional framework for industrial policy-making, as proposed under the project, is an important prerequisite for the design and implementation of policy reforms needed for industrial restructuring.

Agenda for Industrial Policy Reforms

38. Substantial policy and institutional reforms, extending into the medium to longer term, would be needed to restructure the industrial sector in line with the Government's industrial development objectives discussed in para. 30. The industrial policy reform measures can be divided into three main areas: (i) restructuring of the industrial incentives and trade protection systems; (ii) measures to improve the quality and efficiency of public sector investments in industry; and (iii) strengthening of industrial promotion services. These issues have been analyzed in recent

sector studies by the Bank, carried out at the request of the Government, which have made recommendations on the broad direction of the proposed policy reforms and the findings and recommendations of these studies have been discussed with the Government. Specific and detailed policy measures, for consideration by the Government, would be formulated through the studies and work program proposed under the project. While the scope of the overall work program is quite broad and would address several inter-related policy areas, the studies are intended to be appropriately phased over the project period, with priority given to those relating to measures to be considered for adoption in the first two years.

Restructuring of the Industrial Incentives System

39. The reform of the industrial incentives system would need to focus on four major areas: (a) import protection system; (b) export promotion measures; (c) investment incentives to domestic and foreign private investors; and (d) incentives for regional dispersal of industry.

(a) Restructuring of the Import Protection System. This would be aimed at: (i) improving the growth, efficiency, and competitiveness of manufacturing industry; and (ii) encouraging, in particular, exports and local resource-based and intermediate goods industries. This would involve revisions of the customs tariff, progressive liberalization of imports and streamlining of the import licensing system, consistent with future adjustments in exchange rate and other pricing policies. However, in the light of balance of payments constraints and the need to allow existing enterprises to adjust with minimum disruptions to changes in their policy environment, these revisions would need to be carefully phased over the medium- to longer-term. The objective would be to achieve progressively a lower and narrower range of tariff rates and to minimize use of quantitative import restrictions so as to put in place a more uniform industrial incentives structure, based predominantly upon price-related mechanisms and thus promote production in line with Nigeria's comparative advantage. In order to promote recovery of industrial production and employment, initial priority in import liberalization would need to be accorded to raw materials, intermediate goods, and spare parts. This should be accompanied by customs tariff adjustments involving reduction of very high (or "peak") rates, notably on certain consumer goods, and increases in the still low rates on raw materials and components. The tariff adjustments made in the Federal 1984 budget (para. 25) are in the right direction but further adjustments are needed. The studies under the proposed project would focus on formulating medium-term policy proposals for consideration by the Government. Studies would be needed to formulate further customs tariff revisions and linked to this, a medium-term import liberalization plan, and to assess their impact on specific industries. In parallel with this, a monitoring system would need to be established to provide prompt feedback to the Government on the

volume of import demand resulting from these measures and their broader impact on the industrial sector.

(b) Export Promotion. The Government intends to develop a package of export incentives which minimizes the current bias against exports relative to production for the local market due to the past appreciation of the Naira, as well as to tariffs and other import protection measures. The package, after careful study, could include inter alia: (i) a reactivation of the existing (but presently inoperative) customs drawback scheme; (ii) a tax credit on local content of export production to offset duties and other indirect taxes on inputs into locally purchased goods and the distortionary effect of the protection system on value added; (iii) implementation of the already created export guarantee and insurance scheme; (iv) special export credit schemes; and (v) retained foreign exchange accounts or a foreign exchange revolving fund to provide foreign exchange cover for pre-shipment financing of imports by exporters.

(c) Investment Incentives. The Government proposes to review existing fiscal investment incentives to make them more meaningful to investors without creating an undue burden on the Government budget and to ensure that they are simple to administer and do not create distortions in resource allocation. As part of this review, the impact of the existing tax holiday scheme and capital depreciation allowances would be evaluated particularly as regards their apparent capital-intensity bias. In addition, the feasibility of alternative fiscal incentives such as improved tax credits for in-plant training by industry (e.g. through strengthening and expanding the existing Industrial Training Fund program) would need to be assessed. Special focus would be given to review of the foreign investment regime to streamline foreign investment regulations so as to increase flexibility and to attract increased foreign capital inflows and technological and managerial expertise. Studies for strengthening investment incentives would be carried out once preparation of reforms of the trade protection system was at a sufficiently advanced stage. Some preliminary steps in this direction were announced in the FMGN's 1985 budget.

(d) Incentives for Regional Dispersal. As noted earlier, the current incentives system has encouraged imported input-intensive industries which tend to locate in or near Lagos. The Government is keen to stimulate regional dispersal by encouraging small- and medium-scale industries as well as industries based on local natural resources, so as to spread geographically the benefits of industrialization and to counteract the diseconomies of industrial concentration particularly in Lagos. Restructuring the import protection system (para. 39(a)), by giving greater encouragement to local resource based industries, would be one of the most effective means of stimulating efficient regional

dispersal. However, the feasibility of additional measures would need to be considered. These could include fiscal incentives for investment in certain disadvantaged regions, increased technical and financial assistance to small and medium scale industries, and increased emphasis on public investment in industry-related infrastructure and support services. An integrated approach to encourage efficient regional dispersal incorporating these elements is desirable. There are however clearly limits to the extent that regional dispersal can be encouraged without compromising economic efficiency considerations. As recent public sector investment experiences have shown, regional dispersal of industries to greenfield sites distant from markets and raw material sources can incur high infrastructure and operating costs. Under the proposed project, a detailed study should formulate specific measures for encouraging efficient regional dispersal.

Improving Efficiency of Public Sector Investments in Industry

40. A major policy issue facing the Government concerns the role and scope of existing and planned public sector industrial investment. As noted earlier (para. 26), public sector industrial investment has been very substantial in the past decade and has been concentrated in direct investment in large, capital-intensive projects. This trend is in line with the experiences of other oil economies, and public investment can be expected to continue to play an important role in Nigeria particularly in basic industries. However, experience points to the priority need for improved efficiency and for a more selective approach based upon more clearly defined investment priorities to ensure adequate and timely funding of projects. Also in line with the Government's industrial development strategy, greater emphasis is needed on support investments (in infrastructure and services) aimed at promoting increased private investment.

41. Major public sector resource constraints since 1981 have caused substantial cutbacks and deferrals in public investment. Resource requirements for ongoing and planned new public investments in manufacturing over the Fifth Plan Period (1986-90) greatly exceeds likely resource availability (para. 27). The Government is reviewing the public investment program in industry and other sectors and reevaluating priorities, and in its 1984 and 1985 budgets it deferred several public sector investment projects and is keeping many of them at the study stage only. Emphasis is being given to completion of ongoing "core" projects. The Bank's 1983 review of the public expenditure program concluded that: (a) scarce available resources should be focussed almost exclusively upon completion of viable ongoing projects so as to minimize further cost escalation and to realize their economic benefits as soon as possible; (b) given resource constraints in 1984-86, several major ongoing projects would need to be rephased and reshaped to achieve feasible cost savings; (c) more detailed review and re-evaluation of some 30 projects would be needed with priority given to several ongoing projects (notably in pulp and paper,

sugar refining, industrial fishing, engineering goods, cement) which are variously facing technical, financial and management problems; and (d) the major investment programs in steel and in petrochemicals need to be re-evaluated and rationalized to improve their efficiency and reduce their costs.

42. On the institutional side, there is need to: (a) strengthen procedures for planning, implementation and monitoring of public sector industrial projects; and (b) progressively improve the Government's capability, systems and procedures for technical and economic evaluation of investment projects, particularly as regards large, capital-intensive basic industry projects.

43. With a more selective approach to direct public investment in manufacturing industry, limited to activities mainly in basic industries which are viable but unlikely to be undertaken by the private sector alone, public investment strategy could be reoriented in the medium-term to expand investment in industrial support services and industrial infrastructure. This could include credit through development finance institutions, industrial promotion services, manpower and vocational training centers, entrepreneur assistance schemes, power and water supply, transportation and telecommunications.

Strengthening Industrial Promotion Services

44. While the proposed reforms of industrial incentives policies are aimed at creating a policy environment conducive to more efficient and balanced industrial development, improvements would also be needed in industrial promotion efforts to stimulate increased domestic and foreign private sector industrial investment. These would focus on: (a)

streamlining the regulatory environment governing private industrial investment and production; and (b) strengthening industrial promotion services. Such efforts would need to be carefully planned and designed so as not to overstretch government staffing capabilities. In recent years, the Government has steadily tried to expand its dialogue on incentives and promotion policies with the private sector through joint workshops, seminars and regular meetings. This should provide a basis for encouraging increased private sector participation in identifying promotion needs and also in providing promotion services.

45. The first priority is to streamline the regulatory framework to facilitate private sector activity by simplifying existing regulations and dismantling ones which are redundant or have undesirable distortionary effects. Although the Government has recognized the need for such steps, considerable progress is still required. The role of the Incentives Administrative Department in FMCI needs to be consolidated so that it has the authority to act effectively as a "one-stop agency" for industrial approvals, and the capability to provide timely service to entrepreneurs. Also, a legal review body needs to be set up to carry out a systematic review of industry-related legislation and regulations to remove

inconsistencies and minimize the overlapping jurisdictions that have evolved. Simplifying the regulatory framework could also help free-up qualified and experienced manpower in Government which could then be redeployed to strengthen promotion services.

46. Alongside streamlining the regulatory system, the strengthening of industrial promotion efforts through new or existing institutions would have to be a gradual process. Particular attention should be given to: (a) information services, including basic industrial statistics, business and market information, and geological and other survey data; (b) pre- and post-investment services especially for foreign investors; (c) industrial and technological research; (d) strengthened manpower training programs; and (e) additional resources development finance institutions for financing term investment. Given the Government's resource constraints and efforts currently under way to streamline public administration, effective creation of such services is likely to be feasible only some years hence. The objectives under the proposed project are, therefore, necessarily limited and will involve a study to formulate a longer term industrial promotion strategy, to design cost-effective institutional arrangements and to help prepare for subsequent implementation.

PART IV - THE PROJECT

Background

47. The proposed project was identified as a part of sector work on Industrial Incentives carried out by the Bank at the Nigerian Government's request. The findings of this work, including the need for the technical assistance, were discussed with the Government in May 1983. The proposed project has been designed in close collaboration between Government officials and Bank staff. A Bank mission in July 1983 assisted the Government in project preparation. The proposed project was appraised in October 1983. Post-appraisal missions to Nigeria in March 1984 and November/December 1984 reached agreement with the new Government on the overall project design and scope. Negotiations were held in Washington, D.C. in March 1985. Annex 3 provides supplementary project data.

Project Objectives

48. The proposed project would support the Nigerian Government's industrial restructuring efforts (para. 25) by strengthening policy analysis, industrial promotion, and public investment project appraisal and implementation capabilities, and through studies to formulate policy proposals and action programs. The specific objectives of the project are to assist the Government in: (a) strengthening the institutional framework for formulation and coordination of industrial policy in the FMCI through organizational improvements and provision of expert advisory services, training of staff, and computer hardware and software; (b) developing a set of industrial incentives policies and industrial promotion measures aimed

at stimulating more efficient private sector industrial growth, by financing the policy analysis studies required for this purpose; and (c) improving the efficiency of public sector industrial investments by financing technical assistance and studies aimed at overcoming problems that prevent the realization of full benefits from several public sector industrial projects.

Project Description

49. The proposed project would finance the following activities to accomplish the project objectives: (a) the provision of expert advisory services to a Policy Analysis Unit (PAU), and an Industrial Policy, Planning, and Promotion Team (IPPPT) within FMCI's Policy Analysis Department (PAD) (paras. 56 and 57); (b) in-service and overseas training and orientation visits for staff of the PAD, FMCI, and other concerned Government agencies, and provision of computer equipment and service facilities for PAD; and (c) consultant services for selected industrial policy and project studies aimed at restructuring the incentives system, stimulating investment and growth in private industry and improving the efficiency of public sector investments. Details of the project activities are provided below and a schedule for project implementation is provided in Annex 4.

Detailed Features of the Project

50. Advisory Services. To assist the PAD staff in analyzing high-priority medium-term industrial policy issues and to formulate appropriate policy measures, the Government has requested, and the project would provide, financing of four advisors for a total of about 120 man-months. The advisors would have expertise in the following areas: tariffs, trade, export promotion, and industrial incentives policies, industrial promotion, regional dispersal, pre- and post- investment services and project appraisal and evaluation. These advisors should be in place by February 28, 1986 (Section 3.03(b) of Loan Agreement).

51. The role of the advisors would be to provide technical advice and support to the professional staff of the PAD in establishing the capabilities for necessary policy analysis, data processing and collection, projects analysis and industrial promotion activities during the project period. They would provide on-the-job training and support to help create permanent policy analysis and promotion capabilities. It is expected that their responsibilities would be progressively phased out as these capabilities became fully established within the Government.

52. Training and Equipment. This component would comprise: (i) a three-year program for training of selected government staff in analysis and implementation of industrial projects and in industrial promotion techniques; (ii) short-term study/orientation visits abroad for staff of the PAD and other concerned government agencies to gain exposure to the approaches and experiences of other countries with industrial reforms; and

(iii) provision of computerized data processing and analysis facilities (hardware, software and back-up support) to be used by the PAD.

53. The in-house training program would aim at enhancing the skills of the staff of the PAD, other FMCI departments, and other concerned Government agencies in: (i) project appraisal and implementation techniques for public sector industrial investment projects (particularly large scale projects in basic industries); and (ii) provision of industrial promotion services to the domestic and foreign private sector. The training concept and approach would be to organize a series of short intensive courses in specific skill areas. The participants, over a three-year period, would be expected to intersperse repeater courses in their particular need areas with on-the-job experience. This is expected to enhance the relevance of the training to the work of the trainees' sponsoring units. This training would be complemented by a program of short study visits by senior officials of the PAU, IPPPT and other concerned government agencies, to gain exposure to the experiences of other countries which have undertaken industrial policy reforms. In particular, valuable experience could be obtained from other middle-income developing countries in the Far East and South America. The Government has sought financial assistance from the European Economic Community (EEC) to finance the in-house training program and from UNDP/UNIDO to finance the study visits abroad.

54. The policy analysis and formulation work of PAD would require compilation and analysis of data. It is proposed to establish a data base and a micro- or mini-computer facility for PAD. The proposed Bank loan would finance the costs of: (i) hiring a systems analyst to assess the data processing and analysis requirements of the PAU and IPPPT and recommend the most cost effective solution for computerization; and (ii) computer hardware and associated software, back-up support, and training of staff, bearing in mind the need for compatability with other computing facilities in the Government.

55. Studies. Studies to generate policy options and measures for achieving the Government's medium-term industrial strategy objectives would be undertaken in the following: (i) phased medium-term restructuring of the industrial incentives and the import protection systems; (ii) measures to reevaluate and improve the efficiency of public sector investments in industry; and (iii) strengthening of industrial promotion services provided by the Government to domestic and foreign private investors. It is estimated that about 110 man-months of short-term consultancy services would be required to carry out the program of studies. The studies would be phased in accordance with the implementation schedule presented in Annex 4. Outline terms of reference for the principal studies are presented in Annex 5. The results of the studies would be the subject of joint reviews by the Government and the Bank (para. 59). The recommendations emanating from the studies could form the basis for future Bank lending in the industrial sector.

Project Organization and Implementation

56. The project would be implemented by the FMCI, which has already established a Policy Analysis Department (PAD) to be headed by a director-level official reporting to the Permanent Secretary. The PAD will carry out the work program under the project and propose the policy reforms. It is expected that the work done by the PAD would: (a) substantially improve the quality of analytical work underpinning the policy recommendations; and (b) result in significantly better coordination among the various organs of the Government concerning tariffs and trade and industrial policy matters. PAD's policy proposals will receive high level inter-ministerial consideration by the upgraded IDCC, after necessary ministry-level clearances (para. 33). During negotiations assurances were obtained that the Government would have the PAD's policy proposals reviewed by the IDCC and that it would adequately organize and equip the IDCC for that purpose (Section 3.03(c) of the Loan Agreement).

57. The PAD includes two separate units: a Policy Analysis Unit (PAU) and an Industrial Policy, Planning, and Promotion Team (IPPPT). The PAU and the IPPPT are each to be headed by an Assistant Director, experienced in government administration and having a substantial understanding of the policy issues and analytical techniques involved. The organizational structure, functions, and staffing requirements of the PAD, including the PAU and IPPPT, are presented in Annex 6. The PAU will mainly deal with review and reform of tariffs and trade policies, including export promotion, which require involvement and cooperation of several ministries. The IPPPT will mainly deal with issues in industrial promotion, public sector industries, and industry specific aspects of the incentives system. The PAD staff would be supported for the project period by four advisors (paras. 50-51).

58. The roles conceived for the recently created PAD (including the PAU and IPPPT) and the IDCC are essential for the success of the project. The Government has already established the PAD, including the PAU and IPPPT, with a staffing structure and terms of reference satisfactory to the Bank and has designated the IDCC as the high level policy review body, with terms of reference and composition satisfactory to the Bank. Appointing adequate suitably qualified Nigerian professional staff to both the PAU and the IPPPT is a condition of effectiveness of the proposed loan (Section 7.01 of the Loan Agreement). During negotiations assurances were obtained from the Government that it would: (i) maintain and adequately staff the PAD during the execution of the project; and (ii) provide sufficient funds and facilities to the PAD to carry out the work programs of PAU and IPPPT.

59. A tentative work program for the PAD, including an implementation schedule for the studies, has been prepared and discussed with the FMCI staff (Annex 4). During negotiations assurances were obtained from the Government that it would: (a) by April 30, 1986, submit to the Bank a detailed three-year work program for the PAD and thereafter would annually consult with the Bank regarding modifications to the agreed work program (Section 3.04(a) of Loan Agreement); (b) undertake the studies in

accordance with arrangements agreed with the Bank including inter alia, terms of reference, timetable and a budget for each study (Section 3.05(i) of the Loan Agreement); (c) furnish a copy of each completed study to the Bank and consult with the Bank on the findings and recommendations of each study financed by the Bank loan proceeds (Section 3.05(ii) of the Loan Agreement); and (d) exchange views with the Bank on implementation proposals for policy changes and action programs emanating from the studies (Section 3.05(iii) of the Loan Agreement).

60. The hiring of the expert advisors and the consultants to carry out the studies under the project would be the responsibility of the FMCI. It is expected that a single lead internationally experienced consulting firm would be contracted to provide both the advisors as well as other specific (short-term) consultancy services under the components of the project which will be financed out of the proposed Bank loan. This would have the important advantages of ensuring timely provision of services and back-up support as needed, and single overall accountability for acceptable quality work, and of minimizing the administrative burden involved in organizing these major tasks. All experts and consultants to be employed under the proposed loan would be required to have experience, qualifications, and terms of employment satisfactory to the Bank and the Government, and would be selected in accordance with Bank guidelines. Procurement of the cofinanced components would be according to the procurement guidelines of the cofinanciers.

61. Where local consulting firms are capable of providing the services required, joint venture between the foreign and local consulting firm and/or subcontracts by the foreign firm to a local firm would be sought so as to contribute to the development of local consulting capabilities. In such collaborative efforts: (a) the contribution of the local firm should be the maximum of which it is capable; (b) the contract between the international and the local firm should define which services are to be provided by each firm, and where the leadership and the ultimate responsibility for providing the services lie; and (c) suitable training arrangements for development of local capabilities should be included. The consultant proposals would be required to indicate the approximate number of man-months to be provided respectively by local and foreign staff.

62. For those components of the project which would be financed by the cofinanciers the Government intends to consult regularly with the Bank, to ensure proper coordination of all project activities and their consistency with overall project objectives. The Government also intends to communicate to the Bank their interim and final reports. In addition the Bank would maintain active consultation with the cofinanciers to ensure coordination and avoid gaps or duplication of efforts.

63. Assurances were obtained during negotiations that the PAD would prepare and send to the Bank quarterly progress reports in a format satisfactory to the Bank, covering the activities of the PAU as well as the IPPPT. In addition progress on the studies and the work program of the PAD would be monitored by the Bank during regular supervision missions and the

Bank staff would be closely associated with the implementation of the studies and periodic meetings would take place with the consultants and the PAD staff. An in-depth mid-term review of the project would be organized approximately 18 months after loan effectiveness to assess progress achieved and to make modifications as necessary in the remainder of the work program (Section 3.04(b) of the Loan Agreement). Assurances were obtained from the Government that it would prepare and submit to the Bank a project completion report not later than six months after the closing date of the proposed loan.

Status of Project Preparation

64. The upgraded IDCC has been formally constituted; and the PAD created within the FMCI, and its functions, staffing and responsibilities approved by FMGN. Concerning the recruitment of PAD professional staff, job descriptions have been prepared and advertisements are to be published for the positions by end-August and the core positions are expected to be filled by January 1986. As regards the selection of the lead consulting firm, detailed draft terms of reference for the bid invitations package have been prepared; short listing of firms and issuance of invitations to bid is expected by September 1985. The consultants are expected to have been selected and the advisors to be in place by February 1986.

Project Cost and Financing

65. Total project costs, including contingencies, are estimated at US$8.6 million equivalent, of which the foreign exchange component is estimated at US$4.1 million or about 48 percent of the total cost. Price contingencies for the foreign exchange component are based on 7.5 percent in 1986 and 8 percent per annum for 1987-90. Local price contingencies have been estimated at 14 percent per annum for the period 1986-90. The amount of consulting and expert services is estimated at about 230 man-months. The Government would provide about 360 man-months of local professional staff-time as well as the office facilities and support services which are included in the total cost of the project as part of the Government's contribution.

66. The proposed loan of US$5.0 million equivalent would finance 58 percent of total project costs. This represents the foreign as well as local costs of the advisory services, short-term consultancies, and the computer equipment and services. Financing of local costs is justified in view of the Government's budgetary austerity and the important support the project gives to the Government's efforts to restructure the industrial sector. Retroactive financing of US$400,000 is proposed to cover expenditures eligible for IBRD funding (mainly consulting services) incurred from April 1, 1985. The Government would provide US$1.9 million of local cost, representing the cost of counterpart staff, office space, equipment and materials and local travel. For the remaining US$1.6 million of the total project cost, cofinancing has been requested from the EEC and UNDP/UNIDO. Processing of cofinancing arrangements is at an advanced state in both cases, and prospects are very good that the required cofinancing

will be forthcoming. It is expected that: (a) the EEC would fund the local in-house training component, and cement industry studies; and (b) UNDP would fund and UNIDO would prepare and supervise the study/orientation visits abroad and the two longer-term strategy studies on public investment implementation and management, and on industrial promotion. These components, which are not scheduled to get under way until the third quarter of 1986, will be important to complement the on-the-job training and other studies under the project. EEC and UNDP/UNIDO cofinancing would be in parallel to the proposed Bank loan.

Procurement, Disbursement, Accounts and Audit

67. Procurement. Selection of advisers and consultants to be financed out of the Bank Loan would be carried out by FMCI, in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines on the Use of Consultants by World Bank Borrowers and the World Bank as Executing Agency" published in August 1981. The short list of consulting firms and all terms of reference, qualifications, experience, terms and conditions of employment of consultants, selection procedures and contracts would be subject to the Bank's prior approval. Procurement of computer equipment would be in accordance with principles and procedures satisfactory to the Bank, based upon the "Guidelines for Procurement under IBRD Loans and IDA Credits" published in August 1984; and selection procedures and contracts would be subject to prior Bank approval. The computer equipment, software and back-up and technical services would be provided under "limited international bidding", in view of the importance of ensuring that only equipment for which adequate back-up support is available in Nigeria is considered.

68. Disbursements would be on the basis of 100 percent of expenditures for: (i) the short-term consultancy services for studies (US$2,460,000); (ii) the expert advisory services to the PAU and the IPPPT (US$2,090,000); (iii) computer equipment and software (US$200,000); and (iv) a revolving fund (US$250,000). All disbursements would be fully documented with the exception of reimbursements applications related to contracts of less than US$10,000 equivalent, which would be disbursed on the basis of statements of expenditure (SOE); supporting documents related to withdrawals under SOEs would be retained in a central location, and made available for review by visiting missions. During negotiations, agreement was reached that the minimum reimbursement application size would be US$20,000 equivalent. Disbursements are expected to take place over the period FY1986-90. A revolving fund in the form of a special account in foreign currency would be established by FMCI to facilitate the payment of project related expenditures eligible for reimbursement from the proceeds of the Bank loan. An initial deposit of US$250,000 would be paid into a special revolving fund account. A schedule of estimated disbursements is provided in the Loan and Project Summary.

69. The PAD would keep separate, clearly identifiable accounts for the project expenditures and would maintain a separate sub-account for disbursements under the revolving fund, and out of the proposed Bank loan.

These project accounts would be audited in accordance with procedures satisfactory to the Bank. Beginning with the period ending December 31, 1985, the FMCI would prepare and submit to the Bank quarterly reports on project accounts showing expenditures as well as commitments. Assurances on the procurement, disbursement and account/audit arrangements described above were obtained during negotiations.

Benefits and Risks

70. A major benefit of the proposed project over the medium-term would be formulation of a phased program of industrial policy reforms to help accomplish the goals of industrial restructuring and growth in Nigeria. The studies to be financed under the project would generate the policy proposals aimed at: (a) stimulating private industrial investment and growth; and (b) improving the efficiency of public sector investments in industry. The strengthening of the institutional framework would assure better coordination and increased effectiveness of the Government in implementation of its industrial sector strategy. The longer-term benefits of the proposed project would be the creation of a permanent institutional framework and capability in the Government for industrial policy design, implementation and evaluation.

71. There is some risk of delay in recruitment of consulting and expert services under the project, owing both to the highly specialized nature of expertise required and possible logistical and administrative constraints. This risk is being taken into account in designing the project: first, by identifying possible sources of consulting services and initiating the selection process in advance, and secondly by seeking cofinancing from donor sources and using the Bank loan to finance those activities for which no alternative prospective source of financing is available. While there is a risk that the Government may not adopt all the policy proposals generated by the project, there is however widespread recognition in the Government that the present set of industrial incentive policies needs to be changed to meet the challenges of current difficult economic environment (para. 30). In view of the above the risk is considered acceptable.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

72. The draft Loan Agreement between the Federal Republic of Nigeria and the Bank as well as the Report of the Committee provided for in Article III, Section 4 (iii) of the Articles of Agreement are being distributed to the Executive Directors separately.

73. Special conditions of the project are listed in Section III of Annex 3 of this Report. Appointment of adequate staff to the PAU and the IPPPT (para. 58) would be a condition of effectiveness of the proposed Loan Agreement (Section 7.01 of the Loan Agreement).

74. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

75. I recommend that the Executive Directors approve the proposed loan.

A. W. Clausen
President

Attachments
August 19, 1985
Washington, D.C.

NIGERIA - SOCIAL INDICATORS DATA SHEET

	NIGERIA 1960 /b	NIGERIA 1970 /b	NIGERIA MOST RECENT ESTIMATE /b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b MIDDLE INCOME AFRICA S. OF SAHARA	MIDDLE INCOME N. AFRICA & MID EAST
AREA (THOUSAND SQ. KM)					
TOTAL	923.8	923.8	923.8	.	.
AGRICULTURAL	471.0	497.4	513.4	.	.
GNP PER CAPITA (US$)	..	..	770.0	1063.8	1134.9
ENERGY CONSUMPTION PER CAPITA					
(KILOGRAMS OF OIL EQUIVALENT)	20.0	35.0	143.0	581.5	623.9
POPULATION AND VITAL STATISTICS					
POPULATION, MID-YEAR (THOUSANDS)	51598.0	66182.0	93642.0	.	.
URBAN POPULATION (% OF TOTAL)	13.1	16.4	22.0	32.0	49.0
POPULATION PROJECTIONS					
POPULATION IN YEAR 2000 (MILL)			162.7	.	.
STATIONARY POPULATION (MILL)			532.0	.	.
POPULATION MOMENTUM			2.0	.	.
POPULATION DENSITY					
PER SQ. KM.	55.9	71.6	101.4	65.1	37.8
PER SQ. KM. AGRI. LAND	109.6	133.0	176.4	124.8	470.1
POPULATION AGE STRUCTURE (%)					
0-14 YRS	45.4	46.6	47.5	45.6	43.5
15-64 YRS	52.2	50.9	49.9	51.5	53.0
65 AND ABOVE	2.3	2.3	2.4	2.7	3.3
POPULATION GROWTH RATE (%)					
TOTAL	2.4	2.5	2.7	2.9	2.8
URBAN	4.7	4.7	4.9	5.1	4.4
CRUDE BIRTH RATE (PER THOUS)	51.5	50.9	49.5	47.0	40.0
CRUDE DEATH RATE (PER THOUS)	25.0	21.1	16.7	15.0	11.5
GROSS REPRODUCTION RATE	3.4	3.4	3.4	3.2	2.8
FAMILY PLANNING					
ACCEPTORS, ANNUAL (THOUS)	..	7.6	..	.	.
USERS (% OF MARRIED WOMEN)	..	..	6.0	6.4	21.4
FOOD AND NUTRITION					
INDEX OF FOOD PROD. PER CAPITA (1969-71=100)	100.0	102.0	82.0	82.9	95.1
PER CAPITA SUPPLY OF					
CALORIES (% OF REQUIREMENTS)	86.0	81.0	94.0	98.5	118.2
PROTEINS (GRAMS PER DAY)	48.0	44.0	48.0	55.4	77.8
OF WHICH ANIMAL AND PULSE	10.0	11.0	11.0 /c	16.5	17.8
CHILD (AGES 1-4) DEATH RATE	37.4	28.6	17.0	16.6	12.8
HEALTH					
LIFE EXPECT. AT BIRTH (YEARS)	39.0	43.5	48.6	52.0	57.8
INFANT MORT. RATE (PER THOUS)	163.5	140.5	113.0	108.8	96.8
ACCESS TO SAFE WATER (%POP)					
TOTAL	..	..	..	42.4	67.2
URBAN	..	..	..	67.5	93.4
RURAL	..	..	..	35.8	45.8
ACCESS TO EXCRETA DISPOSAL (% OF POPULATION)					
TOTAL	..	..	..	28.9	45.9
URBAN	..	..	..	57.7	63.0
RURAL	..	..	..	20.7	28.6
POPULATION PER PHYSICIAN	73710.0	24670.0	12550.0 /d	11791.7	4331.0
POP. PER NURSING PERSON	4040.0 /e	5070.0	3010.0 /d	2459.8	1845.0
POP. PER HOSPITAL BED					
TOTAL	3020.0 /f	2220.0	1180.0 /d	981.1	621.8
URBAN	430.0 /e	490.0	370.0 /g	368.8	545.0
RURAL	25630.0 /e	18490.0	5490.0 /g	4371.9	2511.3
ADMISSIONS PER HOSPITAL BED	..	..	..	27.2	25.7
HOUSING					
AVERAGE SIZE OF HOUSEHOLD					
TOTAL	..	..	..	..	..
URBAN	..	4.7 /h	..	..	..
RURAL	..	..	..	..	..
AVERAGE NO. OF PERSONS/ROOM					
TOTAL	..	..	..	..	..
URBAN	3.0	2.2 /h	..	..	..
RURAL	..	..	..	..	..
PERCENTAGE OF DWELLINGS WITH ELECT.					
TOTAL	..	..	..	..	..
URBAN	81.3	42.4 /h	..	..	..
RURAL	..	..	..	..	..

NIGERIA - SOCIAL INDICATORS DATA SHEET

	NIGERIA 1960/b	NIGERIA 1970/b	NIGERIA MOST RECENT ESTIMATE/b	REFERENCE GROUPS (WEIGHTED AVERAGES) /a (MOST RECENT ESTIMATE) /b MIDDLE INCOME AFRICA S. OF SAHARA	MIDDLE INCOME N. AFRICA & MID EAST
EDUCATION					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	36.0	37.0	98.0 /d	95.7	89.8
MALE	46.0	47.0	..	100.0	103.7
FEMALE	27.0	27.0	..	83.2	75.2
SECONDARY: TOTAL	4.0	4.0	16.0 /d	17.3	42.9
MALE	6.0	6.0	..	25.0	50.9
FEMALE	1.0	3.0	..	14.8	34.6
VOCATIONAL (% OF SECONDARY)	4.8	8.5	3.1 /d	5.9	10.0
PUPIL-TEACHER RATIO					
PRIMARY	30.0	34.0	..	41.1	29.7
SECONDARY	19.0	21.0	..	25.5	18.8
CONSUMPTION					
PASSENGER CARS/THOUSAND POP	0.6	0.9	1.4 /i	20.8	17.8
RADIO RECEIVERS/THOUSAND POP	2.8	19.3	72.9	107.8	175.9
TV RECEIVERS/THOUSAND POP	0.0	1.1	5.0	20.8	51.2
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION	5.5	4.8	5.6	18.4	37.2
CINEMA ANNUAL ATTENDANCE/CAPITA	..	..	0.3 /d	0.4	2.4
LABOR FORCE					
TOTAL LABOR FORCE (THOUS)	21788.0	25992.0	33544.0	.	.
FEMALE (PERCENT)	41.3	40.6	39.6	36.2	11.0
AGRICULTURE (PERCENT)	71.0	62.0	54.0 /j	54.5	42.4
INDUSTRY (PERCENT)	10.0	14.0	19.0 /j	18.3	27.9
PARTICIPATION RATE (PERCENT)					
TOTAL	42.2	39.3	35.8	36.8	26.2
MALE	50.3	47.3	44.0	47.1	46.2
FEMALE	34.4	31.5	28.3	27.2	5.8
ECONOMIC DEPENDENCY RATIO	1.1	1.2	1.4	1.3	1.8
INCOME DISTRIBUTION					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5% OF HOUSEHOLDS	..	..	..	..	..
HIGHEST 20% OF HOUSEHOLDS	..	..	..	..	..
LOWEST 20% OF HOUSEHOLDS	..	..	..	..	..
LOWEST 40% OF HOUSEHOLDS	..	..	..	..	..
POVERTY TARGET GROUPS					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	696.0	590.7	226.3
RURAL	..	..	341.0	275.3	134.0
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US$ PER CAPITA)					
URBAN	..	..	621.0	545.6	431.5
RURAL	..	..	207.0	201.1	326.0
ESTIMATED POP. BELOW ABSOLUTE POVERTY INCOME LEVEL (%)					
URBAN	..	..	..	..	..
RURAL	..	..	..	..	29.0

.. NOT AVAILABLE
. NOT APPLICABLE

N O T E S

/a The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

/b Unless otherwise noted, "Data for 1960" refer to any year between 1959 and 1961; "Data for 1970" between 1969 and 1971; and data for "Most Recent Estimate" between 1981 and 1983.

/c 1977; /d 1979; /e 1962; /f Includes ex-North Cameroon under British administration; /g 1976; /h 1972; /i 1978; /j 1980.

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "High Income Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when majority of the countries in a group has data for that indicator. Since the coverage of countries among the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

AREA (thousand sq.km.)

Total—Total surface area comprising land area and inland waters; 1960, 1970 and 1983 data.

Agricultural—Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow, 1960, 1970 and 1982 data.

GNP PER CAPITA (US$)—GNP per capita estimates at current market prices, calculated by same conversion method as *World Bank Atlas* (1981-83 basis); 1983 data.

ENERGY CONSUMPTION PER CAPITA—Annual apparent consumption of commercial primary energy (coal and lignite, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of oil equivalent per capita; 1960, 1970, and 1982 data.

POPULATION AND VITAL STATISTICS

Total Population, Mid-Year (thousands)—As of July 1; 1960, 1970, and 1983 data.

Urban Population (percent of total)—Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1983 data.

Population Projections

Population in year 2000—The projection of population for 2000, made for each economy separately. Starting with information on total population by age and sex, fertility rates, mortality rates, and international migration in the base year 1980, these parameters were projected at five-year intervals on the basis of generalized assumptions until the population became stationary.

Stationary population—Is one in which age- and sex-specific mortality rates have not changed over a long period, while age-specific fertility rates have simultaneously remained at replacement level (net reproduction rate = 1). In such a population, the birth rate is constant and equal to the death rate, the age structure is also constant, and the growth rate is zero. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

Population Momentum—Is the tendency for population growth to continue beyond the time that replacement-level fertility has been achieved; that is, even after the net reproduction rate has reached unity. The momentum of a population in the year t is measured as a ratio of the ultimate stationary population to the population in the year t, given the assumption that fertility remains at replacement level from year t onward, 1985 data.

Population Density

Per sq.km.—Mid-year population per square kilometer (100 hectares) of total area; 1960, 1970, and 1983 data.

Per sq.km. agricultural land—Computed as above for agricultural land only, 1960, 1970, and 1982 data.

Population Age Structure (percent)—Children (0-14 years), working age (15-64 years), and retired (65 years and over) as percentage of mid-year population; 1960, 1970, and 1983 data.

Population Growth Rate (percent)—total—Annual growth rates of total mid-year population for 1950-60, 1960-70, and 1970-83.

Population Growth Rate (percent)—urban—Annual growth rates of urban population for 1950-60, 1960-70, and 1970-83 data.

Crude Birth Rate (per thousand)—Number of live births in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

Crude Death Rate (per thousand)—Number of deaths in the year per thousand of mid-year population; 1960, 1970, and 1983 data.

Gross Reproduction Rate—Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1983.

Family Planning—Acceptors, Annual (thousands)—Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family Planning—Users (percent of married women)—The percentage of married women of child-bearing age who are practicing or whose husbands are practicing any form of contraception. Women of child-bearing age are generally women aged 15-49, although for some countries contraceptive usage is measured for other age groups.

FOOD AND NUTRITION

Index of Food Production Per Capita (1969-71 = 100)—Index of per capita annual production of all food commodities. Production excludes animal feed and seed for agriculture. Food commodities include primary commodities (e.g. sugarcane instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded); they comprise cereals, root crops, pulses, oil seeds, vegetables, fruits, nuts, sugarcane and sugar beets, livestock, and livestock products. Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1982 data.

Per Capita Supply of Calories (percent of requirements)—Computed from calorie equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds for use in agriculture, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961, 1970 and 1982 data.

Per Capita Supply of Protein (grams per day)—Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowances of 60 grams of total protein per day and 20 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Supply; 1961, 1970 and 1982 data.

Per Capita Protein Supply From Animal and Pulse—Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

Child (ages 1-4) Death Rate (per thousand)—Number of deaths of children aged 1-4 years per thousand children in the same age group in a given year. For most developing countries data derived from life tables; 1960, 1970 and 1983 data.

HEALTH

Life Expectancy at Birth (years)—Number of years a newborn infant would live if prevailing patterns of mortality for all people

at the time of of its birth were to stay the same throughout its life; 1960, 1970 and 1983 data.

Infant Mortality Rate (per thousand)—Number of infants who die before reaching one year of age per thousand live births in a given year; 1960, 1970 and 1983 data.

Access to Safe Water (percent of population)—total, urban, and rural—Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the housewife or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to Excreta Disposal (percent of population)—total, urban, and rural—Number of people (total, urban, and rural) served by excreta disposal as percentages of their respective populations. Excreta disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit privies and similar installations.

Population per Physician—Population divided by number of practising physicians qualified from a medical school at university level.

Population per Nursing Person—Population divided by number of practicing male and female graduate nurses, assistant nurses, practical nurses and nursing auxiliaries.

Population per Hospital Bed—total, urban, and rural—Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private, general and specialized hospitals and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities.

Admissions per Hospital Bed—Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average Size of Household (persons per household)—total, urban, and rural—A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

Average Number of Persons per Room—total, urban, and rural—Average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Percentage of Dwellings with Electricity—total, urban, and rural—Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted Enrollment Ratios

Primary school - total, male and female—Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations. While many countries consider primary school age to be 6-11 years, others do not. The differences in country practices in the ages and duration of school are reflected in the ratios given. For some countries with universal education, gross enrollment may exceed 100 percent since some pupils are below or above the country's standard primary-school age.

Secondary school - total, male and female—Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational Enrollment (percent of secondary)—Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Pupil-teacher Ratio - primary, and secondary—Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

CONSUMPTION

Passenger Cars (per thousand population)—Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio Receivers (per thousand population)—All types of receivers for radio broadcasts to general public per thousand of population; excludes un-licensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV Receivers (per thousand population)—TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper Circulation (per thousand population)—Shows the average circulation of "daily general interest newspaper," defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema Annual Attendance per Capita per Year—Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE

Total Labor Force (thousands)—Economically active persons, including armed forces and unemployed but excluding housewives, students, etc., covering population of all ages. Definitions in various countries are not comparable; 1960, 1970 and 1983 data.

Female (percent)—Female labor force as percentage of total labor force.

Agriculture (percent)—Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1980 data.

Industry (percent)—Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1980 data.

Participation Rate (percent)—total, male, and female—Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1983 data. These are based on ILO's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

Economic Dependency Ratio—Ratio of population under 15, and 65 and over, to the working age population (those aged 15-64).

INCOME DISTRIBUTION

Percentage of Total Disposable Income (both in cash and kind)—Accruing to percentile groups of households ranked by total household income.

POVERTY TARGET GROUPS

The following estimates are very approximate measures of poverty levels, and should be interpreted with considerable caution.

Estimated Absolute Poverty Income Level (US$ per capita)—urban and rural—Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated Relative Poverty Income Level (US$ per capita)—urban and rural—Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

Estimated Population Below Absolute Poverty Income Level (percent)—urban and rural— Percent of population (urban and rural who are "absolute poor."

Comparative Analysis and Data Division
Economic Analysis and Projections Department
June 1985

ECONOMIC INDICATORS

GROSS NATIONAL PRODUCT IN 1983

	US$ Mln	%	ANNUAL RATE OF GROWTH(%, Constant Prices) 1975-80	1982	1983
GNP at Market Prices	65621	100.0	3.5	-2.3	-5.9
Gross Domestic Investment	12879	19.6	1.2	-23.9	-20.4
Gross National Saving	7344	11.2	1.2	-39.4	13.0
Current Account Balance	-5567	-8.5	-	-	-
Exports of Goods & nfs	10668	16.3	5.5	-23.7	-7.3
Imports of Goods & nfs	14562	22.2	6.3	-15.9	-24.9

OUTPUT, LABOR FORCE AND PRODUCTIVITY IN 1983

	Value Added		Labor Force /a/		Value Added per Worker	
	US$ Mln	%	Mln	%	US$ Mln	%
Agriculture	16817	25.6	20.3	58.3	827	43.9
Industry & Mining	23148	35.3	6.9	19.8	3350	178.1
Services	25687	39.1	7.6	21.9	3364	178.7
Total/Average	65652	100.0	34.9	100.0	1881	100.0

GOVERNMENT FINANCE /b/

	General Government			Central Government		
	N Mln	As % of GDP		N Mln	As % of GDP	
	1983	1983	1980-82	1983	1983	1980-82
Current receipts	12328	25.3	29.1	7483	15.4	18.6
Current Expenditure	14840	30.5	19.7	9187	18.9	11.1
Current Surplus	-2512	-5.2	9.4	-1704	-3.5	7.5
Capital Expenditure	8246	16.9	26.5	4891	10.1	14.9
External Assistance (net)	2760	5.7	2.7	1107	2.3	0.7

MONEY, CREDIT AND PRICES

	1977	1978	1979	1980	1981	1982	1983
	(Million Naira Outstanding End Period)						
Money and Quasi Money	7813	7521	9849	14390	15239	16694	19035
Bank Credit to Public Sector(net)	2452	3143	3313	3539	6299	10328	15475
Bank Credit to Private Sector	3459	4485	5126	6744	8917	10567	11071
	(Percentages or Index Numbers)						
Money & Quasi Money as % GDP	24.0	21.5	24.0	29.8	31.3	32.6	39.1
General Price Index(1975=100)	143.0	166.7	186.3	204.9	247.5	266.5	319.8
Annual Percentage Changes in:							
General Price Index	15.4	16.6	11.8	10.0	20.8	7.7	20.0
Bank Credit to Public Sector	345.0	28.2	5.4	6.8	78.0	64.0	49.8
Bank Credit to Private Sector	42.8	29.7	14.3	31.6	32.2	18.5	4.8

Note: All conversions to US dollars are at the average exchange rate prevailing during the period covered.

/a/ Derived from planning documents and refers to the number of gainfully employed.

/b/ Based on the Government Budget estimates, IMF data, and World Bank estimates.

August 12, 1985

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

	1981 /a/	1982 /b/	1983 /b/
	(Millions US $)		
Exports of Goods, nfs	18894	13583	10668
Imports of Goods, nfs	24190	19991	14562
Resource Gap (deficit = -)	-5296	-6408	-3894
Interest Payments (net)	262	-828	-1058
Other factor Payments (net)	-916	-383	-355
Net Transfers	-565	-429	-260
Balance on Current account	-6515	-8048	-5567
Direct Foreign Investment	546	431	365
Net Official Borrowing	813	1094	1291
Disbursement	1416	1999	2785
Amortization	-603	-905	-1494
Other Capital (net)	156	4066	2715
Errors and Omissions	78	73	41
Overall Balance	-4922	-2384	-1155
Reserve Movements(Incr.-)	4922	2384	1155
Reserve Level	3895	1511	356
Fuel and Related Material Imports			
of which: Mineral Fuels	288	262	201
Exports			
of which: Petroleum	17401	12777	9859

MERCHANDISE EXPORTS (Average 1981-83)

	US$ Mln	%
Crude Oil	13440	97.3
Cocoa Products	225	1.6
Palm Products	26	0.2
Tin	32	0.2
Others	90	0.7
Total	13813	100.0

EXTERNAL DEBT, DECEMBER 31, 1984 /c/

	US$ Mln
Public Debt Including Undisbursed	25266
Non-Guaranteed Private Debt	1299
Total Outstanding and Disbursed	19742

DEBT SERVICE RATIO FOR 1983 /d/

	%
Public Debt Including Undisbursed	..
Non-Guaranteed Private Debt	..
Total Outstanding and Disbursed	20.2

EXCHANGE RATE

1978 : N1.00 = US$1.57
1979 : N1.00 = US$1.66
1980 : N1.00 = US$1.83
1981 : N1.00 = US$1.63
1982 : N1.00 = US$1.49
1983 : N1.00 = US$1.38
1984 : N1.00 = US$1.31

IBRD/IDA LENDING AS OF MAY 31, 1985

	IBRD	IDA
Outstanding & Disbursed	1247.0	36.7
Undisbursed	973.0	..
Outstanding Including Undisbursed	2220.0	36.7

/a/ Provisional. /b/ Official esimates.
/c/ Including short-term loans. /d/ Ratio of MLT debt service to exports of goods and non-factor services.
August 12, 1985

ANNEX 2

THE STATUS OF BANK GROUP OPERATIONS

A. STATEMENT OF BANK GROUP OPERTAIONS IN NIGERIA /a
(As of March 31, 1985)

Loan or Credit Number	Year	Borrower	Purpose	US$ Million Amount (less cancellation) Bank	IDA	Undisbursed
Twenty eight loans and two credits fully disbursed				743.7	35.3 /b	
1191	1976	Nigeria	E.C State Oil Palm	19.0		7.5
1591	1978	Nigeria	Nuc. Est. Smallholder Oil	30.0		1.6
1597	1978	NIDB	Industrial Development	54.7		10.8
1667	1979	Nigeria	Agric. Dev. - Bida	23.0		2.9
1668	1979	Nigeria	Agric. Dev. - Ilorin	27.0		8.8
1679	1979	Nigeria	Forestry	31.0		3.6
1711	1979	Nigeria	Water Supply - Kaduna	92.0		67.0
1719	1979	Nigeria	Agric. & Rural Mgmt. Inst.	9.0		5.3
1766	1980	NEPA	Power Lagos	100.0		63.4
1767	1980	Nigeria	Urban Development - Bauchi	17.8		8.1
1838	1980	Nigeria	Agric. Dev. - Oyo-North	28.0		19.7
1854	1980	Nigeria	Agric. Dev. - Ekiti-Akoko	32.5		19.3
1883	1908	Nigeria	Roads	78.0		22.1
1981	1981	Nigeria	Agric. Dev. - Bauchi	132.0		46.6
1982	1981	Nigeria	Agric. Dev. - Kano	142.0		86.4
2029	1981	Nigeria	Tech. Assistance - Agric.	47.0		28.1
2036	1982	Nigeria	Water Supply - Anambra	67.0		50.4
2085	1982	NEPA	Power - Distribution	100.0		70.6
2185	1982	Nigeria	Agric. Dev. - Sokoto	147.0		108.3
2299	1983	NIDB	Industrial Development	120.0		117.5
2345	1984	Nigeria	Fertilizer Import	250.0		159.4
2376	1984	NBCI	Small & Medium Scale Industry	41.0		40.8
*2390	1984	NNPC	Tech. Asst. - Gas Engineering	25.0		25.0
**2436	1984	Nigeria	Agric. Dev. - Kaduna	122.0		122.0
**2480	1985	Nigeria	Tech. Assistance	13.0		13.0
**2503	1985	Nigeria	Health - Sokoto	34.0		34.0
	Total			2,525.7	35.3	1,142.2
	Of which has been repaid			299.7	4.6	
	Total outstanding			2,226.0	30.7	
	Amount sold		16.8			
	Of which has been repaid		16.8	0.0		
	Total now held by Bank & IDA			2,226.0	30.7	
	Total undisbursed					1,142.2

B. STATEMENT OF IFC INVESTMENTS
(As of March 31, 1985)

Fiscal Year		Type of Business	Amount in US$ Million Loan	Equity	Total
1964, 1967, 1970	Arewa Textiles Ltd.	Textile Mfg.	1.0	0.6	1.6
1964	Nigeria Industrial Development Bank Ltd.	Dev. Fin. Co.		1.4	1.4
1973	Funtua Cottonseed Crushing Ltd. Crushing	Veg. Oil	1.6		1.6
1973	Nigeria Aluminum Extrusion Ltd.	Aluminum Processing	1.0	0.3	1.3
1974	Lifiaga Sugar Estate	Sugar		0.1	0.1
1980	NTM	Textiles	6.2	0.7	6.9
1981	Ikeja Hotel	Tourism	10.1	1.4	11.5
1985	Tiger Battery	Dry-cell Batteries	4.6	-	4.6
	Total gross commitments		24.5	4.5	29.0
	Less cancellations, terminations, repayments and sales		5.8	1.6	7.4
	Total commitment now held by IFC		18.7	2.9	21.6
	Undisbursed		7.1	0.3	7.4

* Not yet signed.
** Not yet effective.

/a The status of the projects listed in Part A is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

/b Prior to exchange rate adjustments.

ANNEX 3

NIGERIA

INDUSTRY TECHNICAL ASSISTANCE PROJECT

SUPPLEMENTARY PROJECT DATA SHEET

I. Timetable of Key Events

(a) Time taken to prepare project: 5 months

(b) Initial Discussion with the Bank: May 1983

(c) Appraisal Mission: October 1983

(d) Post-Appraisal Mission: November/December 1984

(e) Negotiations: March 1985

(f) Planned Date of Loan Effectiveness: November 1985

II. Special Bank Implementation Actions

The project would include a revolving fund of US$250,000 to facilitate implementation of the project.

III. Special Conditions

(a) Appointment of adequate staff to the PAU and the IPPPT (para. 58) would be Conditions of Effectiveness.

(b) The Government to provide, annually, sufficient funds and facilities in its budget to enable the PAU and the IPPPT to carry out their work program (para. 58).

(c) A three-year Work Program for the PAU and IPPPT to be prepared and submitted to the Bank by April 30, 1986, and the Government to consult annually on any modifications (para. 59).

(d) Terms of Reference and implementation arrangements for each study to be agreed with the Bank. The Government to furnish copy of each completed study to the Bank and consult on findings, including implementation proposals, of the study (para. 59).

July 1985

NIGERIA
INDUSTRY TECHNICAL ASSISTANCE PROJECT
Tentative Work Program and Implementation Schedule for Studies (1985-88)

YEAR	1985				1986				1987				1988			
QUARTER	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
A. RESTRUCTURING OF INCENTIVES & TRADE PROTECTION REGIME																
1. Update World Bank Calculations on EPR's																
2. Assess Anomalies & Other Parameters/Factors Relevant to Formulating 1987 Reforms																
3. Assess Impact of 1984-86 Policies																
4. Determine & Establish (a) Policy Instruments for assessment, (b) Methodological Base for Analysis of EPR's & Related Assessments of Elasticities, Impact on BOP & Impact on Government Revenues, (c) Data Base for Analysis, (d) Principles for Use of Policy Instruments																
6. Determine Institutional & Administrative Mechanisms for Review																
7. Determine (a) Priority Subsectors, (b) Priority Products for Detailed Study (see also SUBSECTOR STUDIES)																
8. Carryout Analysis for:																
(a) Medium Term Plan for Rationalizing & Liberalizing Import Licensing & Other QR's																
(b) Medium Term Plan for Reforming Tariffs & Other Import Protection Measures																
(c) Step-wise Reforms of Import Protection System for Priority Subsectors & Products (see also SUBSECTOR STUDIES)																
9. Review Institutional & Procedural Mechanisms																
10. Establish Monitoring/Systems Requirements & Procedures for Reviewing & Assessing Impact of Reforms																
11. Prepare:																
(a) Medium Term Plan for Rationalizing & Liberalizing QR's																
(b) Medium Term Plan for Tariff & Related Reforms																
(c) 1987 Reforms																
(d) 1988 Reforms																
(e) 1089 Reforms																
B. EXPORT INCENTIVE MEASURES																
1. Review Existing Export Incentive Measures: (i) Customs Drawback Scheme; (ii) Export Credit & Insurance Schemes; (iii) Other Assistance to Exporters. Assess in Relation to: (a) Deviation from Free Trade Environment; (b) Impact on Exports; (c) Impact on Revenue; (d) Administrative Implications; (e) Relationship to EPR's																
2. Design Alternative Export Incentive Measures & Assess in Relation to (a) to (e) above																
3. Prepare Recommendations for Export Incentives & Administrative Requirements & Procedures																
C. INVESTMENT INCENTIVES MEASURES																
1. Determine Principles to be Used in Redesigning & Implementing Investment Incentives System																
2. Assess Existing Investment Inventives: (a) Tax Holiday ("Pioneer Industry") Scheme; (b) Capital Depreciation Allowances; (c) Industrial Training Fund; (d) Tax Allowances for R&D. Assess in Relation to: (i) Impact of Import Protection Regime; (ii) Capital-Intensity Bias of Industry; (iii) Impact on Government Revenues; (iv) Administrative Implications; (v) Resulting Level & Economic Viability of Investment.																
3. Determine Alternative Incentives for Detailed Assessment																
4. Assess Alternative Incentives & Prepare Recommendation																
D PROMOTION OF FOREIGN INVESTMENTS																
1. Review Existing Regulations Governing Foreign Investment/Technical Collaboration. Assess Impact on: (i) Capital Inflow; (ii) Access to Foreign Markets; (iii) Build Up of Local Technological Capability, Including Management Skills																
2. Review Institutional & Procedure Mechanisms for (a) Promotion; (b) Screening; (c) Approving; (d) Monitoring, Foreign Investment & Technology Arrangements																
3. Prepare Recommendations for (a) Changes in Regulations Governing Foreign Investment/Technical Colaboration & (b) Institutional & Procedure Mechanisms for Promotion Screening, Approving & Monitoring.																
E. REGIONAL DISPERSAL POLICIES																
1. Review Existing Policies Relating to Regional Dispersal Including: (a) Fiscal Incentives; (b) Industrial Estates; (c) Locational Policies; (d) Small Scale Industry Policies; & (e) Infrastructural & Public Investment Policies. Assess Impact on Regional Dispersal of (a) to (e) Including Cost Effectiveness of Measures																
2. Review Effect of Overall Incentives System on Regional Dispersal																
3. Assess Alternative Regional Dispersal Measures, Including Their (a) Cost Effectiveness & Impact on Government Revenue; (b) Encouragement of Desirable Regionally Dispersed Activity																
4. Prepare Recommendations for Strategy for Regional Dispersal & Incentive/Support Measures Including Monitoring System for Assessing Impact																

May 1985

NIGERIA
INDUSTRY TECHNICAL ASSISTANCE PROJECT
Tentative Work Program and Implementation Schedule for Studies (1985-88)

YEAR	1985				1986				1987				1988			
QUARTER	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
F. REVIEW OF PUBLIC SECTOR INVESTMENT PROJECTS IN INDUSTRIAL SECTOR																
1. Establish Methodological Base for: (a) Review of Ongoing Projects; (b) New Projects; (c) Support Investment																
2. Review Ongoing Projects & Programs:																
(a) Iron & Steel																
(b) Petrochemical																
(c) Other Projects with Over 30 Million for Completion																
(d) Small Projects																
(e) Support Investments																
3. On Basis of Review, Determine																
(a) Priorities for Completion																
(b) Action Programs for Completion of Viable Projects Within Context of Budgetary Constraints																
4. Review New Project at Present in Pipeline & Prepare Recommendations for Action/Nonaction																
5. Establish System for Multi-year Forward Investment Programs. Relate to SUBSECTOR STUDIES & OTHER POLICY REFORMS.																
6. Input into Forward Investment Programs																
(a) 1987																
(b) 1988																
(c) 1989																
G. PUBLIC SECTOR PROJECT EVALUATION & MANAGEMENT																
1. Preparation of Evaluation Manual																
2. Determine Institutional Responsibilities																
3. Specifications of Procedures for Project Implementation, Including:																
— Assessment of International Tendering System																
— Preparation of Financial Plans																
— Assessment of Desirability of Establishing a Monitoring Unit																
4. Specification of Approach to Monitoring Projects Once Implemented																
5. Assess Performance of Already Established Projects																
6. Review & Problem-Solving of Factors Affecting Implementation of Ongoing Projects																
H. STRENGTHENING INDUSTRIAL PROMOTION SERVICES																
1. Review of Regulatory Mechanisms Affecting Establishment & Operations of Private Enterprises																
2. Review Role, Functions & Procedures of (a) IDCC; (b) Other Regulatory Bodies (see also IMPORT PROTECTION REGIME; FOREIGN INVESTMENT)																
3. Review Infrastructure, Manpower & Other Constraints Affecting Industrial Development (see also SUBSECTOR STUDIES)																
4. Assess Adequacy of (a) Investment Promotion; (b) Pre & Post Investment Support Services; & (c) Industrial Estate Program. Assess Advisability of Channelling Additional Funds to Finance Institutions																
5. Prepare Recommendations for																
(a) Streamlining Regulatory Mechanisms																
(b) Role, Functions & Procedures of IDCC & Other Regulatory Bodies																
(c) Improving Investment Promotion Capabilities																
(d) Pre & Post Investment Services to be Offered																
(e) Industrial Estate Programs																
(f) Funds to Financial Institutions																
I. SUBSECTOR STUDIES																
1. Review of Present Industrial Planning Methodologies & Mechanisms Including Relationship to Investment Incentives System. Also Review Market Imperfections & Policy Instruments (see other studies)																
2. Assess Implications of Proposed Direction of Policy Reforms on Methodologies & Mechanisms for Industrial Planning.																
3. Establish Approach to Industrial Planning in Light of Proposed Policy Reforms, Particularly Subsector Promotion.																
4. Specification of (a) Guidelines for Subsector Studies; (b) Boundaries of Subsector; (c) Priorities for Subsector Studies; (d) Mechanisms for Carrying Out Studies; (e) Relationship of Subsector Studies to Other Studies.																
5. Carry Out Subsector Studies & Prepare Recommendations (including finetuning of IMPORT PROTECTION & OTHER INCENTIVE MEASURES)																
Subsector 1																
Subsector 2																
Subsector 3																
Subsector 4																
Subsector 5																
Other Subsectors																
6. Establish Mechanisms for Implementing Subsector Specific Policies & for Their Subsequent Monitoring & Review																

May 1985

NIGERIA

INDUSTRY TECHNICAL ASSISTANCE PROJECT

OUTLINE TERMS OF REFERENCE FOR PRINCIPAL STUDIES

Restructuring of the Import Protection Regime

1. The objective of these studies would be to develop proposals for reform of the import protection regime in Nigeria. Detailed objectives would be the following:

(a) Preparation of a scheme of a phased restructuring of tariffs and progressive relaxation of import restrictions. This would involve consideration of the role of both across-the-board reforms as well as adjustment on an industry or "product tree" basis taking account of industry and product linkages.

(b) Determination of the principles for the use of the various import protection measures, particularly tariffs, and the development of decision-rules which would enable the setting of the level of tariffs for different commodities.

(c) Preparation of each phase of the reform of the import protection regime will require assessment of the relative incentives (effective rates of protection) enjoyed by different industries to determine the appropriate means for adjusting incentives for major groups of activities. The proposed study would, therefore, involve analysis of protection rates, at least for major industries in the light of changing economic and policy environment (computerized data from the 1979-80 survey could be made available by the Bank).

(d) Analysis of the impact of recommended changes in tariffs and other import protection measures on different industries.

(e) Study of the need for adjustment assistance to particular major industries and proposing specific measures as the medium-term reform progresses.

(f) Study of institutional and administrative processes relating to the setting of tariffs and other import protection measures (including anti-dumping provisions).

Design and Development of Export Promotion Incentives

2. There is a need to promote non-oil manufactured exports. The purpose of this study is therefore to design an effective package of export promotion measures which could include:

(a) A scheme to enable exporters to purchase their raw material at internationally competitive prices, including rebate of import duties and other taxes. The present customs draw-back scheme would be examined to see how it could be reactivated and streamlined.

(b) Export assistance measures, including tax credits and other fiscal instruments, to compensate for any disadvantage to exporters arising from high local costs as well as any taxes which are difficult to rebate.

(c) Scheme for the retention of foreign exchange earnings by exporters.

3. Subsequent work could be carried out to design complementary schemes for the promotion of manufactured exports including export promotion zones, export marketing assistance and export credit programs. This study will be synchronized with the studies of the effective protection system and export incentives introduced along with the step-by-step reform of the tariff structure.

Design and Development Investment Incentives

4. The purpose of this study will be to design an effective package of investment incentives. This will include:

(a) A review of the investment incentives at present available, and an assessment of their effectiveness. This will include particularly a more thorough assessment of the adequacy and resource allocation effects of the Pioneer Industries scheme and of the adequacy of the present rate structure of capital depreciation allowances based upon more complete firm and/or activity level information.

(b) An assessment of the potential means and usefulness of building additional incentives for industry into the taxation system, including the desirability of replacing existing incentives. The study will address the question of the need for introducing new types of tax incentives e.g., those related to expenditure on R&D, training of labor, regional dispersal, etc. and evaluate them against the alternative of keeping the tax administration simpler and more effective with very few deductions and exemptions.

(c) The preparation of guidelines and criteria for evaluating the existing and proposed incentives.

Review and Amendment of Foreign Investment Policies and Guidelines

5. This study would involve a review of existing regulations governing foreign investment/technical collaboration to assess their impact on: (i) capital inflow; (ii) access to foreign markets; and (iii) the build-up of local technological capability in priority areas of industrial development.

6. This will involve generating approaches to the promotion of foreign capital and technical collaboration in line with Nigeria's industrial development objectives.

Development of Regional Dispersal Policies

7. The objective of these studies would be to devise an integrated approach to encourage the efficient regional dispersal of industry. The studies will cover:

(a) The specification of policy measures, such as special limited period fiscal incentives, which could be adopted to encourage investment in industrial activities at locations outside major urban centers.

(b) The identification of infrastructural and other support measures which would assist in overcoming the principal problems discouraging industry from locating in "disadvantaged" areas.

(c) An assessment of the desirability of establishing regional growth centers where provision on a priority basis of infrastructural facilities and other support services would encourage industrial development.

(d) The identification of industries which lend themselves to regional dispersal, notably those based on local natural and agricultural resources.

8. The extent to which the general policy reforms will serve to encourage regional dispersal will be an important part of these studies.

Industry and Other Decontrol Studies

9. The basic objective of these studies would be to recognize the policy and non-policy originating distortions and market imperfections, many of which are industry-specific, which serve to constrain efficient resource allocation and desirable investments, with the aim of preparing a schedule of steps for:

(a) The dismantling of undesirable regulations and controls;

(b) The removal of other industry-specific bottlenecks and constraints;

(c) Overcoming market imperfections; and

(d) Promotion of desirable investment.

The studies will include:

(i) An assessment of the impact of incentives and pricing system upon investment and productivity in a given subsector and to specify the "fine tuning" of policy reforms which would need to be carried out to allow industries time to adjust to the new policy regime (through modernization and rationalization where applicable).

(ii) A determination of the sub-sectoral bottlenecks and constraints affecting the efficient development of the sub-sector and specify measures which could be adopted to overcome them. Particular attention would be focussed on regulations and controls which lead to inefficiencies and the ways in which increasing local content and the further processing of local raw materials can be encouraged without cutting across efficiency considerations.

(iii) The identification of potential economically efficient new investment opportunities for private investment, especially in further processing of local raw materials and the production of intermediate and capital goods, to form part of "marketing" companion for new investments, particularly foreign investments.

(iv) The identification of necessary public investment requirements in both industrial and support projects.

10. Initially, these studies could focus on those industries currently facing severe operating difficulties and/or constitute sub-sectors which the Government regards as important in the future development of the country (e.g. raw materials based industries). The results of these studies will form an integral part in the formulation of the medium- and long-term reforms of the overall incentive system.

Public Sector Industrial Planning and Project Implementation

11. The principal output of these studies will be the specification of the methodology and criteria which should be adopted for their selection, evaluation and design for public direct investment projects and the most suitable institutional and procedural arrangements for their subsequent implementation and monitoring. This will require a review of present approaches and:

(a) The determination of suitable guidelines for isolating potential projects during the course of preparing industry sub-sector programs. Such guidelines should be consistent with the overall policy framework emphasizing the limitation of public direct investment to a small number of carefully selected strategic projects in which private initiatives are not forthcoming.

(b) The preparation of a methodology for the appraisal of potential projects, including calculation of social costs and benefits. This would include suitable guidelines for making the necessary choices from among desirable projects in the light of budgetary restraints.

(c) The isolation of institutional responsibilities for the identification and evaluation of the projects and the procedures for incorporating them in the public investment program; and the specification of the approach and procedure for implementing the projects and their subsequent monitoring once they are implemented.

12. As part of the work above, it will be necessary to: (a) carry out an assessment of the performance and impact of already established government sponsored projects; (b) review the factors affecting the implementation of on-going projects, particularly those factors leading to cost escalations and implementing delays; and (c) assess specific projects already in the process of being established or being proposed for implementation.

Strengthening of Industrial Promotion Services

13. The basic objectives of these studies will be to determine:

(a) The public support investment and other assistance measures the Government should adopt to promote desirable private investment.

(b) The most suitable institutional and procedural arrangements for implementing and monitoring these industrial promotion efforts. The recommendations would need to take into account proposed changes in the incentive system and in the underlying planning and industrial policy-making processes which emerge from the other studies. Particular attention will be paid to:

(i) A review of the present regulatory measures adopted by the Government to determine their efficacy relative to the objectives set for them, the deficiencies in the operation of the regulatory measures and the steps which should be taken to simplify and streamline the administrative procedures associated with them. This will include a review of the operations of the IDCC.

(ii) A determination of the infrastructural, manpower and other constraints affecting industrial development and the design of a medium-term plan for the provision of support investments to assist in overcoming these constraints (the sub-sector studies will play an important role in the identification of these constraints). The desirability of proceeding with the plans for the establishment of industrial free zones and estates should form part of the investigations.

(iii) An assessment of the desirability of channelling additional funds to the development finance institutions especially in lieu of public direct investment in small- and medium-sized projects.

(iv) The specification of the pre- and post-investment services which should be provided by the Government and the institutional and procedural arrangements for their provision. The respective roles of the existing industrial promotion agencies and the operating arms of government need to be spelled out. The way in which the results of sub-sector studies can be utilized for investment promotion purposes will form part of these studies.

June 1985

NIGERIA

INDUSTRY TECHNICAL ASSISTANCE PROJECT

Organizational Structure, Functions, and Staffing Requirements of the PAD, Including the PAU and IPPPT 1/

1. A Policy Analysis Department (PAD) has been established in the Federal Ministry of Commerce and Industry incorporating two units: the Policy Analysis Unit (PAU) and Industrial Policy, Planning and Promotions Team (IPPPT).

Policy Analysis Department (PAD)

2. The PAD will be responsible for formulating proposals for the medium-term reform and strengthening of industrialization and trade policies, including the incentives system, public investment planning and promotion of private investment.

Objectives

The broad objectives of these efforts will be:

(a) to improve the economic efficiency and competitiveness of the manufacturing sector, its longer-term growth potential and its use of scarce resources in the economy, in line with Nigeria's comparative advantage;

(b) to promote increased use of domestically sourced raw materials and intermediate goods where these can be efficiently produced; and

(c) to promote more dynamic private sector investment and production in industry.

Functions

The main functions of the PAD will be:

(a) to analyze existing industrial and related economic policies;

(b) to propose industrial policy reform measures; and

(c) to monitor on a continuing basis the impact of these policies.

1/ Statement approved and issued by the Federal Ministry of Commerce and Industry, April 29, 1985.

The PAD will work in cooperation with other departments of FMCI, other concerned Federal Ministries and agencies, NISER, universities and other research institutes and with private industry.

3. Recognizing that the areas of policy to be addressed by the PAU and IPPPT fall administratively within the jurisdiction of different Ministries and agencies of the Federal Government, the PAU and IPPPT will coordinate their technical and analytical work closely with these concerned agencies. To this end by decision of the Federal Executive Council in June 1984, the PAU and IPPPT have been empowered to: (a) call for and obtain from the concerned agencies all necessary data and information needed for their work; and (b) obtain active participation at the working level of officials from these agencies, as needed, in inter-ministerial working group to be established.

4. The PAD will be headed by a Director who will be a senior official with appropriate professional background and substantial experience within the Government. He will be required to have a high technical and administrative ability and a broad understanding of the policy areas involved. He will report directly to the Permanent Secretary (FMCI).

Policy Analysis Unit (PAU)

Functions

The main functions of the PAU will be:

(a) to carry out policy analysis work on broader economic policy instruments as they affect the structure of industrial incentives;

(b) to develop proposals for the medium-term reform of the incentives system including the tariff structure, the quantitative restrictions on imports and export incentives policies, with a view to promoting efficient industrial development in accordance with government policy objectives; and

(c) to monitor on a continuing basis the impact of these policies on the pattern of industrial development.

5. The PAU will have the following personnel:

1 Assistant Director:	A Nigerian official with strong technical and administrative ability, appropriate professional background, substantial experience and a strong broad understanding of the policy areas and analytical techniques involved in the PAU's work.

1 Senior Advisor:	An internationally experienced consultant, who should be an economist by background, with extensive practical policy experience in the area of foreign trade and industrial development and in the development and coordination of incentives (which have important implications for the impact on all sectors of the economy). The Senior Adviser will also act as overall leader and coordinator of the team of internationally experienced advisers located in the Policy Analysis Department.
1 Advisor:	One internationally experienced economist with technical skills and practical experience in analysis of tariff, trade, export promotion, and related policies.
5-10 Professional Staff:	(Nigerian personnel) - 2 economists - 2 engineer economist/industrial economists - 1 financial analyst - 1 statistician/economist with substantial experience of data gathering and processing systems including computerized data systems.

Industrial Policy Planning and Promotion Team (IPPPT)

Functions

6. The main functions of the IPPPT will be:

(a) to carry out policy analysis work and studies on more industry-specific aspects of the incentives system;

(b) to help strengthen arrangements for industrial planning particularly for selection, evaluation, implementation and monitoring of industrial projects in the public sector;

(c) to design appropriate means for promoting private investment (domestic and foreign); and

(d) to prepare specific proposals for medium-term reforms in these areas.

7. More specifically, the IPPPT's work will focus on:

(a) developing medium-term policy reform proposals for revision and strengthening of more directly industry-related incentives

(notably fiscal investment incentives, foreign investment incentives and regional dispersal policies);

(b) undertaking or commissioning sub-sector studies to identify the potential and constraints for development in selected "key" industrial sub-sectors, including regulatory constraints, market imperfections, and infrastructure bottlenecks, to provide the PAU inputs for the medium-term reform of the incentives system and feedback on specific sub-sector problems;

(c) strengthening the capability within the ministry for the evaluation and economic analysis of public sector industrial projects and for monitoring the implementation and operations of public sector industrial enterprises;

(d) developing and designing an institutional framework and appropriate policies and schemes for strengthening industrial promotion, particularly for domestic and foreign private investment, including establishment of pre- and post-investment services to the private sector;

(e) assisting the relevant agency (e.g., IDCC Division) in developing and designing the specific means for streamlining the regulations-business permits, expatriate quota, foreign investment, etc. and the procedures for the various approvals required under these regulations as well as other incentives scheme.

8. The IPPPT will have the following personnel:

1 Assistant Director:	A Nigerian official with strong technical and administrative ability, appropriate professional background, extensive experience and a strong broad understanding of the policy areas and analytical work involved in the IPPPT's work.
2 Senior Advisors:	Internationally experienced consultants who should be engineers/economists or industrial economists with extensive experience and who will be concerned with the design, conduct and commissioning of sub-sector studies and studies of public sector industrial projects.
3 Advisors:	Internationally experienced consultants who should be economists with extensive work experience related to planning for industrial development and industrial promotion, including sub-sector analysis,

	fiscal and other incentives for promoting private industrial investment, and industrial project appraisal.
3-11 Professional Staff:	(Nigerian personnel) - 1 engineer/economist - 1 economist with knowledge and experience of project appraisal and evaluation techniques - 1 economist/administrator with several years of experience in government - 4 professional engineers with several years applied experience in industry (expected to be seconded from NISER-ICD.

9. The IPPPT's advisors and professional staff would need to work in cooperation with the officials of the Project Implementation and Management Department and, in so far as their work pertains to the relevant specific industry sub-sectors, with the Steel Development (of the Federal Ministry of Mines, Power and Steel) and the NNPC. The IPPPT will also closely coordinate its work with the other Federal Ministries and government agencies concerned with different aspects of industrial development policies, including, on the infrastructure side, matters relating to education, science and technology, mines and power, water supply, etc.

10. The Policy Analysis Unit (PAU) and the Industrial Policy, Planning and Promotions Team (IPPPT) will prepare specific policy proposals in their respective areas of responsibility and the Policy Analysis Department (PAD) will secure their consideration by the Industrial Development Coordinating Committee (IDCC) before being sent to the Government for approval. The PAU and the IPPPT will work in close cooperation with one another. They will prepare a joint three-year rolling program on an annual basis incorporating separate work programs for each unit. The PAU and the IPPPT will also share common services such as computers and their staff will work jointly in areas of analysis of common concern.

Terms and Conditions of Service

In order for FMCI to develop a permanent cadre of technical-professional staff to provide necessary technical and economic expertise in-house on a continuing basis, the (Nigerian) professional staff of the PAU and the IPPPT will be employed as NISER appointees with the corresponding terms and conditions of service.

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