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E.O. 12356: DECL: OADR
TAGS: EFIN, NI
SUBJECT: USG REPRESENTATIVES MEET WITH IMF AND IBRD
STAFF ON NIGERIA

REF: (A) LAGOS 5907 (B) PARIS 17202

1. CONFIDENTIAL ENTIRE TEXT.

2. SUMMARY: USG REPRESENTATIVES MET WITH IBRD AND IMF STAFF TO DISCUSS NIGERIA'S FINANCIAL PROSPECTS AND TO BE BRIEFED ON THEIR RECENT MEETINGS IN LAGOS. WHILE BANK STAFF WAS MORE UPBEAT ON THE SITUATION THAN THE FUND, BOTH AGREED THAT THE NIGERIANS HAD MADE CONSIDERABLE PROGRESS IN THEIR THINKING IN THE PAST SIX MONTHS. WHILE THERE WAS NOW CLEAR ACCEPTANCE WITHIN NIGERIA OF THE NEED FOR DRASTIC ECONOMIC REFORM, THE NIGERIANS HAVE STILL NOT MADE THE DECISION TO SEEK THE FORMAL STAND-BY PROGRAM NECESSARY FOR A PARIS CLUB RESCHEDULING. NIGERIANS HOPE TO HAVE SPECIFICS OF

THEIR PROGRAM READY FOR THE JUNE 12 MEETING WITH COMMERCIAL BANKERS. END SUMMARY.

3. BANK STAFF HAS ADVISED THE NIGERIANS WHICH ELEMENTS NEED TO BE INCLUDED IN AN ADJUSTMENT PROGRAM IN ORDER TO QUALIFY FOR WORLD BANK SUPPORT IN THE FORM OF QUICK DISBURSING SECTOR LOANS (WHICH WOULD SUPPORT THE TWO-TIER EXCHANGE MARKET). THE BANK RECOMMENDED MAJOR CHANGES IN THE AREAS OF PUBLIC EXPENDITURE, BUDGET AND PRIVATIZATION AND MET WITH LITTLE RESISTANCE FROM THE NIGERIAN INTERLOCUTORS. THE IMF STAFF WHICH VISITED LAGOS AFTER THE BANK, DID NOT FORMALLY PARTICIPATE IN DRAWING UP THE ADJUSTMENT PROGRAM, BUT DID MAKE SPECIFIC COMMENTS ON THE WORK THE NIGERIANS HAD DONE. THEY SUGGESTED SPEEDIER UNIFICATION OF THE DUAL FOREIGN EXCHANGE RATE MECHANISM (59 MONTHS VICE THE 18 MONTHS THE NIGERIANS SUGGESTED) AND A COMPLETE DISMANTLING OF IMPORT, EXCHANGE AND CAPITAL CONTROLS. (FUND STAFF SAID THAT IF THE DUAL EXCHANGE SYSTEM WERE UNIFIED QUICKLY ENOUGH AND IF THE SECOND TIER INCLUDED ALL

PRIVATE AND PARASTATAL TRANSACTIONS, THERE WOULD PROBABLY BE NO NEED FOR AN OFFICIAL EXCHANGE RATE DEVALUATION) HOWEVER, FUND ACTIVITY IN NIGERIA DID NOT CONSTITUTE THE FORMAL NEGOTIATIONS WHICH WOULD BE REQUIRED BEFORE A STAND-BY COULD BE APPROVED. STAFF CAUTIONED THAT ADDITIONAL POLICY MEASURES MIGHT BE REQUIRED. BOTH BANK AND FUND STAFF INDICATED THAT A LOT OF WORK STILL HAD TO BE DONE ON THE NUMBERS, PARTICULARLY THE DEBT DATA. THIS IS PARTICULARLY TRUE OF THE TRADE ARREARS.

4. ACCORDING TO BANK STAFF, THE ADJUSTMENT PROGRAM MUST BE SUBMITTED FOR REVIEW TO THREE SEPARATE GROUPS OF POLICY MAKERS IN LAGOS, A MINISTERIAL GROUP, A GROUP OF PRIVATE SECTOR "ADVISORS" AND THE AFRC. THE MINISTERIAL GROUP, COMPRISING THE MINISTERS OF FINANCE AND PLANNING AND THE CENTRAL BANK GOVERNOR REPORTEDLY FAVORS AN IMF PROGRAM, THEIR ATTITUDE REINFORCED BY THE UNITED CREDITOR POSITION RELAYED TO THEM ON THEIR APRIL VISITS TO LONDON, PARIS AND WASHINGTON. BANK STAFF WAS UNABLE TO OFFER AN OPINION ON THE ATTITUDE OF THE OTHER TWO GROUPS TO A FUND PROGRAM. FUND STAFF BELIEVE THAT THE NIGERIANS WILL BE ABLE TO COMPLETE THEIR REVIEW PRIOR TO THE LONDON CLUB MEETING SET FOR JUNE 12 IN NEW YORK. THE FUND AND BANK WILL BOTH BE REPRESENTED AT

THE MEETINGS BY DEPUTY MD RICHARD ERB AND SVP ERNEST STERN RESPECTIVELY.

5. THE IBRD INDICATED IT WOULD NOT MOVE AHEAD WITH ANY OF ITS "QUICK DISBURSING" FINANCIAL COMMITMENTS UNTIL OTHER PARTIES WERE ON BOARD. THE STAFF SPECIFICALLY MENTIONED THE NEED FOR NEW MONEY FROM THE COMMERCIAL BANK, WHICH THEY CHARACTERIZED AS "PART OF THE BAKER PLAN". BANK STAFF DID NOT SPECIFICALLY MENTION FUND RESOURCES AS ESSENTIAL NOR DID THEY STATE THAT A FORMAL STAND-BY WOULD BE A NECESSARY PREREQUISITE FOR A BANK PROGRAM TO GO FORWARD. ON THE OTHER HAND, THEY ALSO INSISTED THAT THEY HAD ON NO OCCASION ADVISED THE NIGERIANS THAT AN OFFICIAL RESCHEDULING COULD BE OBTAINED WITHOUT AN IMF STAND-BY ALREADY IN PLACE. THIS DIFFERS SOMEWHAT FROM THE IMPLICATIONS OF THE COMMENTS OF THE WORLD BANK REP IN LAGOS (REF A) WHICH SPEAK OF PRESENTING THE BANK-SPONSORED ADJUSTMENT PROGRAM TO THE LONDON AND PARIS CLUBS WITHOUT SPECIFICALLY MENTIONING AN IMF STAND-BY.

6. TREASURY AND STATE REPRESENTATIVES REITERATED TO BOTH BANK AND FUND THAT THERE HAD BEEN NO CHANGE IN THE PARIS CLUB REQUIREMENT THAT NO OFFICIAL RESCHEDULING WAS POSSIBLE WITHOUT AN IMF STAND-BY ARRANGEMENT IN PLACE. ACCORDING TO FUND STAFF, FINANCE PERMSEC U.K. BELLO HAS MISUSED THE PARIS CLUB CHAIRMAN'S SUMMARY TO LEAVE OPEN THE POSSIBILITY OF AN OFFICIAL RESCHEDULING WITHOUT AN IMF AGREEMENT. (THIS WAS NOT THE INTENTION OF THE PARIS CLUB CREDITORS WHO HAVE BEEN QUITE CONSISTENT ON THIS POINT. IBRD STAFF AGREED THAT THE PARIS CLUB POSITION WAS QUITE CLEAR ON THE IMPOSSIBILITY OF AN OFFICIAL RESCHEDULING WITHOUT AN IMF STAND-BY.) TREASURY HAS LEARNED THAT THE TROIKA MAY HAVE SUPPORTED BELLO'S MISINTERPRETATION, THEREBY RAISING FALSE EXPECTATIONS ON THE PART OF THE NIGERIANS AND INCREASING THE LIKELIHOOD OF THEIR PRESENTING A WEAKER REFORM PROGRAM TO THE PARIS CLUB. SUCH A STRATEGY WILL NOT WORK TO THE NIGERIANS BENEFIT AS IT WILL SIMPLY DELAY THE NEGOTIATIONS LEADING TO THE NECESSARY RESCHEDULINGS. TO CLEAR THE ISSUE AND ASSIST

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THE IBRD IN ITS EFFORTS TO STEER NIGERIA IN THE DIRECTION OF THE FUND, WORLD BANK STAFF RECOMMENDED THAT THE U.S. EMBASSY IN LAGOS MIGHT WISH TO REITERATE THE PARIS CLUB REQUIREMENT OF AN IMF STANDBY TO FMG

OFFICIALS. WASHINGTON AGENCIES DO NOT SUPPORT SPECIFIC DEMARCHE FOR THIS PURPOSE, BUT WE BELIEVE IT WOULD BE USEFUL TO INFORMALLY REINFORCE THE CREDITOR POSITION ON APPROPRIATE OCCASIONS.

7. THE FUND HAS FORECAST ROUGH FINANCING GAPS OF APPROXIMATELY USDOLS 3 BILLION PER YEAR OVER THE 1986-90 PERIOD, ASSUMING USDOLS 15 PER BARREL OIL, US DOLS 6 BILLION IN IMPORTS AND DEBT SERVICING ONLY ON PROMISSORY NOTES ALREADY ISSUED. ASSUMING THE REMAINING SHORT TERM NOTES ARE RECONCILED, ANOTHER US DOLS 2 BILLION PER YEAR WOULD BE ADDED. RESCHEDULING ALONE WOULD NOT CLOSE THE GAP, AND THE BANK ESTIMATES THAT APPROXIMATELY USDOLS 1 BILLION WILL BE REQUIRED IN ADDITION TO MAXIMUM DEBT RELIEF. THIS WOULD ALLOW SMALL INCREASES IN IMPORTS TO PROMOTE GROWTH IN THE ECONOMY. THE BANK IS WILLING TO PROVIDE HALF THAT AMOUNT BUT THE REMAINDER WILL HAVE TO COME FROM OTHER SOURCES, PRESUMABLY THE COMMERCIAL BANKS. (TREASURY COMMENT: A COMMITMENT OF USDOLS 4-500 MILLION A YEAR BY THE COMMERCIAL BANKS WOULD ENTAIL AN INCREASE OF 35 PERCENT IN TOTAL UNGUARANTEED BANK EXPOSURE OVER THE PERIOD, ASSUMING ALL PRINCIPAL MATURITIES WERE CONCURRENTLY RESCHEDULED. SUCH AN INCREASE IS FAR OUT OF LINE WITH THE 37 PERCENT INCREASES TYPICALLY OBTAINED IN SUCH CONCERTED LENDING EXERCISES. MEANWHILE, COMMERCIAL BANK CONFIDENCE IN NIGERIA IS AT ALL TIME LOW, GIVEN THE USDOLS 1 BILLION ARREARS ON THE 1985 LETTERS OF CREDIT AND THE DELAYS IN RECONCILIATION OF THE SHORT-TERM UNGUARANTEED TRADE PAPER, MUCH OF WHICH IS NOW IN THE HANDS OF THE BANKS. TREASURY DOES NOT BELIEVE THAT THE BANKS WILL STEP FORWARD WITH NEW MONEY UNTIL THESE ISSUES ARE RESOLVED IN THE CONTEXT OF AN IMF STAND-BY PROGRAM. END COMMENT.

8. FUND STAFF CALCULATE THAT SHOULD THE NIGERIANS DECIDE THEY WANT A STAND-BY, DETAILED NEGOTIATIONS WOULD PROBABLY DEFER BOARD PRESENTATION UNTIL OCTOBER-NOVEMBER. RESCHEDULING COULD THEN FOLLOW IN NOVEMBER-DECEMBER. SHULTZ

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IDENTIFIED THREE POSITIVE DEVELOPMENTS WHICH HAVE TAKEN PLACE UNDER SADIQ'S GOVERNMENT. ONE IS THE MOVE TOWARDS PRIVATIZATION IN THE BLUE NILE AND WHITE NILE IRRIGATION SCHEMES. ANOTHER WAS THE DECISION TO PROCEED FOR ONLY THREE MONTHS WITH THE BUDGET DEVELOPED BY THE INTERIM GOVERNMENT AND THEN TO PUT FORWARD A TOTALLY NEW BUDGET REPRESENTING THE VIEWS OF SADIQ'S GOVERNMENT. THIRD, HE PRAISED THE NEW GOVERNMENT FOR UNDERTAKING A STUDY OF SUDAN'S ECONOMIC PROBLEMS. HORAN
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E.O. 12356: N/A
TAGS: ECON, EAID, SU, IBRD
SUBJECT: PRIVATIZATION IN SUDAN: IBRD BELIEVES SUDANESE ARE SERIOUS

*The low Sudan
This looks
promising!*

Steve Karamanly

1. THE IBRD IS ENGAGED IN A MAJOR CAMPAIGN TO INCREASE PRIVATIZATION IN SUDAN. THE BANK IS OPTIMISTIC THAT SADIQ EL MADHI'S GOVERNMENT WILL TRANSFER SIGNIFICANT PROJECTS FROM GOVERNMENT TO PRIVATE CONTROL. IN JULY 2 CONVERSATION WITH DCM, IBRD REPRESENTATIVE JASDIP SINGH SAID THAT THE BANK HAS BEEN URGING THE NEW GOVERNMENT TO TRANSFER CONTROL OF CERTAIN UNPROFITABLE STATE ENTERPRISES TO THE PRIVATE SECTOR. THE BANK IS USING, AS LEVERAGE, FUNDS IT HAD EARMARKED FOR TWO MAJOR AGRICULTURAL ACTIVITIES--THE BLUE NILE AND WHITE NILE IRRIGATION PROJECTS. BOTH OF THESE PROJECTS, WHICH HAVE BEEN UNDER STATE CONTROL FOR THE LAST TWENTY-FIVE YEARS, ARE INEFFICIENT AND HAVE BEEN A SERIOUS DRAIN ON GOVERNMENT RESOURCES. THE BANK INFORMED THE GOS THAT IT WOULD TERMINATE FUNDING FOR THESE ACTIVITIES UNLESS THEY WERE TURNED OVER TO THE PRIVATE SECTOR. THE BANK IS SITTING ON 25 MILLION DOLLARS FOR THE WHITE NILE IRRIGATION SCHEME AND 20 MILLION DOLLARS FOR THE BLUE NILE SCHEME.

2. SINGH REPORTED THAT SADIQ EL MADHI'S RESPONSE TO THE BANK'S EFFORTS WAS POSITIVE. HE FULLY UNDERSTANDS THAT THE ACTIVITIES ARE INEFFICIENT; HE WOULD LIKE TO SEE THEM BECOME PROFITABLE. HE HAS INSTRUCTED THE MINISTER OF AGRICULTURE AND THE MINISTER OF FINANCE TO WORK WITH IBRD TO DEVELOP A NEW MANAGEMENT ARRANGEMENT. SINGH SAID HE BELIEVES BOTH MINISTERS ARE COMMITTED TO THIS CHANGE OF POLICY. HE PARTICULARLY PRAISED THE MINISTER OF AGRICULTURE, WHO HE SAID UNDERSTANDS THE PROBLEMS FACING THE SCHEMES AND IS SINCERE IN HIS DESIRE TO DO SOMETHING ABOUT IT. IBRD IS WAITING FOR A PROPOSAL FROM THE GOS TO RESTRUCTURE THESE OPERATIONS. IF, FOR SOME REASON, THE GOS SHOULD DECIDE NOT TO PRIVATIZE THEM, SINGH IMPLIED THAT THE IBRD FUNDS WILL NO LONGER BE AVAILABLE.

3. ALTHOUGH SINGH AGREED THAT THE GOVERNMENT IS MOVING VERY SLOWLY IN DEVELOPING ITS ECONOMIC POLICY, HE

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