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A DISSERTATION FOR

M.A. DEGREE

OF

THE UNIVERSITY OF DURHAM, ENGLAND

submitted by

DAVID AFOLABI FOLAYAN B.A. (Econs), DUNELM: 1962

on the subject

"MONETARY DEVELOPMENTS IN NIGERIA SINCE 1958"

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MONETARY DEVELOPMENTS IN NIGERIA SINCE 1958

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CHAPTER ONE

THE SOCIAL AND ECONOMIC BACKGROUND

The factors influencing the monetary and financial developments in Nigeria are complex. To give a comprehensive account of all these influences, and more particularly, to accord due weight to historical factors would require a sizeable monograph. It is thus plain that any attempt at a comprehensive account of the formative influences is out of the question. Nevertheless, it remains true and important that no monetary, banking or financial system can be adequately understood, let alone constructively criticized, in isolation from the economy and society within which, and for the benefit of which it operates. It is the purpose of this chapter to provide such an account, though one which is necessarily brief, incomplete, restricted to conditions as they are today, and neglectful of the role of the past in determining the present. Indeed, this chapter describes only those characteristics of the economy which appear to have the most direct impact upon their monetary and financial arrangements.

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1. Political Status, Population and Area:

The Federation of Nigeria attained independence within the British Commonwealth on October 1, 1960, almost exactly a hundred years after King Dosumu ceded the port of Lagos to the British Crown and welcomed British rule. Nigeria is a few years behind other British dependencies in Asia and Africa which have become sovereign states. The interval between the independence of those countries and that of Nigeria affords the latter an opportunity to study in perspective the problems which confront a new state and the way in which other peoples are trying to solve them. She stands a chance, therefore, of profiting by the experience of other nations and of avoiding some of the pitfalls which have brought a few perilously close to disaster.

Nigeria, by virtue of her size and population, appears destined to play an important role in Africa. Her size of 373,000 square miles is four-fifths the size of the Union of Africa, and four times that of Ghana. Her population, variously estimated at between fifty-five million and fifty-seven million is five times the population of South Africa and more than nine times that of Ghana. The great variation in geographical conditions and natural resources in the different parts of the country gives diversity to the economy and assures her a high degree of viability, which is denied to a one-crop economy.

Nigeria is a Federation of four regions: the North, the West, the Mid-West and the East. The Northern Region with an area of about 282,000 square miles and a population of nearly thirty million, is larger than the other three regions put together.

The Population figures given are 1963 Census figures

The Western with the Mid-Western Region put together is 45,000 square miles with about thirteen million inhabitants, and the Eastern is 29,500 square miles with about twelve million inhabitants. Lagos with a population of 600,000 inhabitants, is the Federal Capital and is also a federal territory outside the four regions. Ibadan, the largest town in Nigeria, with a population of nearly one million is the capital of Western Region. Kaduna, Enugu and Benin City are respectively the capitals of the Northern, Eastern and Mid-Western Regions.

2. Economic Development:

The Economy of Nigeria rests mainly on Agriculture. The national income per head of £30 per annum is very low by comparison with the £54 per annum standard in Ghana. The country is practically self-sufficient in foodstuffs, the Northern Region producing guinea corn and millet for its own consumption and the Western and Eastern Regions, yam and cassava. The Western Region also produces maize

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and other foodstuffs are produced at different places, resulting in a large volume of internal trade. The cattle population of Nigeria is about eight million, all in the Northern Region, which also has more of other livestock than the rest of the country put together.

Government revenues are dependent largely on export and import duties. The total imports for 1962 and 1963 were £203 million and £208 million respectively. Exports for the same period were £164 million and £185 million respectively. Customs and excise for the two periods amounted to £85 million each year.

Agriculture, forestry and fishing provide Nigeria's most important exports, though 10 per cent of the total annual export is of minerals. Next after Ghana and Brazil, Nigeria is the world's largest producer of cocoa, exporting 88,000 tons in 1963 as against 240,500 tons from Ghana. This crop is mainly raised in the Western Region but efforts are being made to extend production to the Eastern Region. The major part of the rubber and timber exports is also from the Western and Mid-Western regions. The Eastern Region raises the bulk of palm products (palm oil, palm kernels and palm kernel oil) though the Western Region also produces some, and about 5 per cent of the palm oil is consumed locally. The Northern Region exports groundnuts, cotton, hides, skins and benniseed. The collection, grading

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and transportation of Nigeria's export crops are now undertaken by the Regional Marketing Boards. These statutory boards guarantee minimum prices to the farmers, usually much less than the market prices and they keep the difference in reserve funds for the purpose of price stabilization. A central agency, the Nigerian Produce Marketing Company Limited, having its headquarters in London, undertakes the actual selling of Nigerian products in international markets. For the most part, Nigerian products are sold at world market prices.

The mineral resources of Nigeria include tin, columbite, coal and oil. Tin is mined in the Bauchi Province of the Northern Region. The output of tin is approximately 15,000 tons yearly and that of columbite is approximately 2,500 tons and their total export value in 1963 was about £9 million. The price of columbite, like the price of many other Nigerian exports, is subject to sharp fluctuation in world markets and this is a serious threat to economic stability. Coal is mined in Enugu in the Eastern Region, and is practically all consumed locally. Oil has been found in the Eastern Region at Oloibiri, Brass Division, and at Afam, Owerri Province. About 1,000 tons are produced daily and the annual output is expected to reach the 800,000 tons target by the end of 1964. A local oil refinery has been established

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in Port Harcourt Eastern Nigeria and will soon go into production.

There is little industry in the country. During the colonial period, the Government built the railway and the motor roads; the ports and harbours; the electric plants, waterworks and communication systems. These are being rapidly expanded in accordance with the development programme of the country initially under departmental administration. Recently the departments have been replaced by public boards and corporations.

The Nigerian Railways is the chief link between the three regions. It has 2,000 miles of track and transports annually approximately seven million passengers and about three million tons of freight. The management has recently been placed in the hands of a public Railway Corporation. In May, 1958, the international Bank of Reconstruction and Development made a loan of £10 million to the Federal Government for use by the Corporation for its development programme and for extending the railway from Kano to Bornu. The Nigeria Airways Corporation Limited is a joint enterprise of the Federal Government, British Overseas Airways Corporation and Elder Dempster Lines Limited (a shipping line long established in West Africa). The Corporation provides internal air service as well as flight services connecting Lagos with the other British West African territories and with London. A

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Ports Authority has lately taken over the management of the ports in Lagos and Port Harcourt as well as the smaller ports of Calabar, Burutu, Sapele and Warri.

The Electricity Corporation of Nigeria manages the scattered electricity supply plants throughout the country. With increased demand for power and the rise in coal mining labour wages, coal and imported petroleum can no longer be relied upon exclusively as fuel for generating electricity. A systematic survey of power sources in the country has been made and schemes have been adopted for developing hydro-electric power for the River Niger and for generating electricity for the lignite deposit in Asaba.

There are small industrial enterprises initiated by expatriate firms for manufacturing soap, bear, cans and cigarettes. Some Nigerian firms have also set up ceramic and textile factories. The further development of industry has been left to private investment and the governments of the Federation have offered fiscal and other inducements to attract foreign capital. Cement factories had been established at Nkalagu in the Eastern Region by the Nigerian Cement Company and at Ewekoro, Abeokuta in Western Nigeria by the Government of that Region. Similarly the Kaduna Textile Mills recently opened its new textile factory in Kaduna, Northern Region.

About 600,000 wage-earners are employed either by

the Government or by the commercial firms for work in transport, mining, construction, agriculture and livestock farming. Trade Unions have been organised and are very much alive to the workers' interests. The Trade Union Law was enacted in 1938 when the government was the chief employer of labour. The desire for new unions to concentrate their activities within their departments and avoid outside influence, gave the feature or vertical organisation to the Nigerian Trade Unions. A typical Nigerian Union comprises not the craftsmen or artisians in an industry, but all the workers in a government department, firm or business, e.g., the Railway Workers Union, the Ports Authority Workers Union.

Economic development is a matter of great importance to the new governments in Nigeria and the regional governments have undertaken separately to prepare and fulfil their own development plans. The National Economic Council, on which representatives and economic experts from each region and the federal government sit, has the duty of co-ordinating the plans. Most of the plans adopted for 1962-68 development programme related to the provision and expansion of social and economic overheads such as agricultural extension, roads, and bridges, public works, water supply, electricity, schools, hospitals, etc.

Education has made great strides in recent years. In the Western Region, free primary education for children

between the ages of six and twelve was introduced in 1955 as part of the development programme; and in 1957 the Federal Government introduced similar schemes for the Federal territory of Lagos. Under one million children were in primary schools in Nigeria in 1950, but this figure rose to one and a quarter million in 1954 and is now over two million. When in another year, the existing teacher training schemes are fully developed, over 200,000 teachers will be in training annually. At present five universities are in existence all over the Federation. At the University of Ibadan, the premier of all the other universities, over 1,000 students receive higher education in various faculties. Higher technical education is provided by the Nigerian College of Technology located now at Yaba near Lagos.

The commercial banks in Nigeria have been brought under the supervision of the Central Bank of Nigeria which commenced business in July, 1959. The commercial banks include the local branches of a number of important European banks as well as the indigenous banks. The Central Bank now issues the Nigerian currency (formerly issued by the West African Currency Board with its headquarters in London), which as in the past is convertible with sterling at par, the issue being backed pound for pound by sterling. The Central Bank has also developed a security market in Nigeria, the Lagos Stock Exchange, and some federal loans have already

been issued and treasury bill started to be on sale by the end of 1959. More will be said about these recent developments in later chapters.

(3) National Income:

Between 1951/52 and 1961/62, the National Income increased in real terms (i.e. after discounting price changes) by the equivalent of at least 4 per cent per annum, and by the latter year Nigeria's National Income was estimated at not less than £1,112 million. A National Income of this size is large in Africa, and indeed is considerably bigger than the combined National Incomes of the whole of the former British East Africa and Central African Federation. The National Income per head in 1961/62 was estimated at something near £30. It is the primary aim of the Governments of Nigeria to raise the National Income per head and the standard of living as rapidly as possible. After allowing for the increases in the population, the National Income per head increased in real terms by the equivalent of 2½ per cent (or 10/-) per annum between 1950/51 and by 4 per cent per annum between 1961/62 and private consumption increased by about the same amount. In addition, there was a considerable expansion in Government expenditure and gross domestic investment, financed mainly by a change from net investment overseas to the utilisation of past savings, by

the increased yields from indirect taxation and the additional private overseas investment in Nigeria. The twin developments of agricultural exports and industrialisation are expected to accelerate the growth in the National Income and the wealth of Nigeria considerably.

(4) Foreign Trade:

Foreign Trade is important to Nigeria not only in providing her with imports but also as a source of public revenue. Since the end of the war, both imports and exports have virtually been freed from control. They have also expanded greatly and between 1947 and 1957, exports increased in value from £44 million to £126 million and imports from £33 million to £154 million. Between 1958 and 1963, total exports increased from £134 million to £189.5 million and imports from £168 million to £207.5 million. The future prosperity of Nigeria, particularly until industry has developed further is largely dependent on a sustained expansion of Nigeria's exports, which will not only enrich the country generally but also pay for an expansion in imports and provide both directly and indirectly additional Government revenue. Nigeria, however, being mainly a primary producer at present, is particularly dependent on world prices for her products. The treaty of Rome signed by France, West Germany, Italy, the Netherlands, Belgium and Luxembourg, and creating the

European Economic Community with its indications that the Associated Overseas Territories of France and Belgium will receive preferential treatment in the purchase of certain commodities is therefore particularly disturbing when in 1963, Nigeria sold products worth over £50 million to these countries. There are good prospects of substantial increases in some of Nigeria's exports. Nigeria, however, like other primary producing countries is very vulnerable to changes in the prices received for her products and any gain for the production of additional quantities of exports would be nullified if the prices for them should fall severely. Ultimately, the solution must lie in an increase in world demand both for a raising of the standard of living throughout the world and from the development of additional uses for primary products.

Since 1955, Nigeria's imports have exceeded her exports. For some years prior to this, receipts from exports were considerably in excess of payments for imports, mainly because the Marketing Boards, Governments and quasi-government bodies were accumulating considerable savings. In part, these savings were involuntary and due to the difficulty of executing works programmes. From 1955 onwards, there has been a progressive change and with the expansion in the building and civil engineering industry, Nigeria has been

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devoting the balances built up in earlier years to much needed development. The use of past savings - which had been invested in London until they should be needed - has involved a running down of Nigeria's sterling balances and allied to increased overseas investment in Nigeria in the last three years, has caused a sharp increase in imports which has resulted in adverse trade balances. These are likely to continue for some years as a result of the high level of development financed in part by the continued utilisation of past savings, foreign loans and investments. A high level of capital investment is essential if Nigeria's development is not to be unnecessarily retarded, but the careful planning and co-ordination of development will be essential to ensure that expenditure does not exceed the resources which can be made available without straining the stability of the economy.

Conclusion:-

The prospects for raising the wealth of the country and the level of the National Income rest largely on the possibilities of increasing exports and developing industry. As regards exports, there are good grounds for hoping that oil exports will become important, but it is to agricultural production that Nigeria must look for some time to come for any major increase in export earnings. As has been indicated,

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there are prospects of increasing the quantities of certain of the more important agricultural commodities exported, although the Rome Treaty makes the future demand for them more than usually uncertain.

Industry can make a slower but nevertheless real contribution to increasing the wealth and raising the standard of living in Nigeria. Industry and agriculture need not compete. They can and should be complementary to each other. Increased agricultural production in helping to raise the purchasing power of the population will increase the demand for manufactured goods and by expanding the Home Market, attract industry. Industry will not only provide employment and generate wealth, but will also increase the demand for agricultural foodstuffs to feed the persons it employs and provide a market for some of the produce at present exported. In only one sphere do the needs of agriculture and industry compete and that is in their calls on public money. Industrialisation involves heavy capital investment and the pace of agricultural development will be conditioned to some extent by the money that can be diverted or attracted to it. The many calls on the limited funds at the disposal of Government make it imperative that private investors should be encouraged to finance those forms of development which are normally attractive to them. These include

industry and large scale agricultural development, and the leaders of the Nigerian Governments have recognised the important help that private investors can give to the country. Where necessary, and within the limits of the funds available, the Governments and quasi-government bodies will also stand ready to invest in industry and in the development of large-scale agricultural units. The greater part of available public monies will however, have to be used to provide public services, such as communications, health and education which are essential to the future development of Nigeria and which by their nature are not suitable for financing by private investors.

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CHAPTER TWO

A HISTORICAL SKETCH OF MONEY AND BANKING SYSTEM IN NIGERIA

Banking history in Nigeria begins with the formation of the African Banking Corporation in 1872. The main function of the Corporation was the distribution of British currency (coin) in Lagos and the surrounding districts. This function was taken over in 1894 by the Bank of British West Africa (B.B.W.A.).

In 1912, the West African Currency Board (W.A.C.B.) succeeded the British Treasury as the sole authority for the issue of currency for all British dependencies in West Africa. The West Africa Currency Board was never a bank, although it held the responsibility for the issue of Nigeria currency for almost half a century (1916-1959).

Between 1912 and 1917, the B.B.W.A. was the only bank operating in Nigeria. The largest commercial bank in the country today, Barclays Bank D.C.O., opened its first branch in Nigeria in 1925. The National Bank of Nigeria Limited, the oldest indigenous bank in existence, was established in

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1933. The three banks mentioned in this paragraph were the only ones operating in Nigeria between the end of the great depression (1933) and the end of World War II (1945).

The outburst of economic activities marking the return of peace in 1945, occasioned the opening of nineteen indigenous banks in Nigeria between 1945 and 1950. All but two of the banks failed. In consequence, total bank assets, which had risen from about £9 million in 1943 to £17 million in 1948, slumped to about £14 million at the end of 1949.

When the Nigerian Penny Bank failed in 1946, a large number of its customers lost their small deposits. The ensuing outcry prompted the Government to institute the Paton Commission to study the banking situation in Nigeria.

The Paton report was published in 1948. It recommended a minimum paid-up capital of £12,500 and that all banks must henceforth be registered. Those already established were given three years of grace to register.

The Banking Ordinance based on Paton's recommendations did not become law until May, 1952. Bank promoters exploited the Government's delay. A spate of indigenous banking activities spurted out eighteen new banks being opened during 1951 and early 1952. None lasted two years. Fourteen of these stillborn banks had paid-up capital of less than £6,000. One of the remaining four, which had paid-up capital of £10,000,

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had at one time as many as twenty-six branches.

Prior to the enactment of the 1952 Banking Ordinance, undertaking of banking business was very easy. But six years elapsed after the Ordinance before the Muslim Bank (West Africa) Limited was opened in 1958.

In compliance with the recommendations of the Loynes Commission, set up by the Government in 1957, a new banking ordinance and the Central Bank of Nigeria Ordinance became law in 1958. The main provisions of the 1958 Banking Ordinance are the obligation of commercial banks to comply with the minimum liquidity ratio prescribed from time to time by the Central Bank, the limitation imposed on lending and on the type of business banks may undertake, and the appointment of a Banking Examiner.

The Central Bank of Nigeria began formal operations on July 1, 1959. The Bank took over the function of currency issue from the W.A.C.B., whose currency ceased to be legal tender in Nigeria on September 30, 1962.

Some important foreign banks have opened branches in Nigeria in the past few years (since 1960). These include the Bank of America (National Trust and Savings Association), the Chase Manhattan Bank, the Bank of India, and Arab Bank Limited. Since December 1962, the total number of commercial banks operating in Nigeria has been seventeen.

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An amendment to the Banking Ordinance in 1962 provides for the raising of the paid-up capital of commercial banks from £12,500 to £250,000, specifies assets qualifying for inclusion in data for computing liquidity ratio, and requests commercial banks to link their interest rate structure with that of the Central Bank. An Exchange Control Act, discouraging unbridled outflow of funds was also passed in 1962 (with the Central Bank as the main regulator).

In summary, it should be noted that none of the banks established during the last ten years has failed. Fraudulent practices, bad management, lack of banking and accounting experience, and rushed opening of ill-equipped branches, were the major causes of bank failures in the pre-1952 era. Some of the early promoters of indigenous banking still believe, however, that their ill-fated efforts were a reaction against the policies of non-Nigerian banks, which were at that time unwilling to grant facilities to indigenous businessmen. A realization that nationalist struggles for independence were at their peak in the decade 1945-1954 lends weight to this view.

Every developed country in the world has at one time or the other faced the teething problems of establishing a sound banking system. It is significant that, the perennial liquidation of banks in the past notwithstanding, total bank

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assets rose by about £110 million to nearly £118 million (over 1,000 per cent increase) between 1950 and 1960. In the decade ended December 1962, commercial banks' loans and advances jumped from £10.2 million to over £77 million, total investments increased from £0.3 million to £5 million, while total deposits grew at an average rate of nearly £6 million per annum to £86.9 million. Demand deposits rose from £24.5 million to £45.3 million in the same period.

Branch-banking is observed to have been a prominent feature throughout the course of banking history in Nigeria. Between 1894 and 1950, there were nearly 40 bank offices in operation in Nigeria and the Cameroons. Reflecting the quick tempo of economic activities and increased demand for banking facilities in Nigerian leading towns, bank branches increased to about 170 during the 1950s. The present number is 209. It would appear as if the public image of banks being unsound is being gradually destroyed, while public confidence so revenously damaged in the early 1950s is being systematically rebuilt.

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CHAPTER THREE

THE OPERATION OF THE WEST AFRICAN CURRENCY BOARD

The Central Bank of Nigeria took over the functions of the West African currency Board immediately the former was established in 1959. It is therefore expedient to know how this Board (W.A.C.B.) performed its functions during the years of its operation in British West Africa.

The Departmental committee of Inquiry presided over by Lord Emmott was appointed by the Secretary of State to inquire into matters affecting the currency of the British West African colonies and Protectorates. It heard evidence from December 1911 to February 1912. Its Report and Minutes of Evidence upon which it was based were presented to British Parliament in October 1912. As a result of its delibrations and recommendations the West African Currency Board was established by the Secretary of States in November of the same year.

This system which existed in Nigeria until 1959 and which has served as a model for other Currency Boards elsewhere in other British Colonial territories is substantially

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that proposed by the Committee in 1912. In accordance with the recommendations of the Committee, the Board maintained its headquarters in London. Its constitution, duties and powers were originally set out in a memorandum by the Secretary of State dated December 1912. These regulations were revised in 1915, 1924 and 1949.

The Emmott Committee's purpose in recommending the establishment of a currency board was to devise a system which would ensure the convertibility into sterling at a known rate of exchange of both the old token silver currency and the new West African coin; provide a means whereby the Colonial Governments might share in the profits of currency issue, and bring about, subject to certain safeguards, the initiation of a West African issue of currency notes. It is convenient to consider the Board's operations under these two broad headings:-

(i) THE EXTERNAL CONVERTIBILITY OF THE CURRENCY:

The West African Currency Board operates primarily to define the West African pound in terms of the pound sterling. The external value of the Board's currency thus depends upon that of sterling and the West African pound is no more than the pound sterling by another name. The identity between the two monetary units is so close that enterprises in West Africa make no distinction between them in their accounts.

It could thus be realised that the West African colonies and protectorates are really on a sterling exchange standard and not on a gold exchange standard.

The Board also has no control over the quantity of currency it supplies, nor has it any apparent influence upon the rate of exchange at which it supplies it. The latter is determined by the Secretary of State; the former by the amount of sterling offered to the Board by those who desire West African currency. The capacity of the Board to convert sterling into West African currency depends upon its stock of the latter. Since West African currency is relatively simple and inexpensive to manufacture, no difficulties need arise on this score unless either the Mint is unable to manufacture coin in sufficient quantities, or the Board fails to forecast demands with reasonable accuracy. In practice, shortage of coin and notes have occurred due to both these reasons, but in general the assumption of adequate stocks is a reasonable one.

Symetrically with the reasoning above, the capacity of the Board to convert West African currency into sterling depends upon its stock of the latter, that is, its sterling resources and in particular, its liquid sterling assets. The Board's holding of such assets depends upon the magnitude of its assets, which is influenced by its policy in regard to

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the distribution of income to the Colonial Governments and the form in which it elects to hold its resources. In practice, the Board does not hold securities which are not readily marketable in London. And since the Board does not hold non-sterling securities, it is clear that the magnitude of its sterling reserves and their relationship to its currency liability depend upon its policy in regard to the distribution of its income. This policy as stated in the regulations of the duties and powers of the Board specified that when the Board is satisfied, and shall have satisfied the Secretary of State that its reserves are more than sufficient to ensure the convertibility of the coin and note issue, and to provide a reasonable reserve against possible depreciation, the Board may pay over the whole or part of the surplus amount in aid of the revenues of the British West African Governments.

From the short account given above, it is readily apparent that the Board is a 'currency authority' only in a very restricted sense. It has no banking functions. It exercises no control over the volume of currency on issue. Moreover, since it does not hold the local securities of the constituent territories, the Governments of these territories can exercise no control over the currency supply, either severally or jointly. From the Board's point of view, the Board is a money-changing and accounting device. Beyond exchanging West African

currency for sterling (and vice versa) and investing the sterling so obtained in securities approved by the Secretary of State, it engages only in currency administration.

(ii) THE NOTE ISSUE:-

The introduction of a note issue was a matter which received much attention from the Emmott Committee. As we have seen, it was of considerable importance for the British traders and bankers operating in West Africa and, in particular in Nigeria. No issue of notes was made until 1919. In that year, currency notes of the denomination of £5, £1, 10/- , 2/- and 1/- were made unlimited legal tender by Ordinance. The main reason for the introduction of the small denomination notes seem to have been the shortage of coinage metals. Over one million 2/- notes were in circulation by June, 1919. Shilling notes were first issued in 1919. By the end of June in the same year, over nine million were in circulation. The small denomination notes were temporary expedients forced upon the Board by circumstances over which they had no control and could hardly have foreseen. They were unpopular amongst Africans and were rapidly withdrawn once coin became more readily available, as it did after the end of the First World War.

By June 1922, only 89,410 two shilling (2/-) notes

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remained on issue, while the number of 1/- notes outstanding has fallen to 373,000. By June 1950, a little over 25,000 2/- notes and 60,000 1/- notes remained outstanding. Since presentation of these notes is infrequent, while they are rarely - if ever - met with in the markets, the assumption must be that the bulk of them have been lost or destroyed.

In practice, since the number of £5 notes outstanding is negligible, amounting to only £140, the note issue consists of notes for £1 and 10/- of which the former denomination is of overwhelmingly greater importance.

The decision to introduce notes confronted the Board with the problem of ensuring not only their external convertibility into sterling, but their internal convertibility into coin. The Emmott Committee had suggested that this should be carried out by:

(a) making notes encashable, as of right, at one office in each territory;

(b) maintaining at this office a coin reserve equal to three-quarters of the note-issue; and

(c) the extension of facilities for encashment, as far as practicable, at government offices and treasuries.

Accordingly, when notes were first introduced in 1916, a coin reserve amounting to the full face value of the note

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issue was maintained at the currency centre in each colony. This policy of a specially earmarked coin reserve was abandoned in 1920 and the whole West African coin reserve held at Lagos. Finally the coin reserve lost its separate identity and became merged with the stock of coin held at the main currency centres in each colony.

A coin reserve held at the main currency centre, even if equal to the face value of all notes in circulation, could only be effective in the prevention of a general break-down in convertibility. It could do little or nothing to ensure the convertibility of notes outside towns in which the British banks maintained branches. As a consequence, evidence from Nigeria indicates that convertibility has always been subject to geographical limitation.

Writing of the Western Provinces in the twenties, H. L. Ward Price records that "one could pick up £1 notes for twelve shillings in coin". A labourer who received his monthly wage of £1 in the form of a note was at a great disadvantage since no one would change it for him. The same writer also records an incident in which one African trader, failing to obtain change for £100 in notes, left them behind on his departure and never returned to claim them. If this incident was really due to the difficulties of conversion, it indicates an almost unbelievable situation.

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Sir William Geary also testifies that notes were at a heavy discount despite frequent prosecutions, while W. F. Hutchinson, writing in December 1919 considered the effect of imperfect convertibility to be of considerable importance and to inflict much hardship on Africans.

This problem existed for a very long time and did not disappear entirely until in the fifties. Even in 1951, it was reported that in Benin City, by no means an inaccessible village, prior to the opening of a branch there by the Bank of British West Africa, notes were at a discount of from 5 to 12 per cent in the local market. The lower of these figures was confirmed by the manager of the Bank of West Africa while the higher may involve an element of exaggeration.

Quite apart from the geographical limitations on convertibility, its general failure, extending to the main commercial centres, is not unknown. In 1937, crop prices rose very sharply and the Board records that the resultant demands for currency were so heavy and so insistent that the Board's stocks, substantial though they were, became quickly depleted. As a consequence, the Board sent to West Africa some £2.43 million of Bank of England notes. These were made legal tender in all four colonies by special enactment and some £1.87 millions were actually issued. This crisis caused by

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the Board's failure to foresee the rise in crop prices and yields, brought about the collapse of convertibility in Kano - a town in Northern Nigeria in which both British Banks (the British Bank of West Africa (B.B.W.A.) and the Barclays Bank D.C.O.) maintained brances and the Board a currency sub-centre. African traders in Kano stated that in the crop season 1937-38, notes could be bought for as little as 12/-; a discount of 40 per cent.

Dr. J. Mars records a large transaction by an important African trader at a discount of 12½ per cent, while a British banker of a greater experience estimates the average discount at nearer 5 per cent.

A similar situation was avoided in the 1951/52 season only by flying coin to Kano - an expensive proceeding.

Notes were originally advocated as a means of simplifying remittance problems. It seems, however, that their efficiency in this respect must have been reduced by the uncertainty of conversion, while considerable losses may have been inflicted on African traders, farmers and labourers.

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CHAPTER FOUR

A. THE OPERATION OF THE CENTRAL BANK OF NIGERIA

The statute under which the Central Bank of Nigeria was set up requires the Bank mainly to:

(i) "issue legal tender currency in Nigeria";

(ii) "maintain external reserves in order to safeguard the international value of that currency";

(iii) "promote monetary stability and a sound financial structure in Nigeria"; and

(iv) "act as banker and financial adviser to the Federal Government."

Apart from these general requirements, the Central Bank performs many other functions. For example, it holds some of the cash reserves of commercial banks and, in conjunction with the Ministry of Finance, effects some control of commercial banks' activities. It also helps the banks in organizing clearing houses, in encouraging the growth of the money market, and by acting as lender of last resort.

Under the provisions of the Banking Amendment Act, 1962, the Central Bank is empowered to control the interest rate structure of commercial banks, and to prescribe from time to time, assets qualifying for inclusion in the computation of banks' liquidity ratio. High officials of the commercial banks regularly meet those of the Central Bank in the Bankers' Committee, where matters of common interest are usually discussed. (This is one of the avenues open to the Central Bank to use moral suassion to effect desired monetary control).

CURRENCY:-

The Central Bank of Nigeria assumed its role as a bank of issue on July 1, 1959. The residue unredeemed West African Currency Board (W.A.C.B.) notes and coin remained side by side with the Bank's currency as legal tender for three years. W.A.C.B. currency in circulation in mid-1959 was estimated at £57.4 million, of which £37 million was in notes. The process of free redemption (of W.A.C.B. currency) was completed on April 6, 1963.

After allowing for seasonal variations within each year, total money supply has been on a steady increase since the establishment of the Central Bank. The year-end figures of money supply for the years 1959-63 have been approximately £108, £120, £121, £125 and £133 million, respectively.

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All through the years, the demand for money has risen and fallen in direct correspondence with the seasonal peak and trough in the output of agricultural produce. Considered on quarterly basis, the 'high' for both money supply and produce sales have always coincided in the last quarter, while the 'low' have invariably been in the third quarter of the twelve years 1951-62 (see Table I below).

It is obvious therefore that the demand for money and loanable funds stems largely from availability of cash crops, like cocoa, groundnuts, palm-produce, rubber, timber, etc, etc. One wonders if these and other agricultural products do not actually account for more than the 56.7 per cent of gross domestic product (GDP) officially recorded for 1960. With the increasing tempo of monetisation and planned mammoth output of agricultural and industrial products, the Central Bank needs to anticipate greater demand for currency and rediscount facilities in the coming years.

TABLE I

MONEY SUPPLY

(£'000s)

End of Month	Currency with non-bank public	Demand Deposits in Com. Banks	Money Supply	Demand Deposits as percentage of Money Supply
1953				
March	46,547	22,546	69,093	32.6
June	43,017	23,528	66,545	35.4
September	40,187	23,850	64,037	37.2
December	56,806	24,468	81,274	30.1
1954				
March	51,753	25,098	76,851	32.7
June	48,874	28,310	77,184	36.7
September	41,153	31,551	72,704	43.4
December	51,337	32,870	84,207	39.0
1955				
March	46,878	34,554	81,432	42.4
June	43,172	36,182	79,354	45.6
September	41,733	36,150	77,883	46.4
December	55,682	31,639	87,321	36.2
1956				
March	51,129	32,690	83,819	39.0
June	48,678	33,478	82,156	40.7
September	46,099	37,740	83,839	45.0
December	56,282	35,352	91,634	38.6
1957				
March	49,656	38,854	88,510	43.9
June	46,526	34,919	81,442	42.9
September	44,549	34,118	78,667	43.4
December	63,138	37,326	100,464	37.2

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End of Month	Currency with non-bank public	Demand Deposits in Com. Banks	Money Supply	Demand Deposits as percentage of Money Supply
1958				
March	50,578	43,654	94,232	46.3
June	51,020	35,765	86,785	41.2
September	48,026	34,485	82,511	41.8
December	61,168	40,266	101,434	39.7
1959				
March	53,534	42,873	96,407	44.5
June	50,980	39,092	90,072	43.4
September	50,633	38,404	89,037	43.1
December	67,365	40,168	107,533	37.4
1960				
March	59,942	48,980	108,922	45.0
June	58,834	44,695	103,529	43.2
September	62,519	44,143	106,662	41.4
December	78,880	41,117	119,997	34.3
1961				
March	72,327	44,789	117,116	38.2
June	69,236	42,582	111,818	38.1
September	66,209	38,582	104,791	36.8
December	79,780	41,658	120,956	34.4
1962				
March	71,543	42,724	114,267	37.4
June	66,894	39,429	106,323	37.1
September	63,922	38,427	102,349	37.5
December	79,780	45,296	125,076	36.2
1963				
March	70,940	50,429	121,369	41.6
June	67,426	42,138	109,564	38.5
September	70,267	41,132	111,399	36.9
December	84,492	48,773	133,265	36.6
1964				
March	75,667	53,930	129,597	41.4

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EXTERNAL RESERVES:-

The Central Bank is expected to maintain a minimum ratio (40 per cent) of external assets to total demand liabilities. Foreign reserves backing for monetary liabilities used to be 60 per cent. This was reduced (in 1960) to give wider scope for credit expansion in the developing economy. As a young country, a substantial backing as high as 40 per cent is deemed necessary to buttress the international confidence in the strength of the £N. Increased demand for domestic credit may necessitate further reduction in this ratio (to as low as 30 per cent) as the economy assumes greater stature.

Gold (£7.1 million), foreign Treasury bills, and bank balances freely convertible into gold or sterling, U.K. and U.S. Government securities are the present components of the Bank's external assets.

Acting through the Central Bank, the Federal Government subscribes to the funds of international financial institutions, like the International Bank for Reconstruction and Development and the International Monetary Fund.

It is significant that despite the recurrent imbalance of Nigerian external trade and payments since the mid-1950's, the Bank's external reserves have maintained a substantially broad margin over and above the statutory ratio of 40 per cent. The £N is one of the strongest currencies in Africa.

MONETARY STABILITY:-

Standing at the apex of the banking system, the Central Bank has, by and large, succeeded in keeping the international and domestic value of the Nigerian pound stable over the years. Since its inception, the Bank's pound has always been quoted as equivalent to the pound sterling. Since April 1963, the I.M.F. has recognized and concurred to the par value of the £N being quoted as equivalent to US $2.80 and valued at 2.48828 grams of fine gold, or 12.5000 troy ounces of fine gold.

Some measure of inflation has always accompanied the initial stages of economic development in most countries. But in Nigeria, there has been no substantial depreciation in the purchasing power of the £N in the local markets; although available statistics indicate some increases in the cost of living indices in large towns. The inflationary tendency resulting from the increase in money supply (referred to above) must have been tempered by corresponding increases in imports and monetization in recent years to keep the domestic value of the pound on a relatively even keel.

Another significant development in the field of currency was the establishment of the Security Printing and Minting Company Limited in July 1963 with an authorised capital of £1 million. The formation agreement provides for the Central

Bank, the Federal Government and De La Rue International Limited to subscribe to the share capital of the company in the following proportions: 5 per cent, 55 per cent, and 40 per cent respectively. The company will eventually take over the printing and minting of Nigerian currency notes and coin, as well as the printing of other security documents, e.g. stamps, postal orders, vehicle licences, etc. for government departments. The printing and minting of Nigerian currency notes and coin, will however constitute the major part of the company's output. Construction of the company's factory at Victoria Island in Lagos has started and it is expected that the company will start production on the finishing process for currency notes by the end of 1964 or early in 1965.

B. MONEY AND CAPITAL MARKET

Treasury Bills:-

The Treasury Bill Ordinance, 1959, provides that the Federal Minister of Finance may authorise the Central Bank to issue Bills to the extent that the amount outstanding at any one time shall not exceed 10 per cent of the estimated revenue of the Federal Government during the year then current. The experience of the past four years has demonstrated the usefulness of this form of investment for short-term funds and the assistance given to Government in planning the most

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economic use of its resources. During the earlier months of the issue, the Central Bank took up modest quantities of bills in order to encourage dealings. All such bills taken up by the Bank were subsequently sold; these transactions laid the foundation for regular dealings and for the growth of a market in bills which is now operating smoothly. During the greater part of the period of the issue the banks have been very liquid, the normal seasonal position obtaining from the end of May until early November. This has been reflected in the substantial subscriptions made for each issue of bills and in later months the demand exceeded supply. However, the activity in the market for bills increased, bills being purchased and sold by the Central Bank from and to the other banks and their customers and between the banks and their customers. With the seasonal financing of the crop harvest, banks found it necessary to rediscount some of their holdings of bills in order to restore their cash positions.

The rediscounting of these bills has brought into play a monetary instrument which will be of increasing value in the future. However, in the initial stages of the development of the Treasury Bill market in Nigeria, it is the issue price which is of primary importance. Prior to the introduction of Treasury Bills, short-term funds available in

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Nigeria had to be invested in overseas markets and the rate at which Treasury Bills are issued in Nigeria is therefore related to overseas rates generally. The rate has had to be sufficiently high both to retain funds within the country and to attract new funds. The extent to which Treasury Bills have been in demand and the quantities of funds which have been brought back from overseas for investment in Treasury Bills indicate that this has been achieved.

It has been the Central Bank's policy, in order to encourage the growth of a market, to fix a re-discount rate for Treasury Bills, which, whilst providing a deterrent to holders to rediscount their Treasury Bills at the Central Bank immediately after purchase was sufficiently near the current issue rate of Bills to give every encouragement to banks and others to invest in their medium. The rediscount rate has in general, during the period under review, been maintained fractionally higher than the current issue rate for Treasury Bills. Table II below shows transactions in Treasury Bills in 1963:-

TABLE II

TREASURY BILL TRANSACTIONS : 1963

(£'s thousands)

Month	Issues during the Period	Taken up by Central Bank	Taken up by Public	Redis-counts	Bills outstanding at end of month
January	8,000	1,663	6,337	156	18,000
February	5,000	2,704	2,296	1,275	20,000
March ...	8,000	2,863	5,137	955	21,000
April ...	6,000	2,832	3,168	446	21,000
May ...	9,000	4,072	4,928	689	23,000
June ...	8,000	581	7,419	2,147	23,000
July ...	6,000	2,756	3,244	335	23,000
August ..	8,000	1,825	6,175	777	22,000
September	9,000	3,689	5,311	1,594	23,000
October..	12,000	7,829	4,171	1,603	27,000
November	10,000	7,643	2,357	3,099	31,000
December	8,000	5,331	2,669	307	30,000

CALL MONEY FUND

A Call Money Fund was established by the Central Bank of Nigeria in July 1961 to serve as an outlet for the invest-

ment of temporarily surplus funds of member institutions. The ten commercial banks and two other financial institutions at present participating in the Fund keep prescribed minimum balances with the Central Bank, and may arrange for an excess to be lent to the Call Money Fund. The Fund is managed by the Central Bank. Money put at call in the way is invested and earns interest at somewhat less than the prevailing Treasury Bill rate. Another important advantage to the participants is that their funds may be recalled on demand. The Fund is thus a cushion which absorbs the immediate shock of liquidity pressure in the money market, and the volume and direction of Fund movements are one of the indicators of money market conditions.

The monthly average amount supplied to the Call Money Fund was £12.0 million in 1963 compared with £8.8 million in 1962. In addition to the Central Bank Call Money Fund, some of the commercial banks and one acceptance house receive money on a call basis. This market is, however, relatively small, although it expanded strikingly since the four or five years of its existence. (see Table III below):-

TABLE III

CALL MONEY FUND TRANSACTIONS : 1963

(£'s thousands)

Month	Money Supplied*	Money Withdrawn	Average Daily Operating Balance for Each Month
January ...	11,350	12,770	2,877
February...	11,660	9,650	2,130
March ...	11,520	13,635	3,333
April ...	6,610	7,865	1,739
May	11,615	10,115	1,471
June ...	16,885	15,185	2,993
July ...	12,110	13,300	4,322
August ...	12,155	12,645	3,163
September..	9,720	10,150	1,500
October ...	15,975	14,645	4,259
November ..	16,230	18,185	1,958
December ..	13,305	10,925	1,566

* Excluding previous monthly balances.

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THE COMMERCIAL BILLS:

In 1962, a commercial bill finance scheme was introduced for the marketing of agricultural produce handled by the regional marketing boards. The scheme was initially limited to financing the marketing of groundnuts and cotton for the Northern Nigeria Marketing Board. The Central Bank supported the scheme by providing rediscounting or refinancing facilities up to a defined limit.

Under the scheme, the marketing board meets its requirements for cash by drawing 90-day commercial bills of exchange on the Nigerian Produce Marketing Company Limited, the company which acts as exporter for all the marketing boards. The company accepts these bills, which are then discounted by the board with the participating commercial banks and acceptance houses. These bills are eligible for rediscounting or refinancing at the Central Bank. The scheme was extended in 1963 to cover produce handled by the Western Nigeria Marketing Board. One effect of this extension, of course was to increase the size of this sector of the money market. For the 1963/64 market season, the Central Bank stood ready to refinance a total of £27 million commercial bills under the scheme. The largest amount held by the Central Bank during 1963 was £14.7 million, while the largest amount held by Commercial banks in that same year was £9.5 million. In

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addition to the bill finance scheme for the marketing boards, the Central Bank has agreed to offer rediscount facilities within limits for bills of exchange drawn on banks and acceptance houses by reputable licensed buying agents with substantial paid-up capital, in respect of produce bought on behalf of marketing boards. The Central Bank is also prepared to grant rediscount facilities within limits to other bills of exchange drawn in respect of other exports or essential imports, provided they meet requirements as to maturity and signatures.

CLEARING HOUSE:-

The Central Bank, in co-operation with the licensed banks established a Clearing House in Lagos in May, 1961. The Rules and Regulations drafted by a committee of bankers, who now form the Lagos Clearing House Committee now adopted by the Bankers' Committee and Lagos Clearing House began operation on 22nd May, 1961 in the premises of the Central Bank. The development has greatly accelerated the interbank settlement of cheques in the Lagos area and has enabled the bank to ascertain their over-all cash position early each day. It has also enabled the business community and the general public to obtain the use of their funds at a

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much earlier date. The order of magnitude of the clearing operations of the Lagos Clearing House is shown by the following data:-

TABLE IV

LAGOS BANKERS' CLEARING HOUSE ACTIVITIES
JUNE - DECEMBER 1961

Month	Working Days	Total No. of Cheques	Amount Cleared (£'000s)	Daily Averages	
				No. of Cheques Cleared	Amount Cleared (£'000s)
June	26	61,651	28,915	2,371	1,112
July	26	59,828	22,917	2,301	881
August ..	26	60,719	26,105	2,335	1,004
September	26	61,042	22,982	2,348	884
October .	25	60,267	25,436	2,411	1,017
November	26	64,724	22,543	2,489	867
December	24	64,174	23,535	2,674	981

During the seven months that the Clearing House was in operation in 1961 the month to month activity did not establish a definite pattern, although the daily average number of cheques cleared increased each month from August onwards. On the other hand, the daily average value of clearings tended to vary widely from month to month.

In 1962, a total of about 834,000 cheques amounting to £302 million were cleared. This compares with a total of nearly 936,000 cheques amounting to about £341 million cleared during the working days recorded in 1963. A second clearing house was opened at Kano in Northern branch of the Central Bank in 1963 and another will soon be opened at the Port-Harcourt branch in Eastern Nigeria. (see Tables V and VI):-

TABLE V

LAGOS BANKERS' CLEARING HOUSE STATISTICS : 1963

Month	No. of Working Days	No. of Cheques Cleared	Amount Cleared (£'000s)	Daily Averages	
				No. of Cheques	Amount Cleared (£'000s)
January ..	26	79,900	26,746	3,073	1,029
February .	22	66,177	21,300	3,008	968
March ..	26	86,342	34,721	3,321	1,335
April ..	24	75,498	27,297	3,146	1,137
May	25	80,449	29,622	3,218	1,185
June ..	25	75,964	28,413	3,039	1,137
July ..	27	82,178	29,069	3,044	1,077
August ..	26	78,714	26,455	3,027	1,018
September	25	76,318	25,833	3,053	1,033
October ..	26	86,914	31,073	3,343	1,195
November	26	85,985	31,335	3,307	1,205
December	22	79,113	29,010	3,596	1,319
TOTAL	300	935,552	340,874	3,118	1,136

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TABLE VI

KANO BANKERS' CLEARING HOUSE STATISTICS : 1963

Month	No. of Working Days	No. of Cheques Cleared	Amount Cleared (£'000s)	Daily Averages	
				No. of Cheques	Amount Cleared (£'000s)
April ...	18	7,812	3,140	434	174
May ...	25	10,031	4,222	401	169
June ...	25	9,686	3,367	387	135
July ...	27	10,738	3,649	398	135
August ..	26	10,057	3,578	387	138
September	25	9,257	3,477	370	139
October	26	11,512	4,143	443	159
November	26	12,209	5,245	470	202
December	22	11,258	6,175	512	281
TOTAL	220	92,560	36,996	421	168

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LAGOS STOCK EXCHANGE

The Lagos Stock Exchange incorporated under the Nigerian Companies Ordinance on September 15, 1960 and opened for business in July 1961 has greatly facilitated dealings in both Government stocks and shares of public companies.

There are three categories of securities dealt in Lagos Stock Exchange. The first comprises securities with a Register in Nigeria and includes Nigerian Government stocks, and such Nigeria registered companies as may seek and qualify for inclusion in the official list of quotations.

The second category comprises stocks of overseas companies which by virtue of their operations in Nigeria may be expected to attract investment interest among the Nigerian public. The Boards of such companies are invited to seek quotation in the official list of the Lagos Stock Exchange.

The third category comprises overseas securities in which Nigeria interest is only occasional. Dealings in such stocks are arranged by Lagos dealers through members of the exchange.

If the Republic of South Africa is excluded, there remain but three Stock Exchanges in Continental Africa. They are in Nairobi, in Salisbury and in Lagos. Both the Nairobi and the Salisbury Stock Exchanges were evolved to regulate share dealings and to protect the interests of the investing public

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during the post-war boom conditions which had precipitated industrial and commercial expansion in these territories on a substantial scale.

The Stock Exchange in Nigeria was on the other hand, created as a delibrate act of policy by a group of forward looking businessmen with the encouragement of the Federal Government. The distinction as between it and its like institutions in the other African territories is that the Lagos Stock Exchange must seek out suitable stocks and shares with which to create business rather than to regulate and rationalise a volume of business in being.

As material demonstrations of Government support the transfer stamp duty on the scale of stocks and shares was cancelled and a Bill was introduced into the Federal House of Parliament which became law in June 1960. This was an enabling ordinance, empowering the Lagos Stock Exchange, through its Council, to regulate the dealings of members with their clients and of members with members. The powers thus vested in the Exchange and administered by its Council are far-reaching and should enable a tradition of the highest integrity to be established.

The manner of dealing is basically that of an open auction in which each listed security is called at every session and Dealing Members have the opportunity of fulfilling either buying or selling orders if they are able to match prices with

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other Dealing Members with complementary orders. Such deals are carried out in the presence of all other Members and the out auction is conducted by a Member of the Council who serves as Chairman by vote.

The accounts of companies whose securities are quoted in the Official list of the Exchange are subject to a rigorous examination and the companies are required to supply the Secretary of the Council with such information as he may require in order that the public may be informed of the progress of these companies throughout the year's trading.

At least ninety per cent of the volume of the business done on the Exchange comes from institutional investors such as Pension and Provident Funds and from Insurance Funds seeking local investment. All issues of the Federal Government Development Stock are quoted.

Private investment through the Exchange is still on a small scale both as to volume and the size of independent bargains. Future expansion of activity must necessarily wait on the quotation of a steadily increasing range of securities, more especially of industrial equities, and it must also depend on the growing familiarity of the public with the purpose and usefulness of the Stock Exchange both to the economy of the country and to the investor. (See Table VII below).

PUBLIC DEBT OPERATION:-

The Central Bank has successfully floated five series of Federation of Nigeria Development Stock between March 1961 and January, 1964. The largest loan in the series is the one of £20 million floated in January, 1964.

In order to encourage further growth of the gilt-edged market, the Central Bank operated the policy of underwriting new issues of Government Stocks, taking up those portions not initially subscribed by the public and gradually disposing of its holdings as public demand developed. Overall, the Central Bank took up 62 per cent of the Fourth Development Stock as against 35 per cent for the Third Development Stock. By the end of 1963, out of its initial £9.3 million holdings of the Fourth Development Stock, the Central Bank has sold off £6.8 million. Subscriptions to the Fourth Development Loan as at the date of allotment are shown in the Table VIII below:-

C. NIGERIAN INDUSTRIAL DEVELOPMENT BANK:-

The Nigerian Industrial Development Bank Limited (NIDB) was established on 22nd January, 1964, through the reconstruction of the Investment Company of Nigeria Limited (ICON) which had been incorporated in 1959 as an industrial development finance company.

NIDB has an authorised capital of £5 million of which £2 million has been paid up in the form of ordinary shares and £250,000 in non-voting preference shares. £1,020,000 of ordinary shares or 51% of the company's voting capital has been designated 'A' ordinary shares, and reserved for Nigerian subscibers and international organisations, such as the International Finance Corporation, of which Nigeria is a member. The remainder of the voting capital designated 'B' Ordinary Shares, and may be subscribed by any interested investor whether Nigerian or foreign. The issued capital has been converted into stock.

The establishment of NIDB followed negotiations between representatives of ICON and of prominent Nigerians. The Federal Government of Nigeria which played an active role in encouraging the formation of NIDB gave support to the Bank by making available to it £2 million long-term interest free loan subordinated to the equity. This loan together with its paid-up share capital raised NIDB's total initial resources to £4.25 million.

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NIDB has powers to borrow up to three times the issued share capital, reserves and subordinated borrowings of the Company. In present circumstances this would give NIDB potential borrowed resources up to £12.75 million. These potential resources, together with the initial paid-up capital and the Federal Government's subordinated loan, have placed NIDB in a position to make a significant contribution to the development of Nigerian industry.

NIDB has been established to provide medium and long-term finance to enterprises in Nigeria which are privately owned and managed. The existence of a government or other public interest in an enterprise need not (necessarily) rule out financing by NIDB, provided the Government's interest as measured by voting power or control of the management of the enterprise is not predominant and especially if the Government's investment is only temporary, pending its selling out to private interests.

NIDB normally limits its operations to the industrial and mining sectors. Thus agriculture, trade and transport are outside its sphere of activity. Being an investment institution, NIDB does not engage in operations of a commercial banking nature and will not accept demand or time deposits. Nor does it invest in social infrastructure projects such as schools, hospitals and roads.

NIDB will finance enterprises which, by reason of their size will make a significant contribution to the economic development of Nigeria. NIDB does not finance cottage and small-scale industries. And it is not in a position to assist proprietary or partnership enterprises.

In promoting industrial investment the NIDB is anxious, not only itself to invest, but also to encourage others to do so. It therefore seeks and encourages other financial institutions and individuals, both in Nigeria and overseas, to participate in its investment and lending operations.

The promotion of industrial development depends not only on capital, but on technical and managerial know-how. NIDB is prepared to assist clients to obtain the necessary advice in carrying out the feasibility studies and financial planning which have to precede actual investment; NIDB will also assist in locating technical and managerial advice and services to run industrial concerns.

The guiding principles for financial participation by NIDB are as follows:-

The Company to be financed should inspire confidence that the project will be expeditiously carried out and efficiently operated. To this end, reputation, experience and capital structure of the company or the worth and experience of the promoter, in the case of a new venture, will be taken into account.

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The project should be:-

(1) economically desirable; i.e. show promise of raising living standards providing employment, or conserving foreign exchange;

(2) technically feasible, i.e. the technical processes involved should be capable of being carried out under existing conditions of availability of raw materials, machinery and equipment, essential services, technical and managerial personnel and labour;

(3) commercially viable, i.e. capable of making a satisfactory profit, taking into account the costs of production and sales proceeds, the latter being sufficient to repay loans, to build up reserves and to pay reasonable dividends.

NIDB carefully examines the sources of finance, the relationship between various forms of capital and the contribution of the promoters in order to make sure that the resources required will be forthcoming when needed and that the enterprise will have a sound capital structure.

The costs of production, i.e. the unit cost of making the product or range of products, should be reasonable, even after allowing for some under-utilisation of capacity.

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The market for the products to be manufactured should be encouraging. NIDB will examine the size and prospective growth of the market which the enterprise will supply, the proposed sales organisation, the nature of competition, the prospective prices and the degree of dependence on tariff protection, in order to judge the volume and value of sales to be expected.

The quality of management must be good. NIDB must be satisfied with the honesty and experience of those who will construct and operate the project.

D. INSTRUMENTS OF CONTROL:-

(a) REDISCOUNT RATE:-

British Bank rate was reduced from 4½ per cent to 4 per cent on January 3, 1963. Nine days later, the Central Bank of Nigeria rediscount rate was lowered by ½ per cent to 4 per cent. Treasury bill issue rate was also trimmed from 4 per cent to 3½ per cent.

Opinions differ on the appropriateness of the apparent link between British and Nigerian official rates. Some argue that the link should be broken on the grounds that it is anachronistic and does not reflect the political independence of Nigeria. It is further argued that situations necessitating Bank rate changes in Britain may be dissimilar or even opposite to conditions prevailing in Nigeria.

One of the considerations usually cited in favour of the link is the fact that the bulk of Nigerian reserves is kept in the form of British Government securities and bank balances. British businesses (including banks) and nationals are the principal sources of inflow of foreign funds into Nigeria. Efforts would certainly be made to repatriate these funds for investment in Britain if there is a wide margin of attractiveness of interest in Britain.

A minimum liquidity ratio of 25 per cent has been in vogue since November 1959. The ratio reflects the proportion of specified commercial banks' liquid assets to their deposit liabilities. These specified assets include cash, Nigerian and foreign, Treasury and commercial bills, and net balances with internal and external banks.

The liquidity ratio is by law the same for all banks and has remained unchanged both in periods of light and heavy demand for loanable funds. This arrangement is unduly rigid. A more flexible arrangement should have been to reduce the ratio to, say, 20 per cent for large banks, and 15 per cent for the smaller ones (those with capital of less than £250,000) during the period September-February when loans and advances are at their peak, and raise the ratio to, say, 25 per cent for large banks and 20 per cent for smaller banks during March-August. This will have the advantage of liberalizing more credit when it is most needed, and encourage short-term investment when funds become relatively idle.

Indeed the mechanism of variable reserve requirement should be introduced. In other words, the monetary authorities should fix a basic reserve requirement for commercial banks as at one date and order what percentage increases shall thereafter be added to reserves.

(b) <u>INTEREST RATE</u>:-

Commercial banks appear to have broad latitudes in fixing their own (domestic) lending and borrowing rates. Charges on first class advances for example, have always averaged between 7-8 per cent, while banks' payments on time and savings deposits have almost stagnated at about 3 per cent

for some years. These rates have neither reflected changes in seasonal demand for funds nor responded to changes in official rates.

Central Bank's experiment in rediscounting some marketing boards' bills last crop season is the nearest approximation to the employment of Selective control instrument in influencing the balance of payments situation, the Bank does not rediscount commercial paper on imported goods. It is now being suggested that only the imports of nonessential goods should be affected by the Bank's refusal to rediscount.

In ending this chapter on central banking in Nigeria, it should be noted that for the moment, neither the rediscount rate nor the other instruments of monetary control can work with full effectiveness, owing to the immaturity and puny size of the Nigerian money market. There needs to be greater variety of instruments, larger numbers of lenders, borrowers, dealers, and more sub-markets for specialized dealings in funds of various maturities and different collaterals. The structure of developed money markets is always so closely integrated that a change in one sector splashes its stimuli to the other sectors of the big credit pool. But this has not been the case in Nigeria. The new rates announced in January 1963, for example, have not yet been followed by changes in commercial banks' lending rates. For the moment,

it would appear as if fiscal controls are more potent than the monetary.

E. OTHER NATIONAL MONETARY INSTITUTIONS:

(a) The Post Office Saving Bank:-

Following the Sovereignty Budget Speech of the Federal Minister of Finance in April 1961 in which he mentioned Government's plan to launch a national savings drive at the appropriate time, considerable thought was given to the type of arrangements most likely to yield the desired results in an effort to mobilise domestic resources to finance the country's Development Programme. The main problems involved devising saving media which would attract all types of savers and the selection of the proper channels through which such instruments would be made easily available to the public. Near the close of 1962, when all preparatory arrangements were completed, the Federal Government launched the National Savings Campaign. It introduced simultaneously Development Saving Certificates, National Premium Bonds, and National Saving Stamps. These instruments are available to the public at Post Offices and banks throughout the Federation. The denominations of the five per cent Five-Year Development Savings Certificates range from 10/- to £5 and may be purchased only by individuals and registered co-operatives, up to a maximum of £2,000 per holder. Interest earned is exempt from

income tax, and the certificates are both transferable and encashable before maturity. National Premium Bonds, which are bearer bonds are payable only at maturity and which may be held in any amount, are issued in £1, £10 and £100 denominations, and carry an interest rate of five per cent per annum. Interest accruing on the bonds is, however, not paid to individual holders, but instead will be drawn as prizes quarterly. National Savings Stamps are issued in three-penny and one-shilling denominations. They are designed for the very small savers, including school children. When the stamp books, which are issued by the Post Office to the saver, are full, they may be exchanged for a Savings Certificate, a Premium Bond or paid as a deposit into a Post Office Saving Bank account. The savings stamps are encashable at any Post Office.

Hitherto, the only savings facility the Post Office offered was the Post Office Savings Bank. The liabilities of the Post Office Savings Bank to depositors amounted to £3.03 million at the end of 1962 compared with £3.27 million in 1961. Estimated new deposits in 1962 totalled £0.88 million while withdrawals amounted to £1.17 million, as against respective actuals of £1.13 million and £1.32 million in the preceding year. The Post Office Savings Account has shown persistent net annual withdrawals for the last five years, even though the number of accounts has being growing,

the declining trend in the balance per account in the face of an increasing number of depositors reflects the growth in the number of small savers - a development which the National Savings Campaign seeks to encourage. With the introduction of Development Savings Certificates, National Premium Bonds and National Savings Stamps, the Post Office has become an important savings institution in the Federation. (See Table IX below):-

TABLE IX

NATIONAL SAVINGS

SAVINGS STATISTICS

(£'s thousands)

End of month	Savings Deposits at Commercial Banks	Post Office Savings Bank	Total
1961			
January	18,391	3,341	21,732
February . ..	18,917	3,314	22,231
March	19,395	3,455	22,850
April	19,508	3,444	22,952
May	19,725	3,428	23,153
June	20,065	3,403	23,468
July	20,410	3,406	23,816
August	20,694	3,370	24,064

End of month	Savings Deposits at Commercial Banks	Post Office Savings Bank	Total
September ..	20,694	3,363	24,057
October	20,748	3,352	24,100
November ..	20,977	3,319	24,296
December ..	21,188	3,273	24,461
1962			
January	21,101	3,202	24,303
February ..	21,486	3,190	24,676
March	22,329	3,256	25,585
April	22,321	3,211	25,532
May	22,819	3,174	25,993
June	23,380	3,188	26,568
July	23,751	3,185	26,936
August	23,973	3,169	27,142
September ..	23,963	3,124	27,087
October	23,933	3,103	27,036
November ..	24,078	3,067	27,145
December ..	24,224	2,978	27,202
1963			
January	23,989	2,955	26,944
February . ..	24,591	2,943	27,534
March	24,970	3,056	28,026
April	25,179	3,027	28,206
May	25,146	3,017	28,163
June	26,093	3,016	29,109
July	26,353	3,022	29,175
August	26,697	2,997	29,694
September ..	27,164	3,011	30,175

Preliminary figures for P.O.S.B. from May 1963.

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(b) The National Provident Fund:

The National Provident Fund came into operation in October, 1961. Essentially, the Fund is a saving scheme with an insurance element for the benefit of workers, with both employees and employers contributing equal amounts to the Fund at the rate of five per cent up to a maximum of £2 per month of salary or wages earned. On retirement, the employee may claim from the Fund the total contribution made by himself and his employer together with interest earned during the period of employment. The National Provident Fund Act, 1961, under which the Fund operates applies or will eventually apply, to all employees in Nigeria who are citizens and are neither pensionable nor covered by superannuation schemes. It is estimated that approximately 4,200 establishments, with a labour force of about 360,000 will be covered and monthly contributions will average around £300,000 when the Fund extends its operations. Data available up to the end of December 1963 show that 390,646 workers with cumulative contributions of £4.5 million have come into the scheme.

The contributions have been invested in Government securities. Funds available for investment from the National Provident Fund will increase substantially in the coming year and may be expected to increase further as the scope of the scheme is extended. (See Table X below):-

CHAPTER FIVE

COMMERCIAL BANKS

There are seventeen commercial banks operating in Nigeria at present. They may be classified into three categories on the basis of ownership of capital and management. The first group consists of overseas branches of banks, whose head offices are outside Nigeria. The second group is made up of banks registered as Nigerian companies, but with overwhelming proportion of their capital and staff supplied from abroad. Purely indigenous Nigerian banks make up the third group. There are 7 banks in group 1, 4 in group 2, and 6 in group 3.

Out of a total of 209 bank offices in the country (at the end of 1963), 122 belong to overseas banks (1), while semi-indigenous (2), and fully indigenous (3) banks own 19 and 68 respectively. These branch offices are well spread over the Federation - 39 in Lagos, 64 in the North, 31 in the East, and 75 in Western Nigeria.

Total paid-up capital and reserves of commercial banks (which amounted to £11.4 million at the end of April 1964)

is wholly subscribed by banks in groups 2 and 3, i.e., those with head offices in Nigeria. All that the Ordinance requires of banks in group 1 is that they should "keep within Nigeria at all times during the currency of their licence, out of their own funds, assets amounting to not less than £250,000".

Total bank deposits at the end of December 1962 was £86.9 million, out of which £45.3 million was held as demand deposits. The seven banks in group 1 accounted for £62.5 million, or 71.8 per cent, of total deposits, and £33.7 million, or 74.3 per cent, of demand deposits. The corresponding figures as at June 30, 1963 were £66.1 million, or 76.4 per cent, of total deposits, and £30.9 million or 73.4 per cent, of demand deposits. Similarly they accounted for £50 million, or 64.9 per cent, of total loans and advances of £77 million (excluding £3.4 million call money) in December 1962 and £51.7 million, or 65.5 per cent of total credit at the end of last June. (See Table I below):-

From the above it is obvious that foreign banks dominate the banking sector of the economy. It will be useful exercise to examine how they have used their position of strength in relation to the country's economic development. Although the figures used in the following analysis are in respect of all the banks, it should be borne in mind that foreign banks control an average of nearly three-fourths of the whole.

Commercial banking system's loans and advances reached a record level of £80.4 million in December 1962 (nearly £90 million last December) compared with a level of £60 million a year earlier. About £45.8 million, or 57 per cent, of total loans in 1962 December went to the trading sector of the economy as follows:-

Agriculture (crop marketing) ...	£18.0 million
General Commerce	27.8 million
Manufacturing	5.9 million
Construction	5.2 million
Money at Call and bills discounted	6.6 million
Miscellaneous	14.7 million
	£80.4 million

It is interesting to note that the commodities classified as "General Commerce" and accounting for £27.8 million (about 35 per cent) of total credit in December 1962 are luxurious and semi-luxurious goods, like refrigerators,

radios, cars, textiles, autocycles, cameras, electric fans, house furniture, etc. All of these goods are imported and sold by foreign commercial firms operating in the country. Most of these goods are sold under relatively attractive hire-purchase terms, thereby bringing them within reach of small wage earners.

As an example, merchants of Middle-East origin importing cotton goods from the Far East, account for the bulk of textile imports, which they buy wholesale at cheap prices and sell retail to native 'market women.' While the wholesalers have bank balances and valuable property with which to secure overdrafts and letters of credit, the retailers usually have none. Anyway, most of the big foreign firms are now shifting toward manufacturing, leaving retail business to small local firms.

The £18 million advanced to "Agriculture" was not strictly in the aid of increased agricultural output, but in aid of purchases of marketing boards export crops. The crops include cocoa, groundnuts, palm-produce, cotton, and other primary commodities which serve as raw materials for giant factories overseas. Furthermore, it should be remembered that generous rediscount facilities are available for this aspect of commercial banks' credit portfolio. Credit in aid of agriculture should have covered purchases of fertilizers, insecticides, handmills, and nut-crushing machines. Below is a breakdown

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of loans to agriculture in December 1962:-

(i)	Cocoa	£4.7 million
(ii)	Groundnuts	8.6 million
(iii)	Palm-produce	0.8 million
(iv)	Other export crops	3.3 million
(v)	Other agriculture	0.6 million
	Total Agriculture	£18.0 million

It is surprising that credit to manufacturing and construction (two great indicators of economic development) jointly account for less than 14 per cent of total loans and advances, and about a third of what went in aid of not-too-essential consumers' goods. It is hard to say that the best interests of the economy are being well served in this way.

It would appear as if banks' lending policy is based on their watchword "safety, suitability, and profitability" - the last not being the least. Best proof for this can be seen in the Table I at page 66. Foreign banks, which controlled about 72 per cent of total deposits, granted less than 65 per cent of total credit and invested only 37 per cent in

the country in December 1962. With liberal rules of exchange control, one can imagine in what direction profits move.

Almost all the large commercial firms operating in the country keep accounts with banks in Group 1. By law, these firms are forbidden to keep savings accounts. By convention, they do not operate fixed or time deposit accounts because the nature of their business warrants their keeping funds as liquid as possible.

Following in Table II is a breakdown of banks' lending to the economy:-

There are, however, some strong arguments in support of overseas commercial banks. It is natural that they watch the interests of the investors who subscribed their capital; and balances held for head offices must be repaid. Most of the local businessmen who apply for accommodation frequently lack the three "C's" - capital, character and collateral, the sine qua non of loans. Prudence dictates that banks should not lend more than the equivalent of borrowers' capital. Most local business concerns are under-capitalized; some business promoters would sooner spend a good part of advances received on cars and "house warming" than on the approved projects. In the absence of a bankruptcy law, only property furnished as collateral can be claimed, not other valuables like cars and trinkets, etc. Banks believe that some borrowers exploit this situation and are considering setting up central credit information bureaus.

There has been no proof of cut-throat competition with indigenous banks. Foreign banks can hardly be blamed for taking advantage of liberal rules which do not compel their importing much capital funds into the country. Above all, it is to their credit that none of them has earned the stigma of unsoundness. None has ever failed. Thus they merit the confidence and patronage of local depositors.

It has already been stated that foreign banks advance

funds to hire-purchase concerns, which sell goods imported by foreign firms. It could be argued that these goods satisfy the three hire-purchase tests of durability, identifiability, and re-possessability. Certainly yams and maize (and similar products of indigenous enterprise) do not satisfy these conditions, and the administrative expense of financing semi-illiterate furniture makers in up-country villages and towns will be rather exhorbitant.

Although indigenous banks have only 68 of the 209 bank offices and only £13.7 million, or 15.8 per cent, of total deposits in June, 1963, they nevertheless supplied £19.3 million, or 24.5 per cent of total bank loans to the economy (See Table I at page 66).

They also accounted for almost half of the total bank investments in Nigeria as at June 30, 1963. (The contribution of the semi-indigenous banks is understandably small, in view of their newness, mostly under three years, and of their size).

Most of the indigenous banks do not enjoy the patronage of large commercial firms and corporations. Only two indige-

nous banks, the National Bank of Nigeria and the African Continental Bank, enlist the regional governments as customers. Three of the six indigenous banks have less than £250,000 as paid-up-capital and frequently charge as high as 15 per cent interest on first class advances which attract only very few customers.

The returns of one of these small banks once revealed total deposits of less than £10,000, loans and advances below £5,000 and a staff of under ten. One wonders whether, in a developing economy, it is desirable to allow banks to shrink to the level of dignified money-lenders' workshops.

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CHAPTER SIX

ANALYSIS OF THE MONETARY SYSTEM

This chapter has three objects. First to examine the way in which the money supply is determined; second, to analyse the effects of a change in the money supply on economic conditions; and third, to discuss the role of the banking system in determining the money supply and the influence of the banks on domestic incomes.

I The Money Supply and Its Determination:

The first point to be discussed in this section is definitional: What constitutes the money supply? Or to put the same point somewhat differently, what is money?

The most common procedure is to define the quantity of money as the sum of demand deposits and currency in the hands of the non-bank public. This necessitates regarding time and savings deposits with the Commercial banks and deposits with the Post Office Saving Bank as 'near moneys'. This is plausible enough where financial institutions are well developed.

In Nigeria as well as in most countries with dependent economies, the distinction between demand and (say) savings deposits is less clear cut in such cases and the conventional approach is open to objections. This is particularly so in

West Africa where many Africans attempt to use their savings account virtually as current accounts. Nevertheless, despite these objections, we shall adopt it. For what we require is an operational definition of the money-supply, that is, one capable of statistical measurement, and this is provided by the conventional approach. Where we draw the line between money and near moneys, is then largely a matter of convenience provided to keep at the back of our minds the qualifications necessary on account of the existence of the latter, and also the fact that these may be more important in a country such as Nigeria where banking is less developed. Accordingly, we define the quantity of money as the sum of demand deposits and currency in the hands of the non-bank public and define time and savings deposits with the commercial banks, and deposits with the Post Office Saving Banks (and any similar institutions) as near moneys. How then is the quantity of money determined?

We have already pointed out that until the establishment of the Central Bank of Nigeria in 1959, the West African Currency Board exercised no automomous influence on the supply of currency or money. And even with the establishment of the Central Bank, in the absence of a fiduciary issue the same statement still holds in theory for the country.

There remain, however, the commercial banks. The banks can, severally or jointly, exercise an autonomous

influence on the money supply since, within certain limits, they can follow credit policies which are more or less liberal. What are the limits of banking action?

Let us assume for the moment a hypothetical country which possesses a single bank which conducts operations only within that country. How may it influence the money supply?

In developed economies with broad and active capital, security and money markets, a bank may influence the money supply by purchasing securities in the open market. In theory, such an operation will exert only an indirect effect on income through a fall in interest rates. In Nigeria where there is an embryonic security market, this method is still not yet open to the commercial banks and we can therefore safely exclude it from our model. There remains, however, the possibility of increasing advances and/or discounts.

Any increase in advances by our commercial bank will have a direct effect upon domestic incomes since it will, in most cases finance domestic investment or consumption. If this happens, a simple multiplier effect will result. Domestic incomes will rise, and as they do, imports will increase owing to the influence of the marginal propensity to import. The banking system (in this case, the single bank) will therefore be compelled to part with sterling assets or local cash. For if, in the initial position, receipts from abroad equalled payments abroad, in order to pay for the additional

imports the bank must provide the sterling. It can do this either by reducing its overseas assets or by converting local cash into sterling through the currency board mechanism. From the point of view of the bank's reserve position either action produces much the same result, since the effect of a currency board is to make assets which are liquid in the London market as good as local cash, and local cash as good as sterling. Hence if the bank expands its advances so as to maintain domestic income at a higher level than hitherto, the increased imports will lead to a persistent deficit on the balance of payments; that is, from the bank's point of view, a persistent need to borrow abroad or (what is the same thing) to reduce its overseas lending.

This external drain will not be the only influence on the bank's position arising out of the higher level of income, for as incomes rise, there will be an increased demand for active balances, part of which will be demanded by the public in the form of currency. This too must be met by the bank. If the public also desires to add to idle currency balances, this will add to the drain.

To summarize, we may say that ceteris paribus, the drain on the bank's reserves position in response to a given increase in its local lending will be greater, the greater the marginal propensity to import, the greater the proportion of its active balances the public wishes to hold in the form of currency, and the greater the marginal propensity to hoard currency. In dependent economies the marginal propensity to

import is usually large. Thus, in general, the drain on our bank resulting from an increase in advances will be severe and, introducing dynamic considerations, since imports are likely to respond quickly, will tend to develop rapidly. Since our bank cannot, for long, maintain a volume of local lending which results in a persistent fall in its holdings of domestic cash and overseas assets, both of which will result from the rise in imports and the deterioration of the balance of payments, it is plain that one of the ultimate determinants of banking behaviour must be the state of the balance of payments.

II The Effect Of a Change in the Money Supply on Economic Conditions:

We shall now consider a simplified balance of payments and this time again in a hypothetical economy. We shall assume that it consists of three autonomous items:

Receipts on account of exports,

Capital inflows; and

Payments in respect of imports, and one accommodating item, namely, short-term lending abroad, which may be positive or negative. We can set this out in the form of a simple account which must of course, balance:

Balance of Payments

We may think of equilibrum on the balance of payments as existing when exports plus capital inflow are equal to imports; - a surplus when exports plus capital inflow exceed imports, and accommodating foreign lending is taking place, and a deficit, as the obverse of a surplus, that is, a situation in which accommodating borrowing is taking place in other words, a situation when accommodating lending is negative.

In our hypothetical economy, foreign lending is undertaken by the single commercial bank, the Currency Board and the Post Office Saving Bank. Now, in any situation in which the Balance of Payment is in surplus, equilibrating lending abroad must be taking place. It will be performed by one, or all of these three agencies. The Currency Board and the Post Office may be regarded as wholly passive institutions prepared to engage in foreign lending in unlimited amounts. Moreover, the passivity of these institutions is not a matter of choice but regulation. Our single bank, however, need not be passive. If the overseas reserves are rising because of a surplus on the balance of payments, it may elect to be passive - but it may not.

Let us now take a situation in which the balance of payments is in surplus. Autonomous receipts exceed autonomous payments by some positive amount which equals accommodating lending. In a position like this in Nigeria, this means the citizens are receiving more from abroad than they are spending

abroad. The domestic counterpart of this is, of course, an excess of domestic savings over domestic investment. To simplify matters, let us assume domestic investment to be zero. The excess is then equal to domestic savings. The Nigerian citizens may accumulate these savings in three forms: currency, Post Office deposits, and deposits with the commercial bank. In the first two cases, their counterpart in the balance of payments will be accommodating foreign lending by the Currency Board and the Post Office. In so far, however, as the community accumulates its savings in the form of commercial bank deposits the bank will find its overseas assets rising. Under the West African Currency Board System, these are equivalent to cash. We can now define a new concept, the 'banking balance' as follows:

Banking Balance = Autonomous Receipts -(Autonomous payments + Foreign lending by the Currency Board + Foreign Lending by the Post Office Savings Bank)

When this is positive or negative, the bank may react by expanding or contracting credit. There is thus, despite the fact that income is in equilibrum, a possibility of induced bank expansion or contraction. Everything now depends upon banking policy. We may distinguish three possibilities. The first of these is that our hypothetical bank adjusts its local lending so as to maintain a given ratio of reserves (local cash plus overseas assets) to deposits; we shall call this the 'responsive' case. Second we have the case where, as

overseas assets accumulate, the bank allows its reserve ratio to rise. We shall call this the 'passive case'. If the bank is completely passive in this sense, its behaviour is identical with that of the Currency Board. The third possibility is that the bank is 'active', that is, as overseas assets accumulate, it allows its reserve ratio to fall. Finally, we must consider that our hypothetical bank can influence the money supply 'autonomously', that is, apart from its response to a positive or negative banking balance. For example, if in our country, with dependent economy, development prospects became more attractive or its preferences changed, the bank could, of its own volition, decide to run down overseas assets, in order to increase local advances.

We are now in a position to examine the influence of the money supply on the level of domestic incomes in our hypothetical economy, for we have established that at any time, the supply of money and 'near moneys' is determined by banking policy and the balance of payments.

III <u>Influence Of The Banks on Domestic Incomes</u>:

What determines domestic Income? A comprehensive analysis of the theory of the determination of income is beyond the scope of this chapter. We can provide no more than a brief definition. We shall begin by defining Gross Private Disposable Income thus:-

Gross Private Disposable Income = (Private Consumption + Private Investment + Exports + Government Expenditure - Imports - Taxation).

Given the definition, we must now inquire what determines the magnitude of the several aggregates which constitute income. Economic Analysis usually proceeds on the assumption that consumption, imports, and government revenue are dependent variables: that is, are determined by stable psychological propensities, the tax structure, and the level of Income. This of course, is an oversimplification, but it represents a useful approximation. It follows, therefore, that changes in income are brought about by changes in exports, investment, and government expenditures, which we shall call the independent variables.

We may now divide investment expenditures into two components: foreign financed investment and domestically financed investment. Abstracting from the influence of government expenditures, fluctuations in the income of dependent economies must come about through fluctuations in exports, foreign financed investment, and domestically financed investment. Of these three variables, only the last is likely to display much sensitivity to changes in the domestic money supply or banking behaviour, for exports are determined by demand on world markets, and foreign financed investments depend, in the first instance, on conditions in external money and capital market. Our problem therefore reduces to that of inquiring how

changes in the money supply and in banking policy may influence domestic incomes through their effect on domestically financed investment and, perhaps, on domestic consumption.

If income is in equilibrum, that is, the surplus of the balance of payments is offset by an equivalent surplus of domestic saving over investment, the excess saving will result in the non-bank public accumulating local assets (which are the liabilities of the Currency Board, the bank, or the Post Office) in the form of money or 'near moneys'. Given the price level, the ratio of real money balances to real income will therefore be rising as will be the ratio of 'near moneys' to income. Given the payment system of the public this entails the increased holding of idle balances. For such a situation to persist, increased holding would in fact have to be an infinitely elastic demand for idle balances at the prevailing interst rates. This is so because, in the type of economy we are now considering, interest rates are likely to be determined mainly by law, or convention and to respond very little to changes in the local demand and supply for loanable funds, since the economy does not possess developed security and money markets which might encourage the holding of idle balances for speculative reasons. In the case of Africans, particularly in West Africa, any accumulation of liquid assets is likely to bring considerable social pressure towards increased conspicuous consumption. Moreover,

Africans are, in general, fully convinced of the merits of holding all their assets in a form which increase their income. Thus it is plausible to argue first, that any increase in the quantity of money relative to the level of income will not influence the economy through lowering interest rates, and second, that it will produce direct substitution of goods for money and thus lead to consumption or investment. In the process of transmuting savings into investment, intermediaries such as banks will not be of the importance they assume in developed societies for, in many cases, it will be the savers who, finding their liquidity increasing, will undertake investment. Where intermediaries are important, there may be little influence on rates. More probably, any increased borrowing will take place at the conventional rates. This analysis applies also to the effect of accumulating 'near moneys' though here, since near moneys provide income, the 'liquidity effect' may operate less readily.

The consequence of the liquidity effect is to make the economy tend towards one in which the marginal propensities to save and invest (including in this latter term the direct accumulation of oversea assets) are equal. That is, towards an economy which is in 'neutral equilibrum'.

This, however, does not mean that as incomes rise owing (say) to a rise in export values, there will be no accumulation of bank deposits, currency, or near moneys.

On the contrary, the operation of lags will ensure that all three are accumulated. It means, howeyer, that when incomes are rising, the primary increase in the money supply will be such as to preserve the 'normal' ratio between money and income and will thus be income determined rather than determinant of income. There will, however, remain the possibility of a secondary banking expansion brought about by the effect of an increase in the overseas assets of the banking system influencing banks which are responsive or active in our terminology. If this occurs, an endogenous bank-induced element will be superimposed on exogenously generated income fluctuations due - say - to cyclical fluctuations in exports or foreign financed investment. That is, there may be a banking 'accelerator' at work. This would be the case if bank lending in any period were to be determined by the change in bank reserves in some previous period.

So far we have argued on the basis of a hypothetical dependent economy possessing an institutional structure and economic characteristics only broadly akin to those of underdeveloped countries. We have, moreover, for expositional purposes, assumed only a single bank and also that the bank operates only within our hypothetical territory. These two assumptionsmust now be relaxed.

The introduction of additional banks does not modify the ana-lysis where the banks are of the same expatriate

type since in this case we may speak of the banking 'system'. Where indigenous banks exist however, as is the case in Nigeria, to do this is implausible since the two types of banks may react very differently to changes in reserves.

The supra-territorial characteristics of the expatriate banks provide more important qualifications. First, they suggest that banking policy in any territory may be only very loosely related to the banking balance in that territory, since the latter will have only a small influence on the overall reserves of the banks. In other words, bank lending in any territory may be quite unrelated to changes in external bank reserves. Any evidence of responsive or active behaviour would therefore be statistical only and not evidence that bank lending policy was determined by local resources and its banking balance. Second, since a large bank expansion in a single territory will have only a small influence on any expatriate bank's liquidity position, there is increased scope for autonomous bank expansions. Third, since any expatriate bank which gains reserves because of a favourable banking balance can employ its funds in a number of different territories or other regions, they somewhat increase the likelihood of banking passivity.

With these qualifications in mind, we now turn to assessing the influence of the banks on domestic income in Nigeria. Since Nigeria is economically 'dependent', the

main determinants of income and its fluctuations will be exports, foreign financed investment - other than bank financed - and government expenditure. What we are interested in is the question of whether or not the banks add a-n endogenous element to exogenously generated income fluctuations.

Finally, we must remember that, in some cases, fluctuations in domestically financed investment expenditure not initiated by changes in bank lending, may influence domestic incomes.

MONEY SUPPLY - NIGERIAN'S EXPERIENCE FOR THE PAST 20 YEARS (1943-1962)

Nigeria is a country in which banking is little developed compared with the standards in Western countries. Currency is the more important part of the money supply. The capital or security market which has just been established is just in its infancy and apart from banks, no financial institutions exist which act on any scale as intermediaries between borrowers and lenders.

Before and during the period 1943-1959, there was no central bank and before April 1960, no securities market in Nigeria. The banking system dominated by expatriate banks with larger total resources than the local banks concentrated their activities on the financing of government, movement of cash crops, foreign trade. They

provided the necessary cash for working capital but eschewed credit expansion on the security of local assets. As indicated in Table IV, funds surplus to local requirements were repatriated and invested in the London money market. Their inactive lending policy in Nigeria outside the government and the external trade sectors of the economy contributed to the money supply in much the same way as the West African Currency Board which supplied the currency.

Under the rigid 100% sterling exchange standard system the Currency Board was purely an exchange mechanism and therefore had little or no influence on the money supply, Given relatively constant volume of bank loans and advances, and surplus in the balance of payments led to an increase in sterling reserves which was held by the banks against increased deposits liabilities or sold to the Currency Board against increased circulation of notes and coin. Also the sterling exchange standard system precluded local monetary managment. By investing the currency reserves exclusively in sterling securities, the Currency Board deprived the governments of the currency area of any control over the currency supply and made impossible the issue of fiduciary money. Thus the monetary system was incapable of effective response to economic growth except through the accumulation of export surplus. The dependence on the balance of payments for the bulk of

the money supply during the period was particularly harmful to Nigeria because of the volativity of primary products prices. In periods of deterioration in Nigeria's terms of trade - when a given quantity of primary products earned an increasingly smaller quantity of 100% exchange standard currency, the cost of currency was very heavy. In periods of favourable balance of trade, permanent improvement in the money supply tended to be restrained by the high propensity to import consumer's goods and the large outward unilateral transfers by expatriate individuals and supra-territorial instituions; and the accumulation of sterling assets in London by the local government and statutory bodies. To the burden of accumulating sterling assets in terms of imports foregone may be added the loss sustained in return to the depreciation of values of accumulated sterling reserves as prices increased during most of this period.

The insensitivity of the dominant foreign banks to credit demands of other sectors of the economy spurred the establishment of indigenous commercial banks whose expansionist policy cushioned during the part of this period by Regional Government deposits accelerated the reduction of low banking density and increased bank holding of local assets. However, their aggressive banking and liberal credit policy unmatched by managerial and financial resources, at

times, strained their liquidity position and public confidence. Thus, the effect of the conservative credit policy of the dominant group of banks on the banking system persisted.

Table I shows the sources of the increase in the money supply which have taken place since September, 1943. This table makes it abundantly plain that the influence of bank credit creation was small and accounted for less than 8% of the change in the total money supply over the period.

The banking system was, however, not passive in the sense of our earlier definition. While it is true that, of the increase of £34.8 millions in the money supply no less than £33.05 millions (95.0 per cent) resulted from the increased holding of sterling by the banks and the Currency Board, the banking system's advances ratio rose from less than 2% in 1943 to 15% in 1951. It is, however, extremely doubtful if this, in any but a formal sense, indicates a responsive or active banking system. In 1943, the advances ratio, at under 2% was usually low owing to the impact of war-time financial methods. Hence some rise in the ratio was only to be expected particularly since both the British banks were in an overall position of great liquidity. Moreover despite this unusually low advances ratio, the banks acquiesced in the expansion of cash and overseas assets by £9.2 millions or 84% of the expansion of demand deposits and

73% of aggregate deposits. Finally, we may note that while advances rose by £2.5 millions, non-monetary deposits also rose by £1.6 million. The banks thus acted very largely as intermediaries. The net injection by the banking system was therefore only some £0.9 million (8% of the rise in demand deposits).

It is not an easy matter to disentangle these various factors nor to decide what allowances should be made for the banks' unusually low advances ratio in the first year for which bank statistics are available. Nevertheless, despite the fact that, formally, the banks fall within our classification of active, this is a matter of statistical appearances only.

In West Africa generally, the ratio of overseas assets and local cash to deposit liabilities is not a determinant of bank advances policy (the main determinants of the level of expatriate bank advances in Nigeria are export and import prices), and any increase in advances which does take place, though it may be correlated with a rise in these assets, is certainly not induced by it. The banks may therefore be regarded as passive. The consequence is that, in Nigeria, the money supply is income determined rather than a determinant of incomes.

The behaviour of the expatriate banks, is however, in marked contrast to that of the indigenous concerns. This

is made plain in Table II which compares the main sources of expansion of the total deposits of the National Bank of Nigeria (an indigenous bank) and the two British banks - the Barclays Bank D.C.O., and the Bank of British West Africa Ltd.

This table shows that the passivity of the banking system as a whole depends upon its domination by the two expatriate banks at that time and that as indigenous banking develops, a passive banking system is likely to be replaced by one which is responsive or even active.

It is also interesting to note the small proportion of the total money supply provided by bank advances. In 1944 this was less than 1%. In 1951, it was 6.9%. The money supply is therefore overwhelmingly of external origin.

During the 1950-1959 period, the growth of demand deposits in the banking system as a whole was impressive having risen from £13 million in 1950 to £40 million in 1959 as shown in Table IV. In proportion to the total money supply, no significant change has been registered as Table III shows. Bank credit expansion during the same period lagged very much behind the increase in demand deposits because of the paucity of local borrowers, the dearth of a central monetary authority, the absence of local securities market acceptable to the dominant banks, the availability of alternative investment opportunities outside

Nigeria and considerations of liquidity as the banks generally maintained liquid interest-earning assets in London and 'till-money' in Nigeria. Table V records the substantial amount of cash in hand and with banks abroad.

In almost every year between 1950 and 1957 inclusive, the sum of these two items nearly equalled the total amount of demand deposits in the banking system. Due to slight reductions in external bank balances in 1958, the cash deposits ratio reached its lowest point since 1950 at 61% of aggregate demand deposit.

The condition of persistently high liquidity of the banking system has been a favourable feature from the view-point of developing a sound banking-system. The adverse effect on the individual bank's earnings was offset by the stickiness of high loan and service charges and by non-payment of interest of demand deposits.

The effects have been the constriction of banking habit, and the low level of bank loans and advances.

The changes in the money supply during the 1950-1959 period illustrated in Table VI shows that the bank credit creation accounted for approximately £29 million or 69% of the total change in the money supply (£47 million) during the same period. It is noteworthy, however, that while bank credit increased by some £29 million, non-monetary bank deposits also rose by £24 million. Hence the net increase

in bank advances during the ten-year period was about £5 million or 19% of the increase in demand deposits of some £27 million over the same period.

On the other hand, the growth in external asset holdings by the banks and the Currency Board combined amounted to approximately £31 million or 66% of the total increase in the money supply of £47 million. Thus in relation to bank credit expansion in the domestic economy the banks were largely irresponsive.

However, from 1960 to 1962 inclusive, a considerable change has occurred (Table VI) as reflected in the substantial reduction of external assets of the banking system by some £12 million and the expansion of its local earning assets by more than £45 million or 236% of the aggregate change in the money supply during the three-year period. In spite of its short-term character, this homeward movement and expansion of bank earning assets is a welcome development from the point of view of local economy. It should be noted, however, that this credit expansion has not contributed significantly to an increase in the level of demand deposits (Table V) during this period. In other words, the larger loans and advances have not affected the money supply markedly. The unimpressive state of the money supply inspite of the large autonomous expansion of bank earning assets during this short period is traceable to the financing of a deficit in the balance of

payments by the banking system. By warding off what otherwise would have induced a painful contraction of the money supply, the banks exerted a steadying effect on the money supply. In sum, the period before 1959 represented the era when Nigeria banked without a central bank. This, and the absence of internal securities market impelled the bank and other organisations to cling to a policy of repatriating excess reserves to the London money market with obvious adverse effect on the development of banking habit locally and the availability of bank credit outside the accepted sector of borrowers - governments and import/export trading firms in Nigeria. The net effect was the dependence of the money supply on the balance of payments conditions. This enhanced the cost of credit because of the volatility of primary products prices. From 1960 to 1962 inclusive, the inward movement of external assets of the banking system and the expansion of the banks' local earning assets have been considerable but the full effect on the money supply has not been equally significant. Thus, the money supply remains predominantly one of notes and coin and not bank deposits.

MONEY SUPPLY AND SEASONAL VARIATIONS

In West African countries generally, the seasonal increase in the demand for money comes in September and October and continues until approximately January. During this period, important differences are seen in the investments of coins,

notes and deposits as they essentially serve different sectors of the community. Naturally, these changes mean that the Central Bank has to be equipped with the right sort of currency, coins and notes and the required denominations to meet the demand. As the denominations required gradually change through time with the increasing monetization of the country, the central bank must constantly have to revise its currency policy. This often involves it in some very considerable investments of both capital and staff. The transport of coins and notes is difficult in Nigeria which is large and expansive and with inefficient transport system. The Central Bank, therefore, finds itself faced with a demand that it opened branches in Kano (in Northern Nigeria); Port Harcourt (in Eastern Nigeria); Ibadan (in Western Nigeria); and Benin City (in Mid-Western Nigeria) and these branches are with considerable deposits of coin and currency. While the economy of Nigeria badly needs such facilities like this, it is difficult to see how the country can meet such requirements in view of staff shortages and the very important security measures that have to be taken in the branches. It has been suggested that it would have been profitable if the Central Bank could appoint Agents in these centres instead of establishing branches. However, the secubity measures that have to be taken often made the utilization of agents impossible. On the other hand, by the establishment of branches with conside-

rable deposits of coin and currency tend to decrease the cost of transfer of currency, which reduces the cost of running a modern monetary system.

We shall now examine the monthly changes in the money supply in coins, notes and bank deposits. In Nigeria, there is a maximum in notes, coins and the total money supply at the end of the year, reflecting the peak periods of the sale of crops. These are cocoa in October, palm oil in November and groundnuts in November/December. The preference of the farmers for coin as opposed to notes is striking. Over the last ten years, however, the larger farmers, especially in the South, have learnt to accept notes instead of coin. This shows a certain change in habits as notes can be eaten by termites, while coin cannot, thus the more progressive farmers are either spending their income, using special strong boxes, or possibly even depositing their income in banks. They are certainly not burying it in the ground. Deposits show a different maximum, namely March. This coincided with the return of the coin and notes and the most important tax payments which also explains the intervening fall in coin in circulation.

The rise in June again reflects the last spurt of trade supported by the mid-year crop before the assets of the previous season have been exhausted. Deposits fall from December onwards as assets are used for purchases and payments

of all kinds (see the Graph showing the monthly changes).

The banks meet this seasonal demand in two ways. First, as the expatriate companies and business enterprises canvert their bank advances into currency, the banks encash deposits. This is a substitution of one form of money for another. By cashing these deposits the banks are providing flexibility in the composition of the money supply. The banks are not active in the provision of flexibility, however, as long as they confine themselves to the mere encashment of deposits in the creation of which they were passive. Nor are they active in so far as they encash other deposits seasonally created by the transfer of funds from London or other foreign financial centres by the operating expatriate trading enterprises.

The banks provide flexibility actively when they grant seasonal advances for the collection and marketing of export crops. In this case they bring about a seasonal addition to the money supply by making advances which they convert into cash as customers require.

However, both types of banking contribution, active and nonactive, may involve the banks in asset substitution. If the accessibility of the money market is complete, the banks will maintain a stable cash ratio, substituting money market assets for local cash only when required. In this way, they will minimize their holdings of non-earning assets. But in

the case of Nigeria, with her money market still in its infancy, the big expatriate banks still make use of external money markets; for example the Barclays Bank D.C.O. and the Bank of West Africa Ltd. still make use of the London Market for the employment of their surplus funds. The result is that perfect accessibility of the foreign markets to these expatriate banks would therefore involve, in so far as the banks were active and provide the whole of the seasonal increase, two obvious conditions:

(a) a stable cash ratio; and

(b) equal and opposite seasonal movements of advances and oversea assets.

Table II

Share of National Bank of Nigeria (An indigenous bank) in increase in bank deposits and advances, 1944 - 1951 (as at the 30th June in each year).

(£'s thousands)

Year	Changes in aggregate deposits (1)	Change in aggregate bank advances (2)	Change in deposits: National Bank only (3)	Change in advances: National Bank only (4)	Column (3) as percentage of Column (1) (5) %	Column (4) as percentage of Column (2) (6) %	Total deposits of National Bank as percentage of aggregate bank deposits (7) %
1944/5	+ 1,812	+ 41	+ 33	+ 34	2.3	83.2	1.2 (1944)
1945/6	+ 1,516	+ 205	+ 34	+ 40	2.2	19.5	1.3 (1945)
1946/7	+ 117	+ 615	+ 29	+ 71	24.8	11.5	1.2 (1946)
1947/8	+ 1,753	+ 103	+ 24	+ 23	1.8	22.3	1.9 (1947)
1948/9	+ 1,768	+ 532	+ 72	+ 20	4.1	3.8	2.0 (1948)
1949/50	- 1,488	+ 487	+ 33	+ 58	..	11.9	2.1 (1949)
1950/1	+ 5,329	+ 140	+ 500	+ 471	9.4	336.4	2.6 (1950)
TOTAL CHANGE 1944-51	+10,787	+2,123	+ 725	+ 717	6.7	33.2	

Sources: Columns 1 and 2:- Aggregate Bank Statistics, Nigeria.
" 3 and 4:- Annual Statements, National Bank of Nigeria.
" 7 :- As for Columns 1 to 4.

Note: The percentage in Column 7 are based on the deposit figures for each 30th June.

Table I

Source of Changes in the Nigerian Money Supply - 30th September 1943 to 30th September, 1951

(£'s thousands)

Year	Changes in Money Supply			Changes in non-monetary bank deposits (4)	Changes in sterling assets of Currency Board (5)	Source of Changes		Column (7) as percentage of Column (3) (8)	Column (5) plus Col. (6) as per centage of Column (3) (9)
	Changes in currency with public (1)	Changes in demand deposits (2)	Changes in money supply (3)			Changes in net external assets of banks (6)	Changes in local earning assets of banks (7)		
1943/4	+ 1,027	+ 1,259	+ 2,286	+ 403	+ 1,112	+ 1,439	+ 31	7.4	110.2
1944/5	+ 1,884	+ 1,385	+ 3,269	+ 421	+ 2,412	+ 1,334	+ 120	3.7	110.9
1945/6	+ 2,674	+ 538	+ 3,212	+ 214	+ 2,450	+ 883	+ 144	4.5	103.8
1946/7	+ 2,978	+ 571	+ 3,549	+ 144	+ 4,941	- 1,904	+ 481	13.6	85.6
1947/8	+ 1,513	+ 959	+ 2,472	- 120	+ 1,180	+ 1,402	+ 190	7.7	100.4
1948/9	+ 3,730	+ 2,108	+ 5,838	+ 129	+ 7,147	- 2,478	+ 603	10.3	80.5
1949/50	+ 3,263	- 301	+ 2,962	- 101	+ 188	+ 2,453	+ 346	11.7	89.1
1950/1	+ 6,759	+ 4,453	+ 11,212	+ 520	+ 8,004	+ 2,588	+ 570	5.1	94.5
TOTAL CHANGE 1943-51	+ 23,828	+ 10,972	+ 34,800	+ 1,610	+ 27,434	+ 5,717	+ 2,485	7.2	95.0

Source: Quarterly Banking Series, Department of Statistics, Lagos.

Note: Column 5: Changes in sterling assets of the Currency Board have been taken as equal to changes in currency outstanding.

TABLE III

NIGERIAN MONEY SUPPLY[1], 1950-62
(Amounts in Millions of Nigerian pounds)

Year December 31	Money Supply	Estimated Currency in Circulation[2]	Demand Deposits	Ratio of Demand Deposits to money Supply
	£	£	£	%
1950	47.7	34.5	13.2	27.6
1951	64.5	46.1	18.4	26.9
1952	71.0	48.8	22.2	31.2
1953	81.3	56.8	24.5	30.1
1954	84.2	51.3	32.9	38.3
1955	87.3	55.7	31.6	36.1
1956	91.7	56.3	35.4	38.6
1957	99.6	62.3	37.3	37.4
1958	108.1	67.8	40.3	37.2
1959	116.0	75.8	40.2	34.4
1960	120.6	78.7	41.9	34.3
1961	120.8	79.2	41.6	34.4
1962	124.9	79.7	45.2	36.1

1. Represents Currency and demand deposits.

2. Estimated totals represent net circulation and comprise issues of Nigerian currency in circulation plus revised estimates of West African Currency Board Currency circulation based on revised estimates for June 30, 1959 and known net withdrawals since then.

Sources: Nigeria Digest of Statistics, and Annual Reports of Central Bank of Nigeria.

Table IV

Movement of Funds through the Currency Board 1950-1959

(Accounts in Thousands of Pounds)

Year Ending 30th June	Total Currency in Circulation	Net Transfers to West Africa*	Net Transfers from West Africa	Average Treasury Bill Rate in London
				%
1950	66,277	-	1,650	0.5
1951	78,892	12,527	-	0.6
1952	87,252	17,437	8,950	2.2
1953	90,536	12,365	9,036	2.3
1954	94,060	12,170	8,535	1.8
1955	93,630	15,775	16,255	3.7
1956	99,428	26,477	20,324	4.9
1957	106,908	27,863	20,491	4.8
1958	99,541	21,936	29,207	4.6
1959	82,659	16,203	32,937	4.4

*Figures include bank holdings of currency issued in the four constituent territories - Gambia, Sierra Leone, Ghana and Nigeria - and therefore exceed net circulation.

Sources: Annual Reports of the West African Currency Board; United Nations Statistical Yearbook, 1959; United African Company Statistical and Economic Review, 1951; International Monetary Fund, International Financial Statistics, February 1961.

Table V

Assets and Liabilities of Commercial Banks in Nigeria, December 31st, 1950-1962

(Amounts in Million of Pounds)

Items	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
ASSETS													
Cash	1.0	3.4	3.9	5.4	5.3	7.4	6.8	7.0	6.7	8.4	8.0	7.6	7.5
Balances due from													
Local Banks ...	0.1	0.6	0.7	1.2	1.4	1.6	1.8	2.1	3.5	6.1	4.6	4.7	4.2
Banks Abroad	10.4	13.5	16.0	16.1	24.8	20.5	21.8	16.9	15.9	15.3	21.2	36.4	21.5
Loans & Advances	4.3	5.5	9.2	10.2	12.0	19.1	25.5	34.5	38.3	40.9	57.0	60.0	80.4
Investments:													
In Nigeria* ...	0.02	0.05	0.32	0.28	0.17	0.38	0.38	0.4	0.3	0.7	2.6	4.3	4.9
Other Countries**	0.03	0.03	0.03	0.03	0.03	0.03	0.06	0.03	0.03	0.6	0.1	0.02	0.02
Other Assets	0.84	3.13	6.39	6.03	8.48	8.73	11.30	12.9	14.7	20.1	24.1	34.2	23.8
Total+	17.80	26.10	35.90	39.00	52.10	57.70	67.60	72.90	79.70	92.10	117.6	147.4	142.5
LIABILITIES													
Deposits:													
Demand ...	13.2	18.4	22.2	24.5	32.9	31.6	35.4	37.3	40.3	40.2	41.1	41.7	45.2
Time	1.8	2.4	3.3	3.9	4.3	4.7	4.1	5.6	6.6	7.2	8.9	14.0	17.4
Savings ...	1.5	1.6	2.3	2.9	3.4	5.9	6.5	8.9	11.1	17.9	18.4	21.1	24.2
Total	16.5	22.4	27.8	31.3	40.6	42.2	46.0	51.8	58.0	65.3	68.4	76.8	86.8
Balances due to:													
Local Banks ...	0.2	0.3	0.6	1.4	1.9	1.8	3.4	2.4	3.8	3.7	2.4	1.1	0.4
Banks Abroad	0.7	1.0	2.4	1.8	2.8	5.3	7.2	8.2	5.6	4.3	18.3	21.9	8.6
Other Liabilities	0.4	2.4	5.1	4.5	6.8	8.4	11.0	10.5	12.1	18.9	28.5	47.2	46.5
Total+	17.8	26.1	35.9	39.0	52.1	57.7	67.6	72.9	79.7	92.1	117.3	147.0	142.3

Figures for Southern Cameroons are excluded.

*As from April 30, 1960, figures include holdings of Government Treasury Bills.

**Include holdings of United Kingdom Treasury Bills.

+Totals are not exactly equal to the component figures due to rounding.

Source: Compiled from the Di

TABLE VI

Changes in Nigerian Money Supply, 1950-1962
(Amounts in Millions of Pounds)

Year Ending September 30	Changes in Money Supply[1]	Changes in Non-Monetary Banks Deposits	Changes in Sterling Assets of Currency Board/Central Bank	Changes in Net External Assets of Banks	Changes in Local Earning Assets of Banks
1950	+ 3.0	- 0.1	+ 0.2	+ 2.5	+ 0.3
1951	+12.0	+ 0.8	+ 8.3	+ 2.6	+ 0.6
1952	+6.0	+ 1.9	+ 9.4	- 4.1	+ 2.3
1953	+5.8	+ 0.8	+ 2.1	+ 3.4	+ 0.7
1954	+8.7	+ 1.9	- 0.6	+ 9.0	+ 2.7
1955	+5.2	+ 2.1	- 0.2	+ 5.1	+ 2.6
1956	+6.0	+ 0.4	+ 4.7	- 6.9	+ 7.6
1957	-5.2	+ 3.2	- 3.8	+ 1.0	+ 1.8
1958	-1.1	+ 5.6	- 1.4	- 6.1	+ 5.8
1959	+6.0	+ 7.1	+ 2.0	+ 3.6	+ 4.4
Total Changes (1950-1959	+46.6	+23.7	+20.7	+10.1	+28.8
1960	+23.1	+ 0.4	n.a.	- 8.5	+11.3
1961	- 1.9	- 4.0	n.a.	- 6.4	+18.4
1962	- 2.4	+18.8	n.a.	+ 3.1	+15.6
Total Changes (1960-1962)	+18.8	+15.2		-11.8	+45.3

1. Represents Currencies in circulation plus demand deposits.

2. Before July 1959, the West African Currency Board's Sterling Assets represented changes in the total Currency in circulation in Nigeria plus changes in the estimate of Nigeria's share of the Board's surplus funds. From July 1959, the figures represent changes in sterling Assets of the Central Bank and changes in estimated Currency Board's currency only that is still in circulation in Nigeria.

3. Represents changes in aggregate bank balances abroad less balances due to banks abroad.

Sources: Compiled from the Digest of Statistics and Annual Reports of Central Bank of Nigeria.

TABLE VII

(All figures except col.5 in £000's)

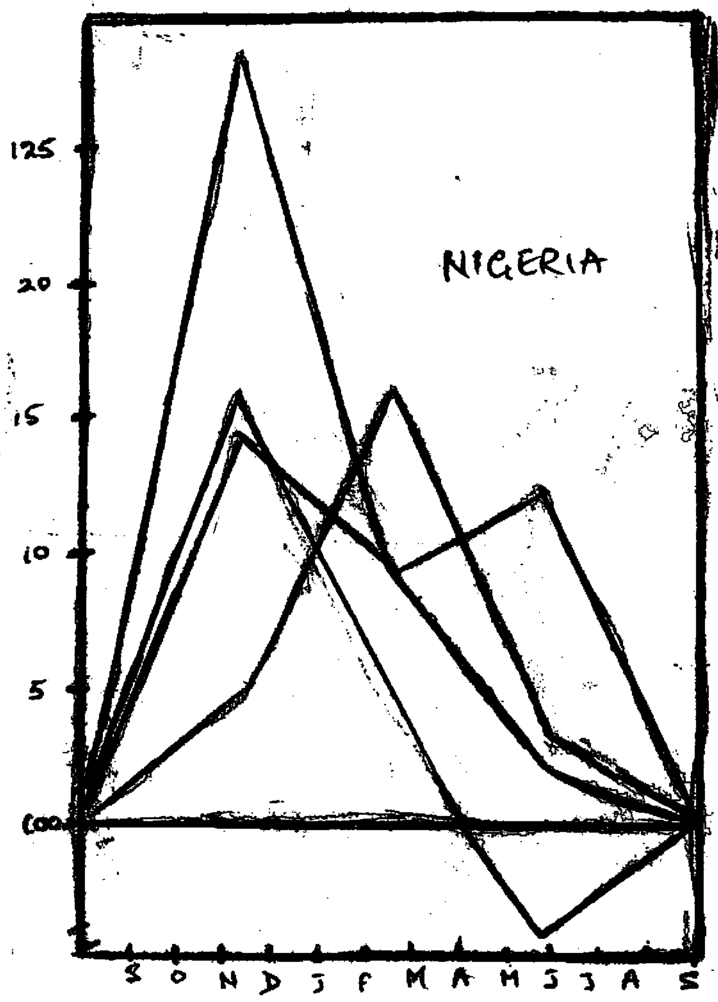
Date	(1) Loans and Advances	(2) Invest-ments in Nigeria	(3) Total (1)+(2)	(4) Absolute Change in Total over Preceding March 31st	(5) Percentage Change over Preceding March 31st (4) ÷ (3)
March 31, 1950	2,672	10	2,682	-	-
" 1951	3,421	43	3,484	782	29.2
" 1952	5,016	75	5,091	1,627	47.0
" 1953	5,813	275	6,088	997	19.6
" 1954	7,341	336	7,677	1,589	26.1
" 1955	10,018	175	10,193	2,516	32.8
" 1956	15,135	380	15,515	5,322	52.2
" 1957	20,575	394	20,969	5,454	35.2
" 1958	28,275	190	28,465	7,496	35.7
" 1959	32,790	470	33,260	4,795	16.8
" 1960	35,945	933[1]	36,878	3,618	10.9
" 1961	50,450	3,372	55,822	18,944	51.4
" 1962	61,148	6,297[2]	67,445	11,623	20.8
" 1963	78,260	6,401	84,661	17,216	25.5

1 Reflects introduction of Federal Government Treasury Bills in April 1960.

2 Includes £1,785 thousand of money at call at the Central Bank - i.e. money placed overnight with the call money fund administered by the Central Bank since July 1963. In the Bank's consolidated statement of commercial banks' assets and liabilities as at March 31, 1963, this amount is included under a new item titled "Cash and Central Bank" which also includes vault cash and balances at the Central Bank. For our purposes, however, it would seem more appropriate to treat it as a local investment.

GRAPH SHOWING

Monthly Changes in Money Supply, Deposits, Notes and Coins



———— Total Money Supply

———— Deposits

———— Notes

———— Coins

CHAPTER SEVEN

BALANCE OF PAYMENT AND EXTERNAL RESERVES

The balance of payments position of Nigeria in recent years, particularly the period following the attainment of Independence in 1960 can best be viewed against the background of past developments. Until the mid-1950's earnings from exports generally exceeded payments abroad for imports and services. The surplus on trade transactions during this period, together with receipts of British Government grants to finance selected development projects, allowed the building up of external assets in the form of sterling securities and sterling balances. Since 1955, however, imports have been appreciably larger than exports, and inflows of capital though greater than before, have been insufficient to finance the entire deficit on current transactions. Overseas financial assets held by official and semi-official institutions have, as a result declined.

The transformation of the balance of payments position from an overall surplus to an overall deficit has been a reflection of a number of profound changes in the structure and character of the Nigerian economy. Since the mid-1950's

there has been a marked expansion of Capital expenditures by Government to promote the economic development of the country. Coincidentally, private investment has increased appreciably, bringing with it a larger inflow of foreign capital. The heavier volume of capital equipment imported for these projects has been a major contributory factor to the emergence and continuation of the trade deficit. In addition, growth in the economy has generated demands for increased amounts, and a wider range, of consumer goods. Finally, world prices for the country's main export products have declined substantially from the high levels prevailing in the period 1951-54. Let us examine 1962 and 1963 for example:-

In 1962, external transactions resulted in a further decline in total foreign exchange reserves. The decrease in external assets of official and semi-official institutions totalled about £22 million as compared with about £16 million in 1961. Although the decline in reserves in these two years was of comparable magnitude, the pattern of external transactions leading to these declines was quite different. The trade deficit was smaller in 1962 than in either 1960 or 1961, as a result of a fall in imports. The latter represented in part, a natural reaction to the heavy importing coincident with the attainment of Independence, and, in part, a consequence

of Government policies since then which have been designed to improve the external position. From this point of view, it may be said that the underlying payments position of the country was better in 1962 than in the two preceeding years. On the other hand, the lower trade deficit in 1962 was counterbalanced by smaller inflows of capital from abroad.

In 1963 the overall balance of payments position was similar in many respects to the outcome of 1962. External transactions resulted in a further decline in total foreign exchange reserves to £94 million. The trade deficit diminished further in this year because of higher exports. On the other hand, net payments for services continued to grow in line with the trend in recent years. A further and apparently substantial diminuation of the net inflow of foreign capital was a major factor in the drain of external reserves. Proceeds from official loans were negligible and private capital inflows were smaller than in 1962.

The table below presenting revised balance of payments estimates for 1952 to 1963 summarises the major external transactions in these periods.

RESERVE MOVEMENTS:-

The result of Nigeria's external transactions showed a continuous decline in the external reserves of official and banking institutions in recent years. At the end of 1962 for example, total external reserves amounted to about £130 million, about £22 million lower than a year earlier. In 1963, these reserves totalled about £94 million - about £36 million lower than in December 1962. External assets of the Central Bank which constitute the largest category, declined by £12.3 million to £64.3 million in 1963. The Federal Government reduced its holdings to £10.6 million partly because of a need for funds to meet domestic expenditures and loan repayments. Total external assets, equivalent to about eight months' imports at the end of 1962 were roughly equal to about 5½ months' imports in December 1963.

Since an important part of the fall in foreigh exchange reserves during this period resulted from a shift from overseas financing of current requirements to local financing, the changes in reserves during this period cannot be considered fully representative of the underlying external payments position of the country. Nevertheless, a decline in reserves of more than 10 per cent in one year does call attention to the state of the reserves and to the important role they have in the functioning of the economy.

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The foreign exchange reserves of a country constitute one of its prime assets. As the ultimate means of settlement of a country's international transactions, external reserves enable the balancing of fluctuations between international payments and receipts as they occur from day to day, from month to month and even from year to year. Moreover they form a fund of international liquidity available for use in the event of unforeseen events, such as natural disasters. In this way, reserves help to facilitate a smooth flow of goods and capital into and out of the country, in accordance with the needs and practices of trade and commerce. The cushions provided by reserves also allows time in which to formulate and execute judicious policies to correct inbalances in external transactions when they arise. For these purposes, however, both adequate and useful reserves are required.

An adequate level of reserves for a country is one which is sufficiently large to absorb the fluctuations between external receipts and payments that might conceivably occur over short periods. A country with a pronounced seasonal movement in its export trade needs reserves large enough to allow a steady flow of imports throughout the year. A country dependent on only a few commodities for its expert earnings needs to have reserves for use, for example, in

the event of crop failures, and to absorb cyclical variations in world market prices and demands for these products, recent experience has also demonstrated that the reserves of countries undertaking development programmes are vulnerable to all the uncertainties involved in formulating and executing such programmes, and need to be husbanded accordingly. While the external reserves of Nigeria, which totalled about £130 million may be considered adequate for the country's needs in 1962 - at least by comparison with many other countries - one of the major problems to be faced in the next few years is to balance the needs for development and the requirement of maintaining an adequate level of external reserves.

Foreign exchange reserves must also be usable. Most countries therefore maintain their external assets in a highly liquid form, such as gold, foreign deposits, and short dated foreign government securities. Also these assets are normally held by, or are under the control of, one institution, which is usually the Central Bank. Thus held reserves may be quickly put to use if the need arises, and the state of reserves is always known to Government, so that policies may be adopted or modified to meet the changing external payments position of the country.

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In the past, the overseas assets of Nigeria have been scattered among various official and semi-official bodies and have mainly been held in the form of long-term foreign government securities. Acceptance by the Governments of the Federation of the need to conserve foreign exchange resources and to be able to supervise more closely the country's balance of payments position has given impetus to efforts to mobilise the external assets of the country into a more liquid form and to centralise them in the Central Bank of Nigeria. Towards the end of 1961, therefore, the Central Bank, in co-operation with the Ministry of Finance, began discussions with the Regional Governments, statutory corporations, other official bodies, and some private institutions, on the ways and means by which these assets might be mobilised and centralised. One problem was to provide these institutions with alternative outlets in Nigeria for investment funds.

During 1962, considerable progress was made in mobilising and centralising external assets. Federal Government converted virtually all its long-term foreign securities into more liquid form, the Regional Governments began to dispose of their long-term investments overseas, the statutory corporations reduced their overseas holdings to essential working balances, and a number of private institutions exchanged their overseas investments for indigenous ones. Of the assets repatriated, nearly £10 million was invested

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in Nigerian Government securities. Some further progress was made in 1963. At the end of the year, with the exception of the Eastern Nigeria Government which still held about £4.5 million, other Regional Governments continued to dispose of their long-term investments overseas. The Statutory corporations and a number of semi-official institutions have reduced their overseas holdings to essential working balances. Further progress is expected to be made in 1964 and the subsequent years.

With the mobilisation of external reserves and centralisation in the Central Bank, these reserves will be immediately available at all times to defend the value of the Nigerian pounds. The determination of the Government to maintain an adequate level of reserves to support the currency domestically and abroad was evidenced by the transfer, late in 1962, of the country's gold reserves, totalling £7.1 million to the vaults of the Central Bank.

EXTERNAL TRANSACTIONS AND EXCHANGE CONTROLS:-

In 1962, a new Exchange Control Law was enacted to replace the existing legislation which had become outmoded with the attainment of Independence.

Under the new Act, procedures have been simplified and limitations on a number of different kinds of transactions

have been liberalised. The Minister of Finance has delegated to the Central Bank the responsibility for day-to-day administration of controls with the exception of control over capital transactions. Authorised Dealers, consisting of 14 banks and two finance companies, have wide discretionary authority to approve most commercial transactions. The administration of exchange control has been liberal in keeping with the Government's policy of continued freedom in foreign exchange transactions and of the use of exchange control in a restrictive way only in the event of a major balance of payment crisis, and only after other measures have proved ineffective.

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CHAPTER EIGHT

A. BANKING AND ECONOMIC DEVELOPMENT

In his Budget Speech of the 4th April, 1960, the Federal Minister of Finance, Chief the Honourable F. S. Okotie-Eboh, C.M.G., M.P., reaffirmed that the financial and economic policies of the Federal Government would be directed towards "the achievement and maintenance of the highest possible rate of increase in the standard of living and the creation of the necessary conditions to this end, including public support and awareness of both the potentialities that exist and the sacrifices that will be required."

The Minister framed the following ten-point plan to this end:-

One - to maintain confidence in the value of the Nigerian currency and to maintain reasonably stability in wages and prices;

Two - to continue to expand the basic infrastructure upon which all economic development depends;

Three - to continue to encourage the growth of industry and the further development of Nigeria's mineral resources;

Four - to give every support to increased agricultural production;

Five - to promote the training of Nigerian manpower, especially in professional, technical and managerial skills;

Six - to ensure that development works are undertaken in accordance with their priority and importance to Nigeria and that there is proper co-ordination between all the Governments of the Federation in this field;

Seven - to make effective arrangements for the provision of the funds required to finance development in Nigeria both by mobilising domestic resources and by attracting capital from overseas;

Eight - to continue to develop the social amenities increasingly required in accordance with the ability to sustain them;

Nine - to ensure that Nigeria plays her full part in the international institutions and organisations designed to promote development and freer and wider international trade;

Ten - to ensure that Nigeria plays her full part, both as a donor and a recipient, in international technical assistance schemes."

In this important approach affecting all parts of the Community, each section, and not the least, the financial section has a part to play. The problems and difficulties facing independent Nigeria are not likely to diminish, particularly those relating to the provision of the funds needed to finance the very necessary growth in the national wealth of the country. The successful development of the resources on a national scale must depend on the availability of adequate capital, raw materials, technical knowledge and labour; of these, in Nigeria's present circumstances, it is the potential demand for capital which poses one of the greatest problems. Emphasis must continue to be placed on the mobilisation of savings and the channeling of such savings into avenues which assist in the real development of the country's resources. Savings, past and present, provide the only sources of internal capital. If in Nigeria, current internal savings and accumulated balances resulting from past savings are insufficient to finance the level of investment required, the attraction of overseas capital in both private and public sectors of the economy becomes increasingly important and a wide public understanding both of the need for such capital and the safeguards it will seek are essential if this capital is to be attracted.

Continuing advance in the development of the economy is the aim of most countries and not the least, of Nigeria.

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This must basically turn on increased production, both in the type of produce already being produced and in the exploiting of other resources still in process of development or investigation. The emphasis must lie on continuous expansion so that the maximum use is made of efforts already undertaken and so that subsequently, there is no significant halt in the momentum - this calls for forward planning and co-ordination in the use of resources. Reasonable stability of prices and the maintenance of the purchasing power of the national currency are basic elements in the promotion of an orderly and reasonably rapid growth in production. Such conditions are necessary if savings are to be encouraged and mobilised into the longer term productive channels rather than into sources which offer quick and profitable returns but do not always contribute to long-term growth. Public confidence, both at home and overseas, in the strength of the national currency are essential conditions to the attraction of capital, whether this takes the form of domestic savings or overseas investment, for no economy can in the long run be healthy unless it has a sound and stable currency and there is reasonable assurance that the right to withdraw capital can be safeguarded. The financial and economic policy announced by the Federal Government in April, 1960 evidences full realisation of these problems and of a determination to ensure the continued expansion and develop-

ment of the economy in relation to the resources available and to the broad need to maintain reasonably stable conditions throughout the economy.

The promotion of national savings campaign in such a manner as to have continuing results of the kind needed is no easy matter. The necessary machinery will have to be created and tested; in part the channel through which this can be done, such as the Post Office Saving Bank, the savings departments of commercial banks, co-operative thrift and credit societies, already exist but the facilities they have available to enable them to take part in a continuing and comprehensive campaign need to be reviewed and, in the light of such a review, to be strengthened where necessary. Other possible saving media need to be considered and where necessary, introduced. It is when these preparatory arrangements are complete that it will be possible to mount a nation-wide publicity drive to attract in large scale the savings of the public. Much has already been done to stimulate these developments but spectacular and immediate results cannot be expected. Efforts are being and should countinue to be made by all who are directly concerned to persuade more people to deposit more of their savings in the institutions which now exist for this purpose, such as the banks and the thrift societies or to lend directly to

Government or to public bodies, through the medium of securities issued by them. Those investors who are financially able to assume the risk should be encouraged to invest directly in the shares of productive industry. In this way, they would lend greater support to industrial development and would share in the rewards to be derived from sound growth. There are however, certain considerations to which full regard must be given. Reasonable safeguards for investors' money will be obvious to all. There must be full confidence in the banking system and in the stability of other institutions accepting deposits from the public. The maintenance of such conditions is a special responsibility of the Central Bank.

There is much still to be done to encourage further the banking habit. It is often not fully realised that the economy of a country largely reflects the capacity of its banking system to finance its trade and to provide funds for other short term requirements. The greater the level of savings reflected in the form of deposits in the banks, the more the banks are able to fulfil their role in assisting in the development of the economy.

The growth of these institutions which will be an essential part of the creation of effective money and capital markets in Nigeria, can only be gradual and further progress in this direction should be made in the years that lie ahead.

THE NATIONAL DEVELOPMENT PLAN : 1962-68:-

The adoption of the National Development Plan 1962-68 by the Federal Parliament in the 1962 Budget Session, was a major landmark. The simultaneous introduction of a Budget designed to provide the impetus required and to encourage the development of appropriate financial and economic conditions was equally important. The Nation's approach inherent in the Plan and the close co-operation required among the several Governments of the Federation are in themselves of significance, while the sheer magnitude of planned expenditure presents a formidable challenge and poses many problems with which the Nigerian Banking Institutions will be directly concerned.

PLANNED EXPENDITURE:-

The plan envisages a minimum annual investment of 15 per cent of Gross Domestic Product in order to maintain at least the four per cent annual rate of growth that has characterised the economy in recent years. Total capital expenditure is accordingly projected at £1,183 million over the six-year period. To achieve this amount of investment, Government capital programmes totalling £676 million have been planned which, together with other investment-type expenditures, would bring public sector investment to £794 million or 67 per cent of the total investment required. Private investment is estimated conservatively to total about £390 million over the Plan Period.

The general character and magnitude of the expenditure programmes of the several Governments are shown in Table I below. These programmes place major emphasis on investment in the directly productive sectors of the economy such as industry and agriculture, in contrast to earlier programmes which stressed social overhead expenditures and improvements in the provision of Government services. If these targets are achieved, it is estimated that by 1968, Gross Domestic Product would have risen by £324 million to a total of £1,436 million.

TABLE I

GOVERNMENT CAPITAL EXPENDITURE

(1962-68 National Development Plan)

(£'s millions)

	FEDERAL	NORTH	EAST	WEST (Including Mid-West)	TOTAL
DEVELOPMENT ...	298.5	67.0	57.8	49.6	472.9
SOCIAL OVERHEAD	67.6	30.7	14.9	37.5	150.8
ADMINISTRATION	46.4	1.1	2.4	3.2	53.0
TOTAL	412.5	98.8	75.2	90.3	676.8

FINANCING THE PLAN:-

The expected sources of funds for financing Government recurrent and capital expenditures during the Plan period are indicated in Table II below.

The raising of the finance required, both that estimated to come from internal sources and that expected to be derived from external sources, poses major problem, and the success of the considerable efforts necessary to accomplish this task will depend on many differing conditions. In particular, success will depend on the maintenance of confidence both internal and external, in the stability of the economy; a clear demonstration that the wisest possible use will be made of the available resources and that priority will be given to productive investment; the maintenance of the present liberal policies relating to the movement of funds into and out of Nigeria; and above all the determination to press ahead with the implementation of the programmes as fast as resources and technical capacity permit.

TABLE II

SOURCES AND USES OF FUNDS FOR GOVERNMENTS

(1962-68 National Development Plan)

(£'s millions)

U S E S

Recurrent Expenditure	954.0
Capital Programmes	653.8
	1,607.8

S O U R C E S

Existing Domestic Resources	834.4
New Domestic Resources	382.6
Assumed Foreign Aid	327.1
Uncovered Balance	63.7
	1,607.8

The mobilisation of domestic resources is of paramount importance in the provision of the finance needed for the Development Plan. Major steps to this end have already been taken, both in the stimulation of domestic savings and the repatriation and centralisation of overseas assets. The

co-ordination of the use of these domestic resources with the funds to be obtained from overseas is in itself no easy matter, more particularly because grants and loans from overseas tend to become available spasmodically and not necessarily for the purposes which have been accorded the highest priority.

The substantial volume of foreign assistance envisaged in the Plan must, of necessity, be kept within the capacity of the economy to service overseas debt. In Nigeria's present circumstances, the accepted upper limit is of the order of £150 million. This indicates the extent of the foreign borrowing which will be required on relatively 'soft' terms and emphasises the importance of the steps now being taken by the World Bank to increase the resources available to developing countries on terms which they can afford to absorb. The provision of resources on such terms must grow increasingly if developing countries such as Nigeria are to be able to meet the relatively modest targets which they have set for the improvement of the conditions of their peoples.

THE ROLE OF THE FINANCIAL AND BANKING INSTITUTIONS:-

The Central Bank of Nigeria in particular has a dual and conflicting role to play in the financing of the Six-Year Development Plan, this having been defined by the Federal

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Minister of Finance in his 1962 Budged Speech as that of ensuring an adequate supply of credit to the economy while guarding against any excessive inflationary tendencies. To assist the Central Bank in discharging its responsibilities more effectively, the regulatory and credit control powers of the institution were augmented during the 1962 Budget Session.

It is increasingly important to be able to provide locally the short-term credit required for domestic purposes and for the banking system to be orientated on a domestic credit base. As a first stage in this development, the Central Bank has already begun to supplement the 'resources' of the banking system by the extension of rediscounting and refinance facilities for commercial paper arising from Trade and Crop marketing, as well as other eligible bills of exchange. It is anticipated that some £20 million of refinance facilities will be extended during the current 1964-65 crop season in meeting the needs of the Marketing Boards for export crop finance and that, as these facilities are extended in the following season, the amount involved may rise to the order of £40 million.

The Central Bank is also concerned with the continued development of the Capital market, which is vital to the success of the efforts currently being made for increasing domestic savings, and channelling these savings into the

enterprises and ventures where they can be most usefully employed.

The National Industrial Development Bank - a new institution which began operations at the beginning of 1964 has already established a good reputation for the granting of both short and long term loans to local industries whose expanding and development programmes are approved within the frame work of the six-year development plan.

The need for satisfactory agricultural credit facilities has already been recognised by the various Regional Governments in whose portfolios fall the main responsibilities of the country's agricultural developments. Following the recommendations of an expert mission provided by the Food and Agriculture Organisation in 1963, the Governments of Western and Mid-Western Nigeria have set up Agricultural Credit Institutions with substantial capitals provided from the reserve funds of the Regional Marketing Boards. The main function of these Agricultural Credit Institutions is to grant credit facilities to local farmers for agricultural expansion and increased productivity programmes. It is hoped that the other regional governments will soon set up similar institutions to cater for the interests of local farmers in their areas of jurisdiction.

The policy of the Banking and other Financial institutions in the country over the development plan period will necessarily be concerned with the maintenance of economic stability and the Central Bank more particularly with the defence of the currency, in such a way as to permit reasonably rapid economic growth. The National Development Plan has ambitious objectives but these are clearly necessary if any substantial progress is to be made in improving the overall standard of living. Given the public support required, and the acceptance of the discipline and sacrifices inherent in such a programme, together with the maintenance of policies and conditions conducive to the continued inflow of foreign capital, there is every reason to conclude that these objectives are realistic and well within the capacity of Nigeria to achieve.

B. CREDIT CREATION FOR NIGERIA'S SIX YEAR (1962-1968) ECONOMIC DEVELOPMENT PLAN - A FORCAST

One of the most important economic policy questions facing the government of an underdeveloped country eager to achieve rapid economic growth is to determine the optimum rate of domestic credit expansion. It may be, of course, that the optimum rate is zero, but in an economy whose monetary sector is steadily expanding there will normally be a real surplus corresponding to the fact that economic units are willing to hold larger cash balances and delay exercising their claims over real resources. Through net credit creation, this surplus can be appropriated and used for economic development. Moreover, an economy may hold surplus foreign exchange reserves which it wishes to repatriate. Again, this is effected by credit expansion.

A government which is taking its development responsibilities seriously will want to ensure that nearly all of the credit made available at the margin is used for productive investment. Thus, the determination of an optimum rate of credit expansion bears directly on a country's targets for private and public capital formation, and hence for economic growth. A certain amount of credit expansion may be required to support the commerce associated with current levels of consumption and what might be called 'endogenous' investment -

i.e. investment which is stimulated within the economic system and over which the government could not easily exercise direct control.

The government will presumably want to permit such credit expansion for non-investment purposes as is required to sustain a minimum level of consumption consistent with the maintenance of economic incentives and political stability, and no more. After allowing for endogenous investment, the government will try to assess the additional amount of credit expansion which the economy can afford. It may assign a certain proportion of it to "exogenous private investment" under which we include larger projects which require some form of government approval and/or inducement, and the rest will be appropriated, through a mechanism such as sales of government bonds to the central bank, for investment in public sector projects. As a rule, there will be two sets of factors to keep in mind in setting a limit to credit expansion:

(i) the impact of domestic income distribution, real allocation of resources, and ultimately, political stability arising from price inflation; and

(ii) the country's external resource situation, comprising its export prospects, the level of its foreign exchange reserves, and the availability of private and public foreign capital. The first set of

circumstances may also be relevant to determining a lower limit to credit expansion, in as much as deflation and unemployment caused by a contraction of domestic credit or failure to expand it adequately can have consequences just as serious as those of inflation.

Countries with a fairly high marginal propensity to import normally find that, unless immediate counter-measures are taken through trade policy, domestic credit expansion quickly spills over into imports and has a relatively small effect on domestic prices. A number of developing countries, striving to achieve real expenditure rates which cannot be sustained by the foreign exchange reserves and foreign-owned capital available to them, couple their credit expansion with quantitative trade controls and/or repeated tariff increases which barely suffice to extract them from balance of payments crises. In such cases, the impact of the credit expansion focuses mainly on the price level, and the first set of problems come into play. Other developing countries consider it advantageous to maintain relatively open economies in order to give the market mechanism a major role in determining resource allocation and with a view to by-passing such problems as shortages of imputs for local industries, extra administrative burdens on government and business, and

incentives to corruption, which frequently accompany exchange controls. These latter countries must, therefore, be concerned first and foremost with the resource constraints applicable to their economies in determining domestic credit policies.

The Nigerian Federal Government has made it clear that Nigeria belongs to the group of countries which consider it desirable per se and also a means to accelerated economic development to maintain a basically open economy. In his Budget Speech of March 29, 1962, the Federal Minister of Finance, Chief Okotie-Eboh outlined the advantages which accrue to Nigeria as a result of her liberal trade policies, including "the creation of a climate conducive to the channelling of domestic savings into productive investment and to the inflow of foreign capital into the public and private sector of the economy". He added "It would be folly to throw away these hard-won advantages. Should balance of payments pressures arise, it will therefore be the policy of the Federal Government to seek to contain them by the more flexible fiscal and monetary means; by selective tariff increases, by stepping up the tempo of domestic savings, overall budget policies and by the use of monetary weapons increasingly available to the Central Bank". It is thus the real resource constraints which are likely to govern credit expansion in Nigeria, and it is these to which we will direct our attention in this chapter.

OFFICIAL CREDIT CREATION IN THE PLAN:-

According to the 1962 Budget Speech of the Federal Minister of Finance, it is intended for the public authorities - i.e. the Central Bank - to undertake three types of credit creation during the Plan period: purchases of medium and long-term Federal securities (Federation of Nigeria Development Stock), rediscounting of Treasury Bills and bills of exchange and, to a lesser extent, provision of advances to governments and banks. The former type presents no conceptual problems. Net Central Bank purchases of Federal securities maturing after the end of the Plan period, to the extent that the proceeds are not retained in government accounts at the Central Bank (and we will assume, for practical purposes, that all funds are put into circulation to finance development projects) represents net credit creation pure and simple. According to the 1962 Budget Speech, it has been agreed that the Central Bank will increase its holdings of Federal securities by a net of £33 million over the Plan period.

Exactly what the effect of the Central Bank's prospective short term credit activities on net credit creation over the Plan period will be is not so clear. What is clear is that these activities will increase very rapidly, as is indicated by the following statement from the Budget Speech. "I envisage that the credit to be extended by the Central Bank in this way (rediscounting bills of exchange, particularly bills related

to marketing board crops) will quickly rise and may amount to as much as £40 million at any one time within the next three years". Elsewhere in the same Budget Speech there are indications that the issue of Treasury Bills will rise substantially over the Plan Period, and these can be rediscounted at the Central Bank at any time. (At present the bulk of the rediscounting coincides with the seasonal credit expansion). However, Treasury Bill transactions would lead to official net credit creation over the Plan period only to the extent the Central Bank's holdings were greater at the end of the period than on March 31, 1962, and there appears to be no reason why this should be the case, as the Government indicates it prefers to channel the Bank's contribution to financing the Plan through longer-term securities. (On the other hand, efficient use of Treasury Bill financing maintains the income velocity of the money supply at a higher level than would otherwise be the case, and in this way may lead to higher imports within a given period).

With rediscounts, on the other hand, it seems likely that the amount held by the Central Bank on March 31, 1968 will be greater than it was on March 31, 1962 when rediscounts plus advances totalled only £1,348,082 (Central Bank Return of Assets and Liabilities as at 31st March, 1962). How much greater is difficult to predict at this point, with the Bank having just completed its first major rediscounting exercise,

undertaken principally to support the marketing of the groundnut crop. It is hypothetically possible that the Bank could redeem all its bill holdings by March 31 of each year, in which case net credit creation over the Plan period resulting from Central Bank bill finance would be nil. But the operation would still have the end-result, from a monetary-balance of payments viewpoint, of enabling agricultural producers to receive money incomes earlier than would be the case in the absence of such financing; thus, up to a particular point in time they would probably spend more on imports.

The job of financing crop marketing has, of course, gone forward before the Central Bank came on the scene. In the 'old' days, before commercial banking had attained a dominant position, the expatriate trading companies, both out of their own resources and from overdrafts in London, supplied a large proportion of the credit required to purchase crops from the farmers several months before they could be resold abroad. By 1963, the banks were supplying the bulk of this credit, partly out of their own deposits and partly out of short-term funds brought in from the U.K. Two statistics may be cited to reflect this development:

(1) from less than 50 in 1951, the number of offices maintained by licensed commercial banks in Nigeria has grown to 197 at the end of 1961 (Central Bank Annual Report for the year ended 31st December, 1961);

(2) average end-of-the-month commercial bank loans, advances and investments in Nigeria increased by seven times, from £9.1 million to £72.7 million between 1954 to 1962, while merchandise exports rose 12.6% from £148.8 million to £167 million during the same period.

The 1962 Budget speech indicates that, aside from a desire to save on interest charges payable in foreign exchange, a key reason for the Central Bank's entry into the field of bill finance is to remove Nigeria's dependence on short-term inflows of foreign capital "to finance our day-to-day trade and commerce". These points make it clear that the Central Bank is being called upon to join in carrying out a function which has been performed by other agencies heretofore. Consequently, it probably makes more sense to estimate the Central Bank's contribution to net credit creation in this way as part of projection of past credit extension by the commercial banks, than it does to assign an independent arbitrary value to its contribution.

BANK CREDIT CREATION DURING THE PLAN PERIOD:-

In view of the fundamental changes now taking place in the structure of the Nigerian monetary system, it is extremely difficult to predict the amount of bank credit creation that will take place over the next six years or, what is more relevant to our basic purpose, to determine the amount of

such credit creation that is implied by, and consistent with, the official Plan assumptions. However, in the absence of any official figure we must grope for one on our own. As a starting point, it is useful to note that the Plan implies a substantial degree of continuity in the movement of key macro economic variables in relation to developments over the past few years. Real gross domestic product is to increase at four per cent or more, as against an average of 3.8% compounded from 1950 to 1960. Private consumption in real terms is to increase by 3% annually, as compared with a compound annual increase of 3.62% during 1950-1960. (See National Development Plan Chapter 3 pp. 15-16 and chapter 15).

Gross investment is to absorb 15% of Gross Domestic Product in each year, meaning that it would grow at the same rate as GDP, however, within the total, public investment is to grow more rapidly than private. (On the other hand, the Plan notes: "Should any unforeseen delays arise in the implementation of some projects in the Government Sector, it is quite possible that private investment would make up the shortfall in the overall investment target).

It is reasonable to assume, as an initial hypothesis, that the continuity assumed in the Plan implies continuity in regard to the development of the demand for bank credit. Using this hypothesis, we will calculate the rate of bank credit creation in recent years, and then discuss various factors on the demand and supply sides which should be taken into account

in extrapolating from past data into the Plan period. Eventually we will arrive at a forecast for the compound annual increase in bank credit over the Plan.

Since net bank credit is approximately equal to changes in "local earning assets" of banks, bank credit creation over the past twelve years may be shown by a table given absolute and percentage changes in the sum of ;

(1) loans and advances, and

(2) investments in Nigeria.

Table VII gives changes in this quantity between March 31 of successive years (we choose March 31 for two reason, firstly in order to dampen the impact of the sharp seasonal upturn in loans and advances in the fourth quarter, and secondly, because the years of the 1962-68 Development Plan are government financial years, ending on March 31, thus we want to estimate the rate of bank credit creation through March 31, 1968).

The table VII suggests that the economy is presently involved in a fairly rapid rate of bank credit expansion, after the earlier rapid expansion has slackened in 1959-60. This recent surge reflects in large part the entry of the local banking system into financing the marketing of Nigeria's export crops, with the result that net short-term capital inflow and credit creation through the banking system have partially replaced short-term inflow through the expatriate trading companies. On the demand side, the need for this type of credit creation has arisen because of the withdrawal of the large trading

companies (like the United African Company; The G. B. Ollivant; The John Holt, etc.) from produce buying; local traders, lacking sufficient capital of their own and having limited access to direct oversea financing have naturally turned to the local banking system. On the supply side, banks have been able to meet this demand out of excess liquid assets, new deposits, overdrafts on foreign offices, and most recently, through rediscounting Marketing Board produce paper at the Central Bank. The Central Bank's 1962 Annual Report attributes part of the sharp rise in loans and advances in the fourth quarter of 1962 to the first such rediscounting operation launched in 1962 in connection with the Northern Nigeria groundnut crop. Extension of these facilities to the marketing of cocoa and palm produce in 1963-64 and future years will give a further boast on the supply side. It is clear that significant elements in these changes are non-recurring, or will be so after one or two more years.

Another partly once-for-all change on the demand side is the shift of several important expatriate trading companies from financing their working capital needs on overseas credit to drawing on the local banking system. However, accompanying the change in the case of several companies is a large scale movement into manufacturing lines to replace former produce buying and retailing operations. With increasing industrialisation, and participation of these companies in the process,

their need for local bank credit will undoubtedly grow rapidly in the coming years.

Another factor which must be taken into account on the demand side is the size of the monetary sector in relation to the rest of the economy - as this grows relatively larger, the overall transactions demand for money is almost certain to increase; on the other hand, this would normally imply a reduction in the marginal income velocity of the money supply. Also related to the demand for money is the question of price inflation. The more rapid the rate of inflation, the larger is the money supply associated with a given real income. The Plan documents do not attempt to forecast annual price inflation, but confine themselves to warnings against its dire consequences. However, it may be presumed that the planners are not concerned with the relatively moderate rate of inflation which has occurred over the past decade. Experience in other developing countries suggests that it is difficult to mount a monetary and fiscal programme which can keep price inflation as low as one per cent without depressive consequences for real production in many sectors of the economy. There is no official retail price index covering the whole Nigerian economy.

However, in computing GDP during 1950-57, Doctor P. N. C. Okigbo in his book "Nigerian National Accounts" used various deflators applicable to specific commodities, services

and sectors. Dividing his estimate of 1950 GDP at factor cost and 1957 prices by the estimate of 1950 current price GDP at factor cost $\left(\frac{£687.1 \text{ million}}{£521.1 \text{ million}}\right)$ gives an implied estimate of the Laspeyres index of price change between 1950 and 1957. From this figure 34.2%, we compute a compound annual rate of inflation equal to 4.3%.

Following are additional scattered data on inflation in Nigeria:

(1) The Economic Planning Unit of the Nigerian Federal Government has calculated an annual GDP at 1957 market prices for 1958-59-60 using some procedures similar to those followed by Okigbo, although forced to rely on "guesstimates" for subsistence agricultural output, and assumed an annual GNP inflator of 1.7%, corresponding to a weighted average of annual inflation in prices of consumption goods (2%) and investment goods (zero) over the three year period 1958-60.

(2) Given in the following table are average consumer price indices (mean values of monthly averages) for the first eight months of 1962 as against specified base years, taken from the Digest of Statistics urban consumer prices series. Also given are compound annual rates of change corresponding to the aggregate increases on the assumption of even rates of annual change:

Urban Area	Base Year (= 100)	Average Monthly Values Jan-August 1962	Corresponding Compound rates of annual increase over base year
LAGOS	1953	147	4.4%
IBADAN	1953	139	3.7%
ENUGU	1953	150	4.6%
KADUNA	1957	122	4.1%
PORT-HARCOURT	1957	123	4.1%

SOURCE: Digest of Statistics, 1962 pages 75-79.

3. The United Africa Company publishes an index of wholesale prices of the commodities sold by the United Africa Group of companies in Nigeria (United Africa Company Statistical and Economic Review, annual issues; No.27, 1962). The index is based on representative items among imported goods and certain local manufactures. Weights used in the index are current, based on the Group's total sales in successive financial years (preceding the calender year for which the index is calculated). End of month values are given for February, May, August and November. Following are mean values of these for 1961, with June-August 1957 as the base. Also indicated are corresponding annual compound annual rates of change on the assumption of even rates of change:

SELLING AREA	MEAN VALUES FOR 1961	Corresponding Compound Rates of Annual Increase Over Base Year
LAGOS	114.7	3.5%
PORTHARCOURT	109.7	2.3%
KANO	112.4	3.0%

Considering the foregoing evidence and the ambitious character of the 1962-68 Development Plan, it seems safe to assume that the GDP deflator over the period will not be less than 3%. Combining this rate with the 4% target rate of increase in G.D.P. we project at 7.1% rate of growth of current price G.D.P. If average income velocity remains constant, this means that the money supply must be on an average of 7.1% higher in each year than in the preceding year. However, in the case of Nigeria, where marginal income velocity is somewhat higher than average velocity, there is the probability that money supply would not have to increase quite as rapidly. Nevertheless, this higher marginal velocity is a function of the apparent rise in average velocity between 1952 and 1958 and depending on the reliability of the Economic Planning Unit's estimates of 1959-60 G.D.P. average velocity seems to have fallen since 1958.

If this fall continues during the Plan period, the increase in the money supply would have to be greater than the

increase in money income. In principle, one would expect velocity to fall in a rapidly developing economy which is still in the process of being monetized, however, one might also have expected this to happen during 1962-68, so that we must be cautious in making predictions on this subject.

Only part of the increased demand for money associated with rising income over the Plan period will be reflected in specific demands for bank credit, since a good part of it will be met by increased exports, capital inflow and Central Bank purchases of government securities. Since the foregoing analysis projects money income over the Plan to rise at a rate comparable with that experienced in the recent past, it is reasonable to assume that the component of the demand for bank credit resulting from the general rise in income represents a stable element in the extrapolation of future from past demand for bank credit. If this were not so - i.e. if in the future demand for money rises much more rapidly in relation to income than it has in the past - then, from the viewpoint of projecting imports, the error arising from understatement of credit expansion would be largely, although not entirely, offset by the overestimation of velocity in the Fisher's formula.

It is not certain whether factors on the supply side will form an effective constraint on the creation of bank credit over the Plan period, mainly because the Central Bank has given some indication that it will stand behind the banks during the

seasonal credit expansion to the extent their own resources - notably deposits, capital, and other liabilities - do not suffice to enable them to meet the "effective demand" for credit, comprising the sum of well-secured, short-term lending opportunities. On the other hand, the Central Bank (and the Federal Minister of Finance behind it) has also made clear that it will take all necessary measures to protect monetary stability and balance of payments equilibrum.

We have now reached a point where we must make a "guesstimate" as to the rate of net short-term credit creation by banks over the Plan period. It is suggested that 20% is a reasonable extrapolation of the recent annual rate of growth of bank local earning assets, net of these non-recurring changes which merely substitute bank credit for existing non-bank short-term foreign investment. It is further suggested that the growth of bank deposits, now proceeding at an annual rate averaging around 15% of local earning assets, might supply approximately half the required additional funds, with the remainder coming out of increased bank capital, loans and advances to banks, and Central Bank rediscounting. It is possible that loans and advances to banks will not make a significant contribution during the Plan period, if they were expected to do so, it would be necessary to reduce the estimate for net credit expansion and increase that for capital inflow accordingly.

To complete the analysis, we must distribute the net credit

creation by the Central Bank and the Commercial Banking System among the six years of the plan. During 1962, the Central Bank sold off its entire holdings of the Federal Government Stock, which amounted to roughly £7 million on March 31, 1962. However, in February 1963, the Bank took up about £10 million of the fourth Federal Government Loan. We therefore estimate the increase in long-term security holdings during 1962-63 at £3 million. The remaining £30 million (out of the £33 million scheduled for the plan period) may as well be arbitrarily divided evenly among the last five years of the plan. The following table gives our estimated breakdown of net credit creation by the Central Bank and the Commercial Banking System among the six years:

(All figures in £millions)

Year Ending March 31:	Net Central Bank Purchases of Medium and Long-Term Government Securities (1)	Net Short-Term Credit Creation by the Banking System (including the Central Bank) (2)	Total (1) + (2)
1963	3.0	13.5	16.5
1964	6.0	16.2	22.2
1965	6.0	19.4	25.4
1966	6.0	23.3	29.3
1967	6.0	28.0	34.0
1968	6.0	33.6	39.6
TOTAL	33.0	134.0	167.0

CHAPTER NINE

PROPOSALS AND RECOMMENDATIONS

(i) The Problems of Economic Development:-

Economic development by Africans presupposes a certain amount of technical knowledge and a certain spirit of enterprise, but it also presupposes that there is access to whatever capital resources may be required. Developed countries, as a rule, suffer fewer disabilities than Africans in each of these respects. They have grown up under conditions in which technical knowledge can readily be acquired and under conditions in which enterprise is understood and encouraged. And they may have access to a variety of institutional arrangements through which capital can, if necessary be borrowed. For short-term borrowing, they have a highly developed banking system; for long-term borrowing, they have all the facilities which are comprehended by the joint-stock system as well as the means of raising personal loans. To the Nigerians, and particularly those in the provinces,

modern techniques are still novel and not easily understood; enterprise and initiative are often inhibited by native law and custom, and the facilities for borrowing, except for purposes which are not positively productive, are not highly developed. It may, therefore be worth while to examine these disabilities and the conditions under which they can be removed.

The acquisition of technical knowledge does not present as much difficulty as is often supposed. This does not apply to the higher and more complex types of technical knowledge for which highly specialised training is a pre-requisite but the opportunities to make use of these more complex types only occur in communities which are themselves highly developed. The simpler forms of technique can be acquired either by simple forms of training or by practice and it has often been remarked with what apparent speed certain manual skills can be acquired by people to whom they have been completely strange. The impeding factor in these cases is not, as a rule, some inborn incapacity on the part of the people themselves but the lack of a market in which it is worth while to acquire the skill and exercise it. Given the possibility of a market, the technical knowledge will generally follow.

The inhibiting effect of native law and custom over the exercise of enterprise presents a more difficult problem. Indeed it may not be removed until the influence of those institutional arrangements which look upon all change with disfavour has been weakened. This is no more than an illustration of the recurring conflict which arises in all societies between the desire for progress and the desire for stability. This latter desire is commonly but mistakenly interpreted as a desire for security but where it exists, it shows itself in its opposition to change in contrast to the desire for progress which cannot be fulfilled except through the introduction of change. The most secure communities are those which have the greatest resources at their disposal and this position is reached only through the acceptance of change as a means to progress. Those communities which have followed the path of self-sufficiency as a way to security and stability have invariably been the most vulnerable to the storms of nature and to the impact of human folly. Anything therefore, which creates a market where no market formerly existed or which enlarges an existing market, will tend to create conditions which promote the spirit of enterprise and at the same time offer a challenge to those traditional ideas and arrangements which are opposed to change.

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The supply of capital presents problems of a somewhat different character. It is not infrequently supposed that the disabilities under which Africans are supposed to lie in this respect are difficulties which can be overcome by the simple expediency of introducing certain new institutions - that there should be new banks formed to cater for the interest of Africans or that the exisiting banks should make more of their resources available to African borrowers.

The problem in fact, is much less simple. But first, it is important to get the problem in its proper setting. There are in fact in Nigeria, a very large number of African businesses of small size and a much smaller number of African enterprises of a larger size. How many trading enterprises of the first type is not known. At the other end of the scale, there are a small number of African joint stock companies. Of 60 companies registered in Nigeria during the period 1957-63, 14 were African companies operating whithin the country. But whereas the average share capital of the African companies was £12,393 that of European companies was £40,085; that of Syrian companies was £45,000 and that of Indian companies was £52,000. There are no legal obstacles to the formation of African companies which involve more than one race.

The raising of capital for economic development depends upon what the promoter of the business can provide out of his own resources and from what he can borrow from other individuals or institutions. In discussing this aspect of the problem, it will be convenient to distinguish between the financing of new development from within the country itself and the financing of new development from outside the country.

The ability to save depends in a large measure upon people's incomes so that as income rises, as a consequence of economic development, the ability to save increases. The willingness to save depends, among other things, upon the opportunities to invest what is saved, either directly when the person who saves employs his savings in his own business, or indirectly when he lends them to others to employ in their businesses. There is no doubt that in Nigeria, the increase in incomes which has occurred in recent years has been reflected in a considerable amount of new investment - in houses, in road transport and in other ways - but the channels of investment are not so clear as they are in more developed countries.

In agriculture, one of the main obstacles is the smallness of the income of the farmer and the consequent narrowness of the margin which can be saved even if the desire

to save should exist. Another has been the precariousness of farming and the ease with which land can be pledged as a means of escape from pressing difficulties. Distress borrowing always involves onerous conditions and borrowing by means of a land pledge is no exception to the rule. But a third obstacle which may in fact be the most important is bound up with the prevailing systems of land-tenure.

Where there is no individual control over land use, the inducement to invest capital in land improvement or in better methods of cultivation is greatly weakened and may even be destroyed. The individual cultivator will have little inducement to improve his holding even if he has the means and he will have little chance to borrow from neighbours even if they have the means. Nor is there any collateral security which may be pledged as a means of borrowing through normal commercial channels. The position is complicated in other ways. As an individual's prosperity increases, the claims of kinship also increase and bring with them liabilities which reduce, perhaps to nothingness, the new reward to the cultivator from additional effort and new investment. It is one of the recurring anomalies that the obligations of kinship which are intended to provide a source of social security may constitute so great an obstacle to effort that the security which is hoped for is not in fact obtained.

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Against this background, the mere provision of agricultural credit by whatever means that may be attempted provides no solution. The first step must be the creation of conditions under which the provision of credit can become the means of agricultural improvement. For this purpose, some approach to individual titles to land ownership would appear to be necessary and it is in that connection that a system of land registration, in suitably selected areas, might with advantage be introduced. But even if these conditions should be created, it is improbable that agricultural credit would be forthcoming through the ordinary commercial banks. Banks, very properly, only lend against pledged assets which can be realised in the event of the borrower defaulting on his obligations. It is reasonable to suppose, that it will be a long time before farmers in Nigeria will be able to offer to commercial banks the kind of assets which these banks would be able to consider. In the meantime, any credit facilities would have to be made available through special institutions which were either created for the purpose or through existing agencies suitably adapted.

There are three routes along which a solution might be sought. One is that local authorities might be empowered to make loans for agricultural improvements, either out of their own resources or out of funds allocated to them for

the purpose. This is not a proposal which commends itself. The functions of local government are very different from the function of a credit institution and the knowledge and experience which are appropriate to the one are very different from those which are appropriate to the other. There is little doubt that in a country in which local authorities are themselves young and inexperienced, they should not be charged with powers to lend to borrowers whose familiarity with the technique of borrowing and its implications is of the scantiest.

A second is that a new land bank might be created as a specialist institution to make loans against approved security. Such a bank would have to be provided with its initial capital, presumably by Government. By being a specialist institution, a land bank could presumably deal with applications for credit with greater knowledge and informed judgement than an ordinary commercial bank could be expected to bring to bear upon them. But in the present stage of the country's development, the establishment of a land bank may be premature. It would be expensive to administer in relation to the volume of business which it could expect to undertake. And it could not hope to function properly in the absence of assets which the borrower could offer for any accommodation which he might receive. At the present stage

in the development of the country's agricultural economy, an institution of the land-bank type like the Agricultural Credit Institution set up in Western Nigeria in 1964 might serve a valuable and important function. But to create it in the absence of such conditions upon which its prospects of success would depend would be an open invitation to a failure which would leave behind it a legacy of social and economic complications.

The third is to build on the institution of the co-operative society which has enjoyed some measure of success in Nigeria. Co-operative societies tend to be concerned in the main with marketing the produce but in that process may give short-term credit to their members. But it would be unwise to encourage any such society to make long-term loans before it had gained experience and proved its ability to deal adequately and successfully with short-term lending. Subject to this condition, the Co-operative Departments of the Ministry of Trade and Industry might be encouraged to explore the possibilities of this further development. It is important, however, to emphasise that loans should only be made against acceptable security and that default should be followed by its normal and natural consequences.

(ii) <u>The Case of the Indigenous Banks</u>:-

The special problems which arise in connection with

Nigeria's indigenous banks require government action which will:-

(a) protect depositors through effective supervision;

(b) assist genuine (as opposed to speculative) indigenous bankers in the solution of such problems as staff training and branch inspection;

(c) make it easier for indigenous bankers maintaining officially approved standards of conduct to acquire the capital necessary for expansion on 'sound' lines;

(d) ensure that the banks maintain sufficiently liquid asset portfolios to withstand any sharp fall in deposits which might accompany an export recession.

The Banking Act (1958) was designed to provide a solution to the first of these problems. The Act provided for the appointment of a Central Bank or Ministry of Finance official as a Banking Examiner. His duties are mainly "to examine periodically, under conditions of secrecy, the books and affairs of each and every licensed bank." He is to report any banking abuse to the Minister of Finance through the Governor of the Central Bank. Carrying out business in a way detrimental to the interest of depositors and other creditors and keeping insufficient assets to cover liabilities

are examples of abuses a bank may commit; penalty ranges from a fine of £50 to revocation of licence after due consultation with the President of the Republic. It is obvious therefore that the banking examiner has neither the power to prevent fraud or/and banking abuse, nor has he the authority to influence banking policy. The power of the Banking examiner as at present should be increased as to enable him to conduct enquiries into bank lending policy and make recommendations which will bring about improvements both to the banks and to the economy.

A solution to the second problem would be for the Government to adopt some of Paton's proposal in his Report by financing the training of bank staffs in the United Kingdom or U.S.A. and/or encouraging the Universities now existing in Nigeria with the Nigerian Institute of Social and Economic Research to offer extra-mural classes useful to bank personnel. The problem of supervision and staff training, though important, do not raise any very great difficulties. Those of liquidity and bank capital are however, far less tractable.

Bank assets may be regarded as liquid if they possess two attributes, namely, shiftability and capital certainty, in marked degrees. At present, indigenous bank portfolios are illiquid because the bulk of their assets consist in

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advances which even if they possess capital certainty in virtue of being made to repay in full, possess no shiftability whatsoever. Other than cash, no liquid assets are available in Nigeria. Moreover, on the basis of the profits and costs of the African banks, there are some reasons to suppose that these indigenous banks if unassisted by a share in Government, deposits may depend upon the maintenance of high advances ratios (that is, illiquid portfolios). This means that the liquidity problem cannot be even partially solved by enforcing high cash ratios or high ratios of sterling securities.

Finally, I need to give some attention to the problem of bank capital. At present, the capital/assets ratios of the indigenous banks are low having regard to the risky nature of many of their transactions and the unstable economic environment in which they operate. Capital market in Nigeria, however, is yet in its infancy, and it is still difficult for the banks to raise funds.

This is again a matter for the Nigerian Government to consider very carefully since, as we have seen, the stability of the banks and the protection of depositors require the maintenance of capital assets ratios much higher than what they are at present. In my own view, the Government should be prepared directly or through intermediaries such as the

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Finance Corporations to invest in the indigenous banks which are in need of additional capital and cannot raise it by their own efforts and which also satisfy the Ministry of Finance in other aspects. Investment in the National Bank of Nigeria would not only be profitable, but also economically desirable. It is gratifying that one or two of the Regional Governments have entered directly in this enterprise.

(iii) <u>The Case for the Integration of both the Expatriate and Indigenous Banks</u>:-

The expatriate banks that operate now in Nigeria have certain definite traditions and attitudes. It should be clearly recognised however that these traditions and attitudes have enabled these institutions to make a very valuable contribution to the economies in which they operate. It would not be an exaggeration to say that these banks, as a result of their high standards of integrity and efficiency and sound judgement, have enabled Nigeria to take her first essential step in economic development - the transition to a primarily money economy. On the other hand, these attitudes and traditions derive from a situation removed very much from that in which the banks are called upon to operate present certain characteristics which may be summarized as follows:-

1. A branch - banking system with low branch density in relation to total population.

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2. Concentration of branches at commercial centres.
3. A high proportion of business associated with external trade.
4. Close contact with Europeans and Indians, by whom the banks are extensively used.
5. Little contact with Africans, by whom the banks are little used.
6. Restricted local employment of funds.
7. Reliance upon an external capital market.
8. Reliance to a large extent upon receipts from transfers and other ancillary services.
9. High costs associated with seasonal cash requirements.

In Nigeria, the primary objective of the government action, while encouraging the development of both expatriate and indigenous banks, must be to promote the integration of the two banking systems into one.

In Asia, the problem of contact between the expatriate banks and the indigenous population was met, in part, by the use of intermediaries such as Shroffs and Chettiars. In Nigeria, no such intermediaries have been developed. In my view, the indigenous African banks could be used in this way. If however, the expatriate banks are to use African banks as intermediaries, for example by rediscounting bills endorsed

by them, they must be fully confident of the integrity and stability of the African concerns. This, in general, is by no means the case at present. Government, therefore, must be exercising general supervision and providing assistance, ensuring the stability of those concerns. If these measures were successful, there would still remain the problem of encouraging the banks to participate in medium-term finance against mortgage security. Some assistance might be given by Government through the improvement of mortgage instruments and the removal of any legal disabilities suffered by the banks under the Native Lands Acquisition Ordinances.

If measures along these lines succeeded in encouraging the expatriate banks to venture into medium-term finance, this would reduce the present excess demand for such advances and also enable the expatriate banks to employ their time deposits locally. In the long run, it would help to reduce mortgage rates, thus simplifying the local issue of securities.

In conclusion, if the Nigerian Government can encourage the evolution of 'sound' indigenous banking by the methods that have been suggested, and at the same time, assist the development of banking in general by reducing to nominal figures the costs of bill finance and attempting to improve the existing mortgage instruments, an integrated banking

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'system' may gradually emerge with the indigenous institutions acting as intermediaries between the expatriate banks and African borrowers, providing the simple banking services which are all most Africans require, and mobilizing savings which the expatriate banks could hardly hope to reach. Such a system would be based upon a more rational distribution of function than exists at present. From it, Nigeria could hardly fail to obtain benefits even in the comparatively near future, while in the long run, the gains should be substantial.

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CHAPTER TEN

A CASE FOR DECIMALIZATION OF NIGERIAN CURRENCY?

In recent years it has become fashionable for many countries to change over to the decimal system of currency. For the last five years, for example, many countries have set up Commissions of Enquiries to investigate into the possibilities of converting their present currencies into the decimal currencies. The Dominion of Canada, Commonwealth of Austrialia, Republic of Ghana, Union of South Africa, Great Britain and Sierra Leone, to mention only a few, are among those who had set up such investigating Commissions, reports of which have been received by the various governments concerned for their considerations.

In Nigeria, with the attainment of a Republican status in October 1, 1963, the current thought in monetary circles is the possibility or desirebility of the decimalization of the country's currency. The case for this desire is further strengthened when it became known that Sierra Leone, one of the neighbouring countries, is already operating a

decimal currency system and Ghana is already on the path of doing the same.

The Federal Government of Nigeria has not yet set up a Monetary Commission to look into the possibility of this change. It may be doing so in the future. But a dissertation like this on the working of the monetary system in the country offers one an opportunity to express a personal opinion on the trend of thought on monetary affairs in the country. The probability of Nigeria adopting a decimal currency system is entirely within the responsibility of the monetary and financial authority of the country. It follows therefore that all opinions expressed and all suggestions made in this chapter are exclusively my own.

Advantages of a Decimal Currency:-

The advantages of a decimal currency, stated briefly, are as follows:

1. Counting in units of tens and hundreds has none of the complications inherent in counting in units of twelves and twenties. Commercial, financial and governmental operations would be simplified in a decimal system and the volume of errors associated with transactions under the £. S. D. system would likely be decreased.

2. In office and clerical work, savings would be affected through the elimination of some of the steps involved in money calculations. Most calculating machines are decimal machines: multiplication and division involving money amounts can usually be carried out on machines only by decimalizing the amount, performing the calculation and converting the result back to £.S.D.; with a decimal currency, the first and third operations would be eliminated.
3. Most office machines and cash registers are designed in the first instance for decimal currency and are then adapted to handle £.S.D. As a result, the prices of £.S.D. machines are sometimes higher than those of comparable decimal machines. A change to decimal currency would enable the same machine to be used for both numerical and monetary calculations, thus eliminating the need for two types of machines and raising production per machine.
4. In education, the teaching of arithmetic would be greatly simplified which would have a number of long-term advantages. It has been estimated that a child would save nearly two of the seven years spent in arithmetic at the primary school stage by

the elimination of teaching £.S.D. calculations.

5. International trading and banking transactions would be facilitated. So many countries now use decimal currency that a decimal system in one country is readily understood by others.

Disadvantages of a decimal currency:

1. The first and major disadvantage of shifting to a decimal currency is the inconvenience and confusion which would be caused by the change over. Money transactions enter into practically every phase of business, commercial and private lives, and a change in the currency system would, in some measure, affect nearly everybody in the community. The transitional problems of the commercial community would include the training of staff in the new system, the alteration and replacement of forms, statements, invoices and the conversion and replacement of monetary machines.
2. The second disadvantage is the cost of the change over. These costs would occur in the conversion of office and other machines to decimal operation, training of staff, and the need to issue new coins and notes. Some of these costs would involve a foreign exchange burden.

3. A conversion to decimal currency might also give rise to a certain amount of price inflation, unless the effects are offset by monetary actions. An opportunity might be taken to increase prices during whatever confusion might arise during the change-over; particularly if in the decimal system chosen there is no exact equivalent between all £.S.D. and decimal amounts, there might then be a tendency for prices to go to the nearest higher rather than next lower decimal amount.
4. A decimal system is less flexible with respect to divisibility in as much as the £.S.D. system being based on 240 (or 12) allows division by thirds, as well as quarters and halves. Because of this, £.S.D. system has some advantages in pricing in retail trade.
5. A final disadvantage of adopting a decimal system is that the new value of the present coins and the equivalents of the former prices and amounts would not be readily associable.

<u>Assessment of Advantages and Disadvantages</u>:-

The only permanent and inherent disadvantage to a decimal system - divisibility - is a minor one. Other disadvantages such as inconvenience and confusion arising from the change-over are merely of short duration, and moreover, such difficulties could be minimised by careful planning and procedure during the preparatory and change-over periods.

Expenditure of foreign exchange and possible inflationary effects are not of major importance.

These disadvantages are easily out-weighed by the inherent advantage of having the currency system on the same basis as the decimal notation. Money transactions affect virtually every person, and any improvement which results from simplification must, after the initial inconvenience of the change-over, benefit every one. As a result of simplification, the adoption of a decimal currency would be justified on the ground of savings alone - that is, the savings would amortise the total cost of the change-over over a reasonable period.

II. THE MOST APPROPRIATE DECIMAL CURRENCY SYSTEM FOR NIGERIA:

From Nigeria's view-point, six of the various decimal currency systems are worthy of consideration. The six to be considered are the £-mil., £-cent., 10s-cent., 8s. 4d-cent., 5s-cent., and 1s-cent systems.

1. The £-mil System:

This system retains the pound as the major unit of currency and divides it into 1,000 mils, each mil. being equivalent to 0.24d. Under this system, the present currency notes would have easy decimal values, but only two coins - sixpence (25 mils) and shilling (50 mils) - would have exact decimal equivalents (see Table I).

Advantages:

The main advantage of this system lies in the retention of the present name and value of the major unit of currency so that there would be no need to alter in any way any amounts now stated in whole pounds, as for example in official trade and other statistics, bonds, insurance policies, annual salaries and so on. Also, in our dealings with the outside world, existing exchange parties would remain undisturbed.

It provides "easy" decimal values for sixpence and shilling and all notes now in circulation.

Disadvantages:

Since all amounts would need to be expressed in mils, three decimal places would always be required in accounting and this system would therefore involve people in handling uncomfortably large numbers in many every day transactions. It is generally agreed that people find greater difficulty in numbering and manipulating three-digit numbers than two-digit. The mil as minor unit (0.24d), which is about the same as one farthing, is clearly unsuitable for ordinary purposes.

To obtain equivalent capacity existing £.S.D. machines would have to be fully converted. Not only £.S.D. machines but also the majority of the new decimal machines offered on the markets would be unsuitable without adaptation, since

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the latter are constructed primarily to meet the requirements of duo-decimal systems.

The £-mil decimal system does not provide "easy" decimal equivalents for coins below 6d (see Table).

TABLE I

RELATIONSHIP BETWEEN OLD AND NEW NOTES AND COINS

£.S.D. Amounts	£-mil	£-cent	10s-cent	8/4d-cent	5s-cent	1s-cent
£5	£5	£5	10 units	12 units	20 units	100 units
£1	£1	£1	2 "	2.4 "	4 "	20 "
10/-	500 mils	50 cents	1 unit	1.2 "	2 "	10 "
5/-	250 "	25 "	50 cents	60 cents	1 unit	5 "
2/-	100 "	10 "	20 "	24 "	40 cents	2 "
1/-	50 "	5 "	10 "	12 "	20 "	1 unit
6D	25 "	2.5"	5 "	6 "	10 "	50 cents
3D	12.5 "	1.25 "	2.5 "	3 "	5 "	25 "
1D	41/6 "	5/12 "	5/6 "	1 "	$\frac{2}{3}$ "	$8\frac{1}{8}$ "
$\frac{1}{2}$D	21/12"	5/24 "	5/12"	$\frac{1}{2}$ "	5/6 "	41/6"
$\frac{1}{4}$D	21/24"	5/48 "	5/24"	$\frac{1}{4}$ "	5/12"	21/12 "

£-cent System:

The £-cent system involves the division of the existing pound into 100 cents each cent being equal to 2.4d.

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Advantages:-

The high attraction of this system is that in addition to the retention of the present major unit, it would be a duo-decimal system. This would have the merit of simplicity and also give Nigeria access to the world markets for standard machines, with all the advantages accruing therefrom.

The £-cent system is superior to any other from the machine aspect assuming that the half cent were disregarded in accounting. If existing machines were not converted capacity would be reduced to 1/100 of the present capacity. The conversion of machines would result in a capacity ten times greater than before.

This system provides "easy" decimal values for coins and notes from 1/- upwards (See Table I).

Disadvantages:-

The main deficiency of this system is that the value of the minor unit (2.4d) is too high. This deficiency could be removed by the inclusion of ½ cent (1.2d) or possibly a ¼ cent, and we would thus have a £-cent-fraction system. But the inclusion of ½ or ¼ cent weakens the decimal principle.

This system does not provide exact decimal values for coins, below one shilling (see Table I). Therefore old pennies, three pences and six pences could not be used in making up decimal prices.

10s.-cent System:-

In this system 10s. is taken as the major unit and is divided into 100 cents, each cent being equal to 1.2d.

Advantages:-

This being a duo-decimal system satisfies the criterion of simplicity. However, the great merit of this system stems from the retention of the popular shilling (which would equal 10 cents) as a prominent decimal coin.

Since the great majority of every day purchases are in shillings and pence, the system scores highly on "associability". Because of this and because more coins and notes have exact and true decimal equivalents than under any other system (with the exception of 8s.4d - cent system), it is probable that people would find it easier to adapt themselves to the 10s-cent system than to any other.

The 10s-cent system has a particular advantage in giving the highest value major unit with a cent (1.2d) that may not need to be sub-divided further, thus leaving a pure duo-decimal place system. While ½ cents could be introduced, a coin of a lower value than 1.2d is likely to become of little importance as increases in standard of living in Nigeria and in retail prices occur.

All coins and notes from 6d upwards, have exact decimal

equivalents (see Table I). Thus the system combines ready "Associability" with a heavy major unit and a convenient minor unit.

From the machine aspect, the system has the advantage that access would be given to the world market for duodecimal machines.

Disadvantages:-

Adoption of the 10s-cent system would require the recalculation of national and other financial statistics which are expressed in pounds only. But such recalculations or conversions would be relatively simple since it would only involve doubling the amounts concerned.

Another disadvantage of this system is the abandonment of the established monetary unit (the pound) which may affect the international value and prestige of the national currency. This disadvantage might be weighty for a country like the United Kingdom where the pound is one of the international currencies and has a prestige value built up over hundreds of years. But the disadvantage would not be very important in Nigeria. In fact, the adoption of a different unit in Nigeria would eliminate the confusion that sometimes results from the difference in exchange values between the Nigerian pound and the British pound.

Also, 3d, 1d and ½d would have to be replaced by decimal coins or slightly different value since there is no exact equivalent between the old coins and the new decimal coins of these denominations (see Table I).

It has been suggested that the adoption of the 10s-cent decimal system would be inflationary in the sense that prices without exact equivalents would be raised to the nearest cent above and not reduce to the next lower.

This is a problem which could solve intself through the ordinary laws of commercial rivalry. Moreover, official conversion tables could be published and all businesses might be required, for sometime before their official transition, to show all prices under both present and new decimal system.

If, for example, the following popular conversion table were prescribed, i.e. one which largely avoided fractions, the result would be as indicated in the fourth and fifth columns in the table II below:-

TABLE II

SUGGESTED OFFICIAL CONVERSION RATES

Pence	Cents	True Equivalent	Effects of Table	
			Sellers' Gain -	Buyers' Gain -
		Pence	Pence	Pence
1	1	1.2	0.2	..
2	2	2.4	0.4	..
3	2	2.4	..	0.6
4	3	3.6	..	0.4
5	4	4.8	..	0.2
6	5	6.0	-	-
7	6	7.2	0.2	..
8	7	8.4	0.4	..
9	8	9.6	0.6	..
10	8	9.6	..	0.4
11	9	10.8	..	0.2
12	10	12.0	-	-
			1.8	1.8

8/4d-cent System:-

In this system, the major unit (which is equivalent to 8/4d) is divided into 100 cents, each cent being equal to 1d.

Advantages:-

The main advantage of this is that it retains the penny at exactly the same value. It has the virtue of simplicity (that is a duo-decimal system) but only if the half cent is not circulated. If it is considered necessary to retain half penny as a ½ cent, this would of course, have the implications as already discussed in connection with the £-cent and 10s-cent systems.

All present coins, half-penny (½ cent), penny (1 cent), three pence (3 cents), six pence (6 cents), shilling (12 cents) and florin (24 cents) translate exactly into the new decimal coins.

Disadvantages:-

Although eminently satisfactory from the view point of the lower denominations, the chief disadvantage of this system lies in the relationship of the new major unit to the pound, £1 = 2.4 (8s.4d). Also, all of the existing notes would have to be replaced.

All statistics, financial records, contracts, bank balances and so on expressed in terms of pounds would have to be altered, and this would require multiplication by 2.4 which could be a long and tedious job. In fact, on "associability" difficulty arises once a value over 8/4 is involved.

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<u>5s-cent System</u>:-

This divides 5s into 100 cents each cent being equal to 0.6d.

<u>Advantages</u>:-

It gives a fairly "heavy" major unit with a traditional name - the crown - and it is easy to convert multiples of this unit to and from £5.

At the same time the minor unit is small enough at 0.6d to eliminate the need for fractional coins. The three penny bit (5 cents), sixpence (10 cents), shilling (20 cents), florin (40 cents) would all fit happily into this system.

<u>Disadvantages</u>:-

A serious draw-back would be the reduction in capacity, even with full conversion, of "press-down" key cash registers.

It has been said that even though the 5s-cent system may very well meet immediate needs, it would be unlikely to remain effective for very long, because it could be spoilt by inflation.

It also has an "associability" difficulty for coins below 3d.

<u>1s-cent System</u>:-

In this system the major unit (equivalent to 1s) is divided into 100 cents each cent being equal to 0.12d.

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Advantages:-

The 1s-cent system has a high "associability" advantage. With the exception of ½d and 1d, all existing coins and notes - three pence (25 cents), six pence (50 cents), one shilling (1 unit), two shillings (2 units), ten shillings (10 units), one pound (20 units) - could easily be related to the new decimal coins and notes.

Disadvantages:-

The great disadvantage of this system is that it gives too low a mojor unit to be convenient for large money transactions in a country accustomed to a "heavy" unit, and a minor unit (0.12d) which is unacceptably low.

Also this system could easily be spoilt (in the long run) by increase in prices and standard of living.

RECOMMENDED SYSTEM:-

On the strength of the advantages and disadvantages of each of the decimal currency systems discussed above, the 10s-cent system is the best to be adopted. The superiority of the 10s-cent system is further revealed by the fact that most of the countries (Australia, New Zealand, South Africa, Sierra-Leone, etc.) that have recently inquired into, or adopted decimal currency systems, have chosen the 10s-cent system as the best. (See Table III).

TABLE III

PUBLIC OPINION AS TO THE DESIRABLE DECIMAL SYSTEM

Systems	Great Britain	Australia	South Africa
1. £1-mil system	17	9	3
2. £-cent system	18	18	11
3. 10s-cent system	20	27	75
4. 8/4d-cent system	10	15	1
5. 5s-cent system	9	-	4
6. Other decimal Systems	16	31	6

The Timing and Phasing of the Change-Over:-

If Nigeria established a security printing works and, or a mint, it would be ideal if the change-over to decimal currency is made to coincide with the coming into operation of the printing works.

In any case, it is imperative that the introduction of the system be preceded by a preparatory period during which the public could be educated as to the implications of the change, and commerce, industry, finance, etc. could prepare themselves for it. In particular, the machine companies would require such a period for the planning of the conversion

programme, placing orders with overseas factories for decimal parts, recruitment and training of labour for the conversion, etc.

At the same time, the need for enough time for preparation must be balanced against the fact that the cost of the change-over increases progressively as the economy expands. In fixing the length of the preparatory period, the extent of the use of monetary machines in Nigeria needs to be considered. It would appear that a period of perhaps up to two years will be required to convert machines and educate the people to accept the change.

This preparatory period which will precede the D-day would start from the date of a firm government announcement of a decision to decimalise, giving the date of "D-day" and full details both of the system and coinage to be adopted and of the financial arrangements to be made.

"D-day" may be regarded as the day on which the nation officially adopts a decimal currency, those organisations having a special problem, generally the possession of unconverted £.S.D. machines, being temporarily exempted.

The banks, shops and transport undertakings will face the biggest change-over problems because of their direct monetary dealings with the public. It would, therefore, be appropriate to adopt for "D-day" the time of the year

most convenient for them. The slackest time of the year for these businesses could be taken - e.g., the month of July or August.

Because of the special change-over problems of the banks, it might be necessary for them to remain closed to the general public on the Tursday, Friday and Saturday preceding D-day, provided due public notice is given and provided further that the banks offer safe deposit facilities during such days to those customers who may not wish to keep large sums of money on their own premises.

The Timing and Phasing of Coinage Changes:-

Ultimately all circulating £.S.D. coins will have to be withdrawn and demonetised, although the changes will not, of course, all need to take place simultaneously. In phasing coinage changes, the following needs have to be balanced:

(i) to reduce to a minimum the total number of different denominations circulating at any one time;

(ii) to introduce new denominations one by one or group by group, so as to enable the public to get used to each gradually;

(iii) to provide for the concurrent circulation for a reasonable period of any two denominations, one of which is liable to replace the other for use in slot machines;

(iv) to reduce to a minimum the number of coinage

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changes during the transitional period.

Under the 10s-cent system the following decimal coins will have to be introduced in replacement of the £.S.D. coins:

Denominations	£. S. D.
1 cent	1.2d
2 cents	2.4d
5 cents	6d
10 cents	1/-
20 cents	2/-

The existence of the half-penny on "D-day" would greatly complicate the conversion tables, since it would be necessary to provide decimal equivalents for prices ending in a half-penny. Its withdrawal at that time would increase the number of changes at the time of maximum confusion and would increase the burden of the banks. It would be necessary, therefore, to demonetise half-pennies, say about, nine months before "D-day".

It will be necessary to have an ample supply of 1 cent and 2 cent coins on "D-day" to enable retailers to conduct cash transaction in decimals.

Pennies will continue to be needed until slot machines (telephone coin-boxes etc.) are converted. It will however, not be practicable to keep the coins in circulation until

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every single penny-operated machine has been converted. Pennies should be demonetised as soon as practicable after the end of the transition period. Three pences would need eventually to be demonetised, but could be retained during a transitional period.

The 5 cent, 10 cent, and 20 cent coins would have the exact value equivalents of 6d, 1s, and 2s respectively, (and they could also have the same size and appearance but differ only in design). It would therefore be unnecessary to add to the minting problems of the immediate change-over period by withdrawing and replacing these old coins in circulation. But the circulation before "D-day" of a number of 5, 10, and 20 cent coins would serve a useful educational purpose, and could easily be done by the mint in meeting normal demand for coins. This would be consistent with the principle of minimising the number of changes made at any one time. The active withdrawal of 6d, 1s and 2s should commence towards the end of the transition period.

Machine Aspect:-

The nature and extent of the task involved in converting £.S.D. monetary machines, make it desirable that Government appoint an authority to assist in the necessary

administrative arrangments and to co-ordinate the conversion programme. Such an authority would explore change-over problems in detail, promote and supervise a campaign of public information and do everything necessary to facilitate a speedy and efficient transition.

In order to guard against a heavy and unwarranted influx of £.S.D. machines which would unnecessarily increase both the cost and time of the conversion programme, restrictions should be placed upon the importation of £.S.D. machines from the date the intention to decimalize is announced.

Cost of Introducing the Recommended System:-

It is obvious that the adoption of a decimal currency will give rise to a variety of costs, although it should be pointed out that they will be of a non-recurring nature. Some of the costs will be immeasurable and they include inconveniences to consumers and others, alteration of financial records, dual-currency accounting problems, price ticketing in retail shops and so on. The main measurable costs will be the cost of converting and replacing monetary machines, manufacturing and issuing new coins, publicity and central administration etc.

In some countries it has been agreed in principle that government should bear some or all of the costs involved in converting or replacing monetary machines.

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This is based on the argument that the advantages of change-over to decimal currency would accrue to the nation as a whole, and not to individual interests, and that in the absence of compensation the biggest burden and costs resulting from decimalization would fall on the machine owners.

If the government accepts the obligation to make compensation, then a method of estimating costs will have to be devised.

In other countries such compensation has been restricted to expenditure incurred in the conversion or replacement of £.S.D. machines; and a practice has been adopted whereby a "life" is placed on each type of machine, and according to whether or not a machine has outlived its economic life, the total conversion cost has either been paid by government or a smaller contribution has been made for replacement. That is machines within the convertible age only are converted, and owners of machines over that age but within their economic life receive a contribution towards their replacement (see Table IV below):

TABLE IV

Type of Machine	ESTIMATE	
	Machines convertible up to -	Machines Replaceable
Accounting Machines	7 years	7-10 years
Adding Machines	10 years	10-15 "
Cash Registers	15 "	15-20 "
Cheque Writers	15 "	...
Electric Petrol Pumps	All convertible	...
Franking Machines	15 years	...
Price Computing scales	20 "	...
Punched Card Tabulators	10 "	...
Taxi-Meters	15 "	...
Ticket issuing machines	25 "	...

In the above Table it will be noticed that for all machines - except Accounting Machines, Adding Machines, and Cash Registers - the convertible age and the economic life coincide.

Without a comprehensive questionnaire being set to all governments, statutory bodies and private employers who make use of £.S.D. machines, it is impossible to guage with any degree of accuracy the total amount involved.

However, if the government accepts the principle of restricting compensation to expenditure incurred in the conversion or replacement of £.S.D. machines; and the practice of placing a "life" on each type of machine, and assuming that Nigerian economy is not yet highly mechanised, Mr. Beach's estimated cost of compensation - £3.0 million - may not be too wide off the mark.

The coinage costs of the change-over can be grouped under two main headings: first, the cost of manufacturing the new decimal coins and second, the freight, handling, sorting, and storage costs involved in issuing decimal coins and withdrawing the £.S.D. Most of the costs under the second heading would fall on the banks.

Table V below shows the number of £.S.D. coins in circulation on 31st December, 1963 and the estimated cost of replacing them by decimal coins. It would, as the table shows, cost about £2.5 million. However, it is only the 1d pieces that will be totally withdrawn and replaced immediately. The other costs would be incurred in any event as old coins are withdrawn from circulation and replaced by new ones.

TABLE V

ESTIMATED COST OF REPLACING £.S.D. COINS WITH DECIMAL COINS

Old coins	Number in circulation on 31st December 1963 (in thousands)	Cost of replacing old coins & notes with decimal ones (£'s thousands)
Pennies	155,520	£ 653
Three pences	86,800	£ 182
Six pences	26,440	£ 51
Shillings	394,680	£1,410
Florings	1,280	£ 8
T O T A L	664,720	£2,304
5/- notes	5,610	£ 8
10/- notes	5,646	£ 14
£1 notes	62,647	£ 156
£5 "	675	£ 2
T O T A L	74,578	£ 180

APPENDIX II

THE MONEY SUPPLY

The current definition of the money supply is that of the International Monetary Fund. It covers notes and coins in the hands of the public plus demand deposits of banks (less inter-bank) deposits and, where necessary, the assets of the postal checking system. It is thus designed to cover all the cash assets of the community while excluding the whole of the 'near money' assets. It is impossible in this article to survey the long discussion as to the appropriateness of this definition for any given country or certain particular group of countries. It is the definition as it now stands which is under review.

The I.M.F. money-supply definition has certain distinctive features, and chief among its advantages a e the following five:-

(1) It is conventional;

(2) It is easily assessed statistically;

(3) It corresponds to the money and credit actually used for transactions;

(4) It helps to form a measure for the velocity of circulation;

(5) It fits the Fisher Formula.

One major advantage of this definition is the fact that it is conventional and its statistical counterpart can usually be supplied by any country today, and by the financially more mature countries for a considerable period. This makes possible both international and historical comparisons, however tricky and difficult they may be. Naturally, however accurately defined statistically, the 'money supply' may not have the same funcion in economics as different as those of the United States and Ireland, or of Nigeria and Great Britain. The variations in content are, however, certainly not greater and probably smaller than, say, those of the national income statistics. Moreover, the varying significance of the money supply in different countries should not be unknown to those who habitually use the terms. Its relatively high degree of comparability has recently been seen in its unanimous acceptance as one of the items in the classification of financial assets and liabilities in the United Nations System of National Accounts.

The IMF definition has, moreover, the advantage of representing the money (cash and deposits) which is actually used for transactions of all kinds. If a bank grants a credit to a firm or individual - i.e. the item 'advances' - this credit is usually used immediately - or within a very short time - by the borrower and then is automatically turned into cash and/or deposits either in his own hands or in those of

his former creditors.

The measures taken to control the money supply therefore should be able to regulate the volume of the transactions during any single period - apart from smaller variations caused by changes in the velocity of circulation of money. Thus effective demand can be controlled. Naturally if the monetary authorities have allowed large money claims to build up (for instance as a result of wartime liquidity) these can subsequently be drawn upon by the public at large without the sanction of the monetary authorities. Thus, time (savings) deposits are often considered a dangerous 'near money' asset, but even when the public wants to mobilize its cash assets quickly (as it did during the Korean crisis) the savings banks can, if they wish, enforce their notification periods, whereas demand deposits, on the other hand, are effectively 'cash'. The argument extended to short term paper and investments will be examined below.

Once the money actually used for transactions has been identified, it is possible to use it as the basis for a calculation of the velocity of circulation. While the latter can never be more than a symptom of deeper forces at work (such as changes in expectations and behaviour) there is reason to believe that every economy has a 'normal' velocity for each given phase of its growth. Any deviation from this norm will act as a signal that greater changes are pending - just as a

change in body temperature is a warning to a doctor without being a cause in itself. Changes in the velocity of circulation may have special relevance for analysis in financially less mature economies.

The money supply, as defined above, is the one which fits the celebrated Fisher formula and links up with the quantity theory of money. The Fisher formula is also known as the equation of exchange and is often written MV = PT where 'M' is the money supply, 'V' is the velocity of circulation, 'P' the general level of prices and 'T' the volume of transactions at their original prices. The equation as such is a truism, i.e. it is always correct for any given moment in time. The essential difference between the equation of exchange and the quantity of money is that the latter explains a causal relation. For instance, an increase in the money supply through time will cause and increase in the general price level. This is not the place to enter into the involved discussion on the many refinements of the quantity theory, or the niceties of its theoretical validity. The fact remains that, although the quantity theory of money may not be the refined analytical instrument as many of its devotees have maintained, it has proved a surprisingly useful tool in the analysis of an ailing economy. The variables in the equation, especially money supply, velocity and prices, are usually quickly available statistically,

whereas more refined data are not. They also have the virtue reflecting current behaviour of individuals, which is an important point of departure when seeking to assess their future behaviour.

These five important aspects of the money supply - viewed in accordance with the I.M.F. definition (and its many precursors) - help to explain why it has long held a key position both in the theoretical discussion and in the monetary policy-making of the last fifty years. That its strategic position is now being questioned, especially for the financially more mature countries, is due to many factors, some valid, others based on misconception.

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APPENDIX III

INFORMATION REQUIRED BY THE NIGERIAN DEVELOPMENT AND INDUSTRIAL BANK (NIDB)

The following schedule is the information required by the Industrial and Development Bank of Nigeria as the basis of their consideration of an application for financial assistance. It is reproduced here from Investment Company of Nigeria (ICON), the predecessor of the NIDB from its published pamphlet entitled 'A Key to Development'.

The following are the headings under which the full description of the Project should be supplied.

NAME AND ADDRESS OF APPLICANT:

Notes:

(a) If the contemplated business is to be conducted by a limited company or partnership, state also:-

(i) Name of company or partnership.

(ii) Full details of relationship of applicant to partnership or company (e.g. Manager, secretary, partner, director, etc.).

(iii) Other members of company or partnership, details of each one's capital participation and names and addresses of all directors (in case of a company).

(b) A copy of the Memorandum and Articles of Association should be supplied in the case of a company. If the individual,

partnership or company concerned is already conducting a business, audited Balance Sheets and Profit and Loss Account of the last five financial years (if available) should be supplied.

2. PROJECT:

State whether it is a new installation, or an expansion or improvement of an existing installation. Give a comprehensive description of the existing business (if any) and the business which the projected development is intended to create. Give also an outline of the manufacturing or other process to be carried out. (The form of this outline should be discussed with NIDB before it is submitted)

3. ESTIMATED CAPITAL COST OF PROJECT:

This should be given in the form of a table, which should show the full cost of each of the categories mentioned below. If any items are to be purchased abroad, the cost should be divided into two columns, one showing the amount to be spent in Nigeria, the other showing the amount to be spent abroad.

(a) Land

(b) Buildings and constructions of all kinds, referring separately to housing (if any), roads and services.

(c) Fixed plant and machinery, showing freight to site and cost of erection separately.

(d) Moveable plant, tools and equipment.

(e) Vehicles.

(f) Power plant, electrical installations, other services

(g) Other items to be purchased.

(h) Amount required as working capital.

NOTE:-

In appropriate cases, details of some or all of the above items will be needed, as also a plan of the building and factory lay-out.

4. PROPOSED CAPITAL STRUCTURE:-

Details of the way it is intended to obtain the capital (e.g. by issue of shares, loans, overdrafts, etc.) and amounts and sources of funds already promised or to be provided by the applicants.

5. REQUEST FOR NIDB'S PARTICIPATION:-

The amount of finance requested from NIDB and its proposed form (e.g. share capital, loan, etc.).

6. MANAGEMENT:-

Who will supervise the construction of the factory or other units? Who will manage the business? Who will be in charge of the technical aspects of the business?

Give brief details of the previous experience of all such persons.

7. <u>RAW MATERIALS ETC.</u>

(a) List of main raw materials, quantity required per annum and source from which they will be secured. Any contracts made for their procurement should be referred to. State the number of weeks' supply of each material that will normally be held in stock.

(b) Fuel and power requirements, and how they will be obtained.

(c) Other services required, e.g. water, rail communications, waste disposal, etc. and how they will be obtained.

8. <u>LABOUR</u>:-

Estaimated labour requirement, detailing the skilled jobs, availability of the labour required

9. <u>ECONOMICS OF PROJECT</u>:-

Describe the economic conditions which indicate the desirability and prospects of the project, e.g. the present Nigerian consumption of similar goods, or the evidence of an unsatisfied demand for them; the reason for believing that their manufacture in the locality chosen is practicable and will provide a satisfactory product at a competitive price; any benefits that the project will confer on the Nigerian economy; the applicant's view on future expansion or probable new lines of business; names and addresses of other firms

supplying similar goods in the area of intended sales, with details of their sales, output and production capacity, manufacturers', wholesalers' and retailers' prices (if the goods are imported, the imported price should be given instead of the manufacturer's price).

10. <u>ESTIMATED TRADING RESULTS</u>:-

(a) What will be the daily output of the proposed plan? If the expansion of an existing plant is intended, give the daily output at present and/or estimated output after the expansion.

(b) Give the estimated turnover, operating costs and profits for the first three years of operation, showing depreciation, interest on loans and taxation. (NIDB's staff will indicate the degree of detail required in relation to the various elements in the estimates).

11. <u>GENERAL</u>:-

Any other relevant information, including degree of Government support for project, pioneer status, customs relief, etc.

12. <u>REFERENCES</u>:-

Names and addresses of persons who will provide references, including at least one Bank, and a firm of auditors.

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T[illegible]E VII

LAGOS [illegible]K EXCHANGE

Month	Number of Transactions					Value of Transactions (£'s thousands)				
	1963			[illegible]	1961	1963			1962	1961
	Government	Industrials	Total	[illegible]	Total	Government	Industrials	Total	Total	Total
January	10	39	49		-	10.5	6.7	17.3	236.9	-
February	8	31	39		-	200.8	5.5	206.3	149.9	-
March	23	48	71		-	345.8	41.1	386.9	157.1	-
April	20	36	56		-	442.2	12.2	454.0	40.1	-
May	21	27	48		-	425.3	19.9	445.2	95.2	-
June	33	42	75		35	489.8	22.0	511.8	31.3	53.6
July	36	26	62		51	493.0	70.7	563.7	158.9	60.6
August	29	32	61		39	648.4	47.3	695.7	118.6	80.1
September ...	26	32	58		31	413.8	11.9	425.7	753.1	122.5
October	24	31	55		52	306.9	5.1	312.0	309.7	91.3
November	26	31	57	04	66	455.0	30.2	485.2	198.0	247.8
December	39	39	78	45	60	636.8	50.5	687.3	32.0	104.3
TOTAL	295	414	709	695	334	4,868.3	323.1	5,191.0	2,280.8	760.2

TA

NATIONAL PRVT FUND*

End of Month	Governments		Localrities		Public Corporations		Industrial and Commercial Firms	
	No. of workers covered	Contri-butions (£'s)	No. worke cover	Contri-butions (£'s)	No. of workers covered	Contri-butions (£'s)	No. of workers covered	Contri-butions (£'s)
1963								
January	64,079	314,682	12,3[illegible]	19,352	45,245	284,030	183,623	745,813
February	64,555	356,469	14,2[illegible]	26,683	45,884	308,250	189,459	913,380
March	65,522	416,225	16,3[illegible]	38,226	46,439	347,831	197,349	1,112,885
April	65,859	441,708	18,1[illegible]	49,683	46,549	378,129	202,095	1,309,217
May	66,637	491,560	19,6[illegible]	64,719	47,102	410,899	206,881	1,509,248
June	67,193	524,653	21,0[illegible]	74,630	47,637	437,678	212,292	1,666,337
July	67,956	573,061	24,5[illegible]	86,782	48,168	479,278	219,182	1,882,030
August	68,709	616,030	26,3[illegible]	95,242	48,767	520,575	223,382	2,054,887
September	69,347	643,678	28,[illegible]	[illegible]	49,140	553,[illegible]	227,052	2,240,142

Total ?

Source: National Provident Fund.

* Figures are cumulative.

TAB

DECEMBER 1962

(£'0

Grouping	Branches	Demand Deposits	Percentage of Total	Total Deposi	ercentage of Total	Loans and Advances	Percentage of Total	Investments	Percentage of Total
Group 1	122	33,661	74.3	62,45	71.8	49,970	64.9	593	37.0
Group 2	19	3,038	6.7	6,69	7.7	7,969	10.3	66	4.1
Group 3	68	8,597	19.0	17,80	20.5	19,097	24.8	944	58.9
All Banks ...	209	45,296	100.0	86,94	100.0	77,036	100.0	1,603	100.0

JUNE 3 63

(£'00

Grouping	Branches	Demand Deposits	Percentage of Total	Tota Deposi	ercentage of Total	Loans and Advances	Percentage of Total	Investments	Percentage of Total
Group 1	122	30,933	73.4	66,08	76.4	51,664	65.5	693	46.3
Group 2	19	3,219	7.6	6,75	7.8	7,878	10.0	66	4.4
Group 3	68	7,985	19.0	13,67	15.8	19,309	24.5	737	49.3
All Banks ...	209	42,137	100.0	86,51	100.0	78,851	100.0	1,496	100.0

TABLE II

ANALYSIS OF COMMERCIAL BANKING SYSTEM'S LOANS AND ADVANCES

(£'000s)

Class of Borrowers	December 1957	December 1958	December 1959	December 1960	December 1961	December 1962	June 1963	December 1963
Governments	269	165	306	1,061	851	737	204	694
Public Utilities	149	148	-	522	102	178	546	980
Credit and Financial Institutions	795	1,654	3,391	2,927	2,432	868	874	1,324
Agriculature	12,507	11,764	9,360	11,281	12,614	18,039	10,109	19,672
Mining	473	328	409	543	474	526	550	577
Manufacture	1,382	1,836	1,649	2,429	3,296	5,857	6,928	9,535
Construction	1,799	2,471	3,068	3,595	5,541	5,185	4,673	6,444
General Commerce	11,277	13,398	3,554	21,017	19,435	27,736	30,738	30,082
Miscellaneous*	5,811	6,534	8,481	12,354	14,128	14,811	15,088	12,716
Bills Discounted	-	-	606	1,271	1,117	3,098	9,140	7,444
T O T A L	34,462	38,298	0,824	57,000	59,990	77,035	78,850	89,468

* Includes money at call outside Central Ban[illegible]so includes up to June 1959, bills discounted, separate data for which were n[illegible]en available.

A PE ... DIX I

BANKS I... NIGERIA

NAME	AUTHORISED CAPITAL	PAID-UP CAPITAL	...D OFFICE	BRANCH OFFICES
African Continental Bank Limited	£4,000,000	£3,938,786	...road Street,	Aba, Agege, Calabar, Enugu, Gusau, Ibadan, Ilesha Jos, Kano, Kaduna, Lagos, Maiduguri, Minna, Nguru, Usukka, Onitsha, Port Harcourt, Umuahia-Ibeku, Uyo and Yaba.
Agbonmagbe Bank Limited	£100,000	£93,535	...erbert ...ay Ebute- ...- Lagos	Abeokuta, Ago-Iwoye, Ebute-Metta, Ifo, Ijebu Igbo, Mushin, Odogbolu and Shagamu.
Bank of America ..	$178,000,000	$178,000,000	...ntgomery ..., San ...sco 20, ...rnia	136 Broad Street, Lagos (Local Head Office).
Bank of West Africa	£6,000,000	£4,000,000	...ce-Church ..., London EC.3 ... Local Head ...)	Aba, Abeokuta, Agbor, Agege, Apapa, Benin, Bukuru, Calabar, Enugu, Gashua, Geidam, Gombe, Gusau, Ilesha, Jos, Kaduna, Kano, Kontagora, Lagos, Maiduguri, Malumfashi, Nguru, Ogbomosho, Onitsha, Oshogbo, Owo, Port Harcourt, Sapele, Shagamu, Sokoto, Umuahia-Ibeku, Uyo, Warri and Zaria.
Bank of India Ltd.	Rs 100,000,000	Rs 50,000,000	Mahatma ... Road, Bombay,	36/38 Balogun Square, Lagos.
Bank of Lagos Ltd.	£250,000	£100,000	...logun St. Lagos	- -
Banque De L'Afrique Occidentale	10,525,900 francs	10,525,900 francs	...ue de Messino, (Kano, Local ...ffice)	Apapa and Lagos.
Barclays Bank D.C.O.	£25,000,000	£17,000,000	...ard St. London ...agos Local Head ...)	Aba, Abakaliki, Ado Ekiti, Akure, Apapa, Asaba, Bida, Bauchi, Benin, Birnin-Kebbi, Bukuru, Calabar, Ebut-Metta, Enugu, Funtua, Gombe, Gusau, Ibadan, Ife, Ikeja, Ijebuode, Ilorin, Jos, Kaduna, Kano, Katsina, Lagos, Lokoja, Maiduguri, Makurdi, Malam, Maduri, Minna, Offa, Ondo, Onitsha, Lokoja, Port Harcourt, Potiskum, Sapele, Warri, Yaba, Yola and Zaria.
Berini (Beirut Riyad) Nigeria Bank Limited	£500,000	£250,000	...ogun Street,	- -
Chase Manhattan Bank Limited	$167,879,250	$167,879,250	... Street, ...k 15, N. Y.	Broad Street, Lagos (Local Head Office)
Co-operative Bank of Eastern Nigeria Ltd.	£50,000	£28,551	...ton Avenue,	Enugu and Port Harcourt
Moslim Bank (West Africa) Limited	£50,000	£35,060	...liams St.,	- -
Co-operative Bank of Western Nigeria Ltd.	£1,000,000	£26,878	...urt Road, Ibadan	Akure, Ife and Lagos.
National Bank of Nigeria Limited	£3,250,000	£3,180,530	Broad Street,	Aba, Abeokuta, Ado Ekiti, Agege, Akure, Apapa, Badagry, Benin, Edo, Ibadan, Ife, Ijebu-Ode, Ikole-Ekiti, Ilaro, Ilesha, Iwo, Jos, Kano, Lagos, Ogbomosho, Okitipupa, Ondo, Oshogbo, Owo, Oyo, Sapele, Shagamu, Warri, Yaba, Zaria
United Bank For Africa Limited	£2,000,000	£1,500,000	...9 Broad St.,	Apapa, Ebute-Metta, Ibadan, Ikeja, Kaduna, Kano, Lagos, Port Harcour.

E X T E R N T R A D E

(£'s s)

I T E M S	1952	1953	1954	1956	1957	1958	1959	1960	1961	1962	1963
IMPORTS	115.2	110.2	115.9	154.4	154.6	168.2	180.2	215.3	222.4	203.0	207.5
EXPORTS AND RE-EXPORTS	128.6	123.6	148.8	133.3	126.2	134.3	162.1	165.0	173.5	167.1	189.5
BALANCE OF TRADE ...	+13.4	+13.4	+32.9	-21.1	-28.4	-33.9	-18.1	-50.3	-48.9	-35.9	-18.0

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VIII

HOLDINGS OF FEDERAL G[illegible]T LONG-TERM SECURITIES

ON 31ST [illegible] 1963

(£'s [illegible]ds)

Holders	First Development Stock						Secon[illegible]pment Stock				Third Development Stock				Fourth Development Stock					
	5% 1959-1964		5½% 1959-1969		6% 1959-1979		5% 1961-1967	[illegible]1961-1977	6% 1961-1985		5% 1962-1966		6% 1962-1986		5% 1963-1968		5¼% 1963-1972		5¾% 1963-1987	
	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)	(a)	(b)
Commercial Banks	41	-	67	-	-	-	200	175	-	-	120	-	-	-	100	-	-	-	-	-
Individuals	31	-	20	-	11	-	49	-	38	-	15	-	3	-	33	-	7	-	4	-
Savings-type Institutions	267	-	367	-	1,229	15	588	-	2,035	190	1,628	5	4,915	-	43	-	1,662	-	1,792	-
Statutory Boards/ Corporations ..	10	-	15	-	-	-	1,003	-	1,688	-	228	-	42	-	800	-	1,250	-	450	-
Other Corporations ..	3	-	27	-	-	-	55	-	9	-	-	-	-	-	10	-	15	-	82	-
Local Governments (including Regions)	8	-	67	-	20	-	47	-	10	-	4	-	-	-	-	-	10	-	-	-
Insurance Companies ..	40	-	37	-	30	50	48	-	24	6	-	-	40	-	-	-	5	-	80	5
Central Bank of Nigeria	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,014	-	51	-	7,587	-
T O T A L	400	-	600	-	1,290	65	1,990	75	3,804	196	1,995	5	5,000	-	2,000	-	3,000	-	9,995	5

Note: Explanation of column headings:

(a) Internal

(b) Abroad.