A BRIEF STUDY OF THE EVOLUTION OF THE CURRENCY AND BANKING SYSTEM OF NIGERIA, WEST AFRICIA

1825-1964

A Thesis

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by

Peter Agomo Ezeocha

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R. B. Russell

Approved for the Major Department

Truman Hayes

Approved for the Graduate Council

283375

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CHAPTER I

THE PROBLEM AND DEFINITIONS OF TERMS USED

The evolution of the currency and banking system in Nigeria took place essentially during the 19th Century. By the year 1925, it was basically complete, in spite of the later changeover of currency in some other British West African countries. The subject is one which has been much neglected both by scholars and theoriticians. The literature, as a whole, is scarce and widely scattered.

The efforts of the European powers in accomplishing this herculean job of introducing a sound currency and a banking system is highly commendable. Without the influence of the then foreign merchants and their imperial governments, it would have been too difficult, if not impossible, to establish a sound monetary system in the countries of West Africa. The evolution of sound currency and a sound banking system brought about by the British Government has accomplished an invaluable job in the shaping of the economy and government of Nigeria.

I. THE PROBLEM

Statement of the problem. It is the purpose of this study to briefly trace the most important events in the process of the evolution of currency and the banking system in Nigeria in order to:

1. Appraise the contributions of the Imperial government in this difficult work.

2. Analyze the role of the regional and federal governments of Nigeria in the development of her banking system.

3. Point out the contributions of the indigenous banks.

4. Give an account of the evolution of the financial system in Nigeria.

Importance of the study. This study is important for various reasons. In the first place, it will be of great help to a teacher or a student who is interested in the economic or social framework of an under-developed country. Secondly, it will be of a big help to a government official who is delegated to go to plan some sort of financial system for a young nation emerging from colonialism to sovereignty. It will certainly be of help to some daring businessmen from an advanced country in making their plans to open up new business enterprises in any under-developed country of the world. This will help them by giving them some ideas about what to anticipate over there.

Finally this study will be of assistance to a teacher dealing with the history of some of the former British territories in

West Africa or other countries of the British Commonwealth of Nations.

Limitations of the study. This study is actually limited to the tracing of the evolution of currency and banking system in Nigeria and to an occasional mention of the other three British territories in West Africa, the Gold Coast (Ghana) Sierra Leone, and the Gambia. It does not attempt to deal with the banking systems of these other three nations. It is limited by the fact that it does not go into the details of the evolution of the Nigerian currency. It is also limited by the materials available to the writer.

II. DEFINITIONS OF TERMS USED

Pound (£). Throughout this study the word pound shall be interpreted as being the monetary unit in Nigeria and many other Commonwealth countries of the world such as Great Britain, Australia and Ghana. It is equal to twenty shillings. In these countries it is specifically called pound sterling. Its equivalent in United States dollars is $2.80.

Shillings (S). Wherever this word appears in this study it means a Nigerian silver coin and money of account equal to twelve pence or the twentieth part of a pound. Abbreviation S, symbol /-, as twelve shillings, 12 /-.

Pennies (d). A Nigerian coin now of bronze worth 1/12 of a shilling. Abbreviation d. In all the areas where this word penny (d) appears it should be interpreted as defined above. The three terms are usually abbreviated as follows: £ : S : D.

Development bank. Throughout this study the term development bank shall be interpreted as the banks which are started in Nigeria with the express purpose of providing finances that commercial banks cannot properly provide. A development bank can properly make loans in the national or social interest rather than in the interest of depositors and shareholders. They do not have to repay depositors at any time consequently they can properly make long term loans.

Sterling. Wherever this term appears in this study it shall be interpreted to mean the standard of fineness of lawful Nigerian coin for gold. The standard now is 0.9166.

Commercial banks. Commercial banks as is implied by the word "commercial" in this study should be interpreted as businesses that try to make profits for their shareholders. They accept deposits from the public. They have a dual set of responsibilities, to their shareholders and to their depositors.

Paid-up capital. Throughout this study, paid-up capital shall be interpreted as meaning the sum of money which any bank planning to open up for business in Nigeria must deposit with the federal government. This was provided for in the 1952 Banking Ordinance passed by the Colonial Government which required a paid-up capital of £25,000 to be deposited with the Federal Government of Nigeria.

Fixed deposit. For the purpose of this study, this term shall be interpreted as meaning a round sum of money which a customer can deposit with a bank for a specific period of time usually not less than six months from which he cannot withdraw any of the money without losing the interest accumulated.

Comptroller of the currency. Throughout this study this term shall be interpreted as meaning a government official appointed to check expenditures. Usually he controls the outflow of currency from his country to another foreign nation.

Lagos. This is the federal capital of Nigeria which was founded in 1861. In discussing African money markets, it is usually called Lagos, African money centre.

Currency note. Throughout this study this term shall be interpreted as meaning a bank note which is in circulation as a medium of exchange including coin and government notes.

Bullion. For the purpose of this study bullion shall be interpreted as meaning gold or silver, considered merely as so much metal.

West African Currency Board. Throughout this study, this term shall be interpreted as meaning a board appointed in 1913 by the British government to manage the distinct local currency common to all British West African colonies. This currency was based upon a reserve of gold and securities. This board was also empowered to issue notes for circulation as legal tender in Nigeria, the Gold Coast and Sierra Leone.

Bankers clearing house. For the purpose of this study, this term shall be interpreted as meaning the place where different banks perform the settlement of claims which each bank has against the others.

Grams of fine gold. Throughout this study, grams of fine gold shall be interpreted as meaning a unit of mass and weight in the metric system of small pieces or particles of gold.

Legal tender currency. Throughout this study, legal tender currency shall be interpreted as meaning that currency or money which the law authorizes the debtor to tender and requires a creditor to receive in payment of money obligation.

Cowvies. Throughout this study cowvies shall be interpreted as meaning Cyraea moneta which were some of the most striking forms of native currency. Transactions of all kinds from simple village marketing to buying and selling on a large scale were accomplished through this medium.

III. PLAN OF THE STUDY

In this first section some of the most pertinent facts about this study are introduced and discussed to some extent. Most of the useful terms employed in this study are clearly defined for easy understanding of the topic discussed. The second chapter of this study deals with the review of the literature of the topic. In Chapter Three the background of the country is discussed along with the three political regions, a historical sketch and the economic activities. The development of early banking are the main subjects of the fourth chapter. Chapter Five discusses the evolution of the financial system, the operations of the commercial banks and the Post Office Savings Banks. The sixth and last chapter deals with the summary, conclusion and recommendations that result from this diligent study.

IV. PROCEDURE

For the purpose of this study, the main sources of information were the Kansas State Teachers College of Emporia library, text books, journals from the bank of England and Canada, Nigerian Journal of Economic and Social Studies, newspapers and periodicals.

Because of the civil war raging in Nigeria, it was impossible to obtain the pertinent data from the primary source in Nigeria. The enthusiastic cooperation of some of the commonwealth banks, such as the Bank of Canada, the Library of Congress and the International Monetary Fund, Washington, D. C., was obtained through the procedure of interlibrary loan. The following procedures were employed:

1. An extensive review of some published materials was made. This included library research over both periodical literature and studies already completed. This very valuable information provided a basis for the writing of this report.

2. Two major indigenous banks were selected as representative of successful and unsuccessful in Nigeria at the period under consideration. These banks were chosen because the data necessary to evaluate their operation were available and accessible. See Appendix B and Appendix C, pages 96 and 97.

3. A series of requests was made from the banks of England, Canada and the International Monetary Fund for pertinent information with regard to the evolution of currency and the historical development of the Nigerian Banking System.

4. The data collected from all these various secondary sources such as the Commonwealth countries, banks, periodicals, journals and books were summarized, analyzed and interpreted.

5. Conclusions were reached on which recommendations could be based.

CHAPTER II

THE REVIEW OF THE LITERATURE

The evolution of currency and banking in Nigeria took place essentially during the hundred years, 1825-1925. By 1925 it was basically complete. This was true of the other three sister states that were also colonies of Britain.[1] The fact that different parts of West Africa came under the control of different European powers has had the effect, ultimately, of segregating the currency of West Africa into different blocks.

In 1825 Britain made a concerted attempt to introduce the English silver shillings into circulation throughout Nigeria.[2] A circulation of the English shilling in Nigeria was thought to be in the interests of the country itself, but apart from this, it would be in the interest of the Imperial Government. There were large payments, running into several million pounds a year, made to the British troops and officials in Nigeria. It was an anomaly to ship English coins every time the payments had to be made. Yet this was necessary because

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[1] The West African Pilot (Lagos, Nigeria) March 23, 1959, p. 10.

[2] Commissariat was the Department of the Imperial Government by which the British troops were paid their salaries overseas.

the payment was fixed in sterling and besides the systems of currency in Nigeria were conflicting and unsatisfactory. A method was accordingly devised by which the shilling was to be maintained as the medium of exchange.

This Imperial mission of British coin was not successful. The British silver did not gain a proper foothold in Nigeria for another fifty years or more until the currency reforms of 1880 in the whole of the British West African colonies.[3] Meanwhile foreign coins were the medium of exchange. This failure was due to three fundamental errors.

1. The Order in Council which was passed on the 23rd of March, 1825, making British coins legal tender in Nigeria was unrealistic in retaining the Spanish dollar for concurrent circulation with the English silver. (The Spanish dollar had been in circulation in Nigeria for decades before the British silver coin).

2. The Order did not prescribe realistic rates for foreign gold coin.

3. The high premium of 3 per cent charged on the Commissariat 30 days bill in London.[4]

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[3]Albert J. Adomakoh, The Evolution of Currency in West African Countries, 1825-1925 (Basel: Center for Economic and Financial Research, 1962), p. 320.

[4]Bankers Insurance Managers' and Agents' Magazine (London, England, January, 1965), p. 12.

There were a variety of foreign coins in circulation in West African colonies. The Spanish dollar was the most popular, but it collapsed in 1839. By two Orders in Council on the 10th of June, 1843, the unsuccessful Order of 1825 was first revoked, laying down this time rates for the concurrent circulation of foreign coins with sterling.

The standard currency of Nigeria was therefore, now sterling with foreign gold and silver coins rated for concurrent circulation, but without a limit of tender on silver coins, whether British or foreign.[5] After this reform the foreign coins which were given legal tender circulation in Nigeria and other British West African colonies were the following:

1. The Doubloon of Spain, Mexico and the states of South America, £5 3.4:-d
2. The 20-franc piece -15:10
3. The Spanish dollar, Mexican dollar 4:2
4. The French franc piece 3:10 1/2 d[6]

By Order in Council in 1874, Belgian, Italian, and Swiss five-franc pieces were made legal tender in Nigeria equal with the French coin.

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[5] Economic Survey of Nigeria (Lagos: Federation of Nigeria, June, 1959), p. 8.

[6] Alfonso W. Cullingwood, The History of Currency Development in West Africa (Basel: Center for Economic and Financial Research, 1962), p. 313.

In addition to these foreign coins, the gold coins of the United States were, by Order in Council in 1852, made legal tender in Nigeria with the ratios as follows:

1.	The Double Eagle	Value £4:2 S. -
2.	The Eagle	2:1
3.	The Half Eagle	1:-:6
4.	The Quarter Eagle	-:10:3 [7]

However it would appear that the United States coins never gained a firm foothold, because they were undervalued relative to the British pound and to foreign gold coins in circulation. Secondly, gold coins as a whole could not compete with silver.

During the last decade of the 19th Century, the currencies in circulation had by a series of currency reforms been simplified and reduced to two main currencies; namely,

1. The British silver which accounted for most of the circulation.

2. The French five-franc pieces.

There also were some British gold coins still in circulation.[8] Foreign coins that disappeared at this time were as follows:

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[7] International Economic Survey No. 135 (New York: Nigerian Consulate General, Trade Investment Division, 1961), p. 4.

[8] Albert J. Adomakoh, The Evolution of Currency in West African Countries, 1825-1925 (Basel: Centre for Economic and Financial Research, 1962), p. 410.

1. The Doubloon
2. The American Eagles
3. The French twenty-franc pieces.[9]

The stream of primitive currency, including barter, consisted of a variety of:

1. Commodities
2. Cowvies
3. Manillas
4. Brass
5. Copper rods
6. Brass rods and
7. Wires.[10]

All these primitive currencies were demonetized in 1912, yet many of them were still in use in Northern Nigeria in the same year.

By 1891 the British silver coin had gained popularity in Nigeria and other British West African colonies and from then on more and more British silver was absorbed by West Africa.[11] The figures of coin imports into Nigeria and the other three sister states from 1886 to 1911 are shown in Appendix A. From 1908 on, booming economic activities necessitated a great increase in the annual import of British silver into the four British West African colonies.

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[9]Money Economy in Nigeria (Switzerland: University of Basel, 1962), p. 4 (mimeographed).

[10]"Currency Reforms in West African Countries," Bankers Insurance Managers and Agents Magazine (1963), p. 3.

[11]Paul Peterson, "Development and Features of the Nigerian Financial System," Journal of Economic and Social Studies (November, 1963), p. 6.

Another and final reform of colonial currency in West Africa came about in 1913. This time the four countries were provided with their own distinctive currency. This currency was based upon a reserve of gold and securities. It was managed by the West African Currency Board based in England with a Comptroller of the Currency appointed in each of the four colonies.[12] The Currency Board was authorized to issue notes for circulation as legal tender in Nigeria and the Gold Coast, and possibly also in Sierra Leone. The new currency was to be convertible into sterling payable in London and the British silver coins had concurrent circulation and were withdrawn gradually by arrangement. The evolution of currency in Nigeria was then complete. Except for experiments with smaller denominations, the general design and coloring of the note issue and changes in the metal of coins, the currency of West Africa remained the same until it was changed in Ghana after independence in 1958. It was changed in Nigeria in 1959-60 also after independence.[13]

The first and major precondition for banking had thus been established. Trade in Nigeria was expanding. Many European merchants had become well established in Nigeria, selling manufactured

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[12] Ibid., p. 251.

[13] Ibid., p. 364.

goods imported from Europe and buying local agricultural products for export to Europe. There was more regular shipping contacts with Europe and shipping agents had established themselves in Nigeria and elsewhere in West African colonies. Conditions now prevailed in which banking would thrive.[14]

In 1891 an agent in Lagos for the African Steamship Company advised his principals in England that he thought banking services had become an urgent necessity in Lagos.[15] The merchants and the Colonial Government, already used to banking services in their home countries, were experiencing serious inconveniences due to the lack of banking facilities in Nigeria. As a result of this representation, the ship owners succeeded in persuading the African Banking Corporation to open a branch in Lagos in 1892. The African Banking Corporation had its main sphere of operations in South Africa. After one year in Lagos, it decided to close down its branch and with that the only branch in West Africa.

The ship owner, Sir Alfred Jones still considered, however, that there was a need for a bank in West Africa. He again used his

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[14] Nigeria in Perspective, January 27, 1963.

[15] Banking in West Africa as a European Institution (Nsukka: University of Nigeria, 1962), p. 9.

influence to persuade the shipping firm of Elder Demster and Co. to take over and run the banking business established in Lagos by the African Banking Corporation. For a year the Lagos branch bank was run as a separate concern.[16] It kept accounts for the government in Lagos and controlled the flow of silver coins, but the arrangement seemed unsatisfactory to the government which lost no time in laying down conditions for its continued relationship with the bank, such as,

1. The government insisted that if the bank was to keep its account and the privilege of controlling the flow of silver coins, it must be registered as a joint stock bank.

2. It must operate independently of the shipping business.[17]

To meet these conditions, three English banks, Lloyds Bank Ltd., Westminster Bank Ltd., and the National Provincial Bank Ltd., together with the standard Bank of South Africa Ltd, founded the Bank of British West Africa Ltd., on May 31, 1894. The ship owner, Sir Alfred Jones, was made the first Chairman of the bank. The Bank of British West Africa Ltd. took over from the Elder Demster and Co. the banking business at Lagos. The bank had had nominal capital of £100, 000 fully subscribed with an amount of £40, 000 paid up.[18]

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[16]Ibid., pp. 15, 18.

[17]"The Imperial Mission of British Coins," Nigerian Journal of Economic and Social Studies (December, 1960).

[18]Ibid., p. 20.

In 1960 when Nigeria became independent, the Bank of British West Africa changed its name omitting the word "British" and is now known simply as Bank of West Africa Ltd. The bank started with four branches in 1894, namely Lagos, Aeera, Frectown and Bathurst. By 1951 it had fifty-three branches in Nigeria alone and fifty-three in the other three British West African territories.[19]

In 1909 the Bank of Nigeria was established but was absorbed in 1912 by the British Bank of West Africa. For the next five years the British Bank of West Africa was the only bank operating in the British West African colonies.

In 1917 the Colonial Bank which had been incorporated in 1836 by Royal Charter for operation in the West Indies, obtained an extension to its charter and commenced business in Lagos and Nigeria. Nine years later in 1926 the Colonial Bank was acquired by Barclays Bank Ltd. as the nucleus of Barclays Bank (Dominion, Colonial and Overseas).[20] In its last annual report in 1926 the Colonial Bank justified the deal with Barclays as follows:

> Everyone who has followed the marvelous growth since the war of what may be called the Imperial Ideal, sees that the

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[19]Butter, Independent Nigeria (Lagos: Pacific Printers, 1960), pp. 56-63.

[20]Ibid., p. 117.

> time is ripe for, is calling out for, a big development of empire lands and of empire trade based on sound empire banking. In this development we are determined to do our share, and with this in our minds, we have associated ourselves with the great scheme.[21]

The new Barclays Bank D.C.O., the National Bank of South Africa Ltd. and the Anglo-Egyptian Bank Ltd. were also amalgamated.

By 1951 it had about thirty branches in Nigeria and today it has over sixty. Unlike the British Bank of West Africa Ltd. which is based on West Africa as its main sphere of operations, Barclays D.C.O. operation is in various parts of the world and its business in Nigeria is only a fraction of its total business.

Until 1933 these two British Banks were the only banks which served Nigeria and the other British West African colonies. In Nigeria some of the private banks established by Nigerians in the 1930's and soon after the Second World War have gained considerably in importance and effect in the banking services in that country.[22] On these more recent developments in commerical banking and the creation and development of central banking systems in Nigeria in 1959, the subsequent chapters will give adequate information.

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[21] J. A. Ugwu, "Banking in Colonial Nigeria," Bankers Insurance Managers Magazine (November, 1963). pp. 177-184.

[22] Ibid.

A previous study done in this area was the one submitted to the University of London, England, in 1960, in partial fulfillment of the requirements for the degree of Master of Science. Some of the findings from that study are stated as follows:

> This study has shown that by 1925 both a currency and a banking system had been introduced in Nigeria. They were modern in the sense that they both had the essential qualities which allowed them, with certain later modifications, adjustments and extensions to be a viable basis for the important increase in Nigerian trade, internal expansion and the conscious development policies initiated in the 1950's. The system, the fascinating, but complicated introduction of which has been described, has moreover been amplified by the recent establishment of Central Banks and other financial intermediaries. Thereby the preconditions for national monetary policies have been created.[23]

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[23] Ibid., pp. 196-198.

CHAPTER III

BACKGROUND

I. THE COUNTRY AND ITS THREE REGIONS

Nigeria occupies an area of about 356, 669 square miles. It is politically divided into three regions. Its Northern Region is 281, 781 square miles, the Eastern Region is 29, 484 square miles, the Western Region, 45, 376 square miles and the Lagos territory is 27 square miles. Nigeria as of the 1960 population estimate had a population of 50, 000, 000.[1] Although Nigeria lies wholly within the tropics and has a hot climate, the sandy country in the North is dry while the low-lying swampy coastal areas in the South are damp and enervating. The rainy season extends from April to October in the North, with rainfall ranging between 60 and 160 inches. The annual average temperature is about 80° F. There are four main geographic areas in Nigeria:

1. An almost impenetrable swamp and mangrove swamp forest area in the southern part.

2. An inland tropical forest ranging between 50 and 100 miles in depth.

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[1]Charles Brown, Nigeria Handbook, Economic Geography (England: Oxford University Press, 1959), p. 252.

3. An area of open woodland and grass savanna beyond the tropical forest of about 100 miles.

4. A northern area of open land with an elevation of about 2000 feet.

The most prominent physical feature of Nigeria is the River Niger with its main tributary, the Benne River. A great difference between the high and low waters, sometimes as much as 35 feet, makes navigation of these rivers impossible.

Historical sketch. The Portuguese in the 15th Century were the first Europeans to reach Nigeria. The first English ships reached the Bights of Benin and Biafra in 1553. The area was known as "slave coast." It was the anti-slavery movement in England, coupled with the commercial interests of British trading companies, that resulted in the British penetration and administrative control of the interior. The protective role of the British was recognized at the Berlin Conference in 1885, and in 1914 Lagos and the interior protectorates were amalgamated as the colony and protectorate of Nigeria.[2] In 1922 a strip of the former German Cameroons was attached administratively to Nigeria, first as a mandated territory under the League

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[2]Ibid.

of Nations and later as a United Nations Trust Territory.[3] It became a federation in 1955 and an independent country on October 1, 1960, at which time it became a full member of the British Commonwealth of Nations and the United Nations.

Government. The country became an independent federal state on October 1, 1960. It has a federal constitution under which the respective powers of the central and regional legislatures were properly defined. The titular head of state at the federal level was the Governor-General and governors head each of the three regions.[4]

The bicameral federal parliament consists of a house of representatives and a senate. The federal cabinet forms the principal instrument of policy. The House of Representatives consists of a speaker and 311 members elected in single-member constituencies on a population basis of approximately one member for each 100,000 persons giving the Northern Region 175 members, the Eastern Region 73, the Western Region 61 members, and the federal territory 3. The Senate has envisionary powers and consists of 12 members from each

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[3]Marbel Mellor, An Economic History of Nigeria (England: Oxford University Press, 1959), p. 111.

[4]Editorial in the London Times, October 11, 1963.

region nominated by their governments and approved by their legislatures.[5] In addition there are 4 members from Lagos and 4 special members nominated by the Governor General. The federal cabinet consists of a Prime Minister and 18 other ministers. At the regional level, each legislature consists of two houses, a House of Assembly and a House of Chiefs, there by traditional rights, and other chiefs variously selected. All members in the Northern Region are appointed by the governor. Each region has an Executive Council consisting of the leader of the majority party as the premier and ministers appointed by the governor.

Economy. Agriculture, by far the most important sector of the economy, occupies most of the male working population and provides 85 per cent of the country's exports. However, 80 per cent of the total agricultural production is devoted to products consumed locally.

II. TRANSPORT AND COMMUNICATION

Waterways. The River Niger is navigable from the coast to Onitsha, 232 miles throughout the year, and to Jebba 537 miles from August to March. The Benne is navigable as far as Garua in the

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[5]Friday Okengwu, "The Development of Money Economy in Nigeria" (unpublished Master's thesis, The University of London, England, 1960), p. 77.

French Cameroons, 972 miles from the sea, and 547 miles from its confluence with the Niger at Lokoja during August and September and to Yola and Makurdi from July to October. The operation of the river fleet is handicapped by the restricted access to the delta ports and by navigational difficulties on both rivers.

Ports. The ports of Lagos and Harcourt between them serve the whole country and handle over three-quarters of Nigeria's overseas trade. Warri, Sapele, and Burutn on the Niger Delta in the Western Region and Calabar and Degema in the Eastern Region also handle foreign trade. Total tonnage handled in 1958 was 4, 950, 000 tons.

Roads. There are a total of 41, 941 miles of roads of which more than 4, 800 are bituminized, the remainder being gravel or dirt as of 1958. There are three classes of roads:

1. Trunk 'A' roads of 5, 799 miles which link the federal capital and the regional capital and these to larger towns, ports and important centers of neighboring foreign countries.

2. Trunk 'B' roads of 6, 745 miles connecting provincial and divisional headquarters, and other larger towns with the trunk 'A' system and points on the railway, and,

3. Other roads of 24,433 miles which accommodate local traffic and act as feeders to the trunk system.[6]

Railroads. In 1934 there were 1900 miles of 3.5 feet of track. There are two main single track lines with branch lines. The western line runs from Lagos through Ibadan, Kaduna and Kano. The eastern line runs from Port Harcourt to Enugu and Kadnna.

Airways. There are eight international airlines that operate scheduled services to and from Lagos and Kano, both of which have Grade I international airports. In addition to operating air services within Nigeria which link the federal and regional capitals and other important towns, Nigerian airways operate services between London and Lagos, and between Lagos, Accra and Dakar. In March 1960, Nigeria had 3,986 miles of unduplicated airways.

Post telecommunications and broadcasting. There were 48,000 telephones in use as of 1961 estimates, and about 75 per cent of these were operated under an automatic exchange system. The Nigerian Broadcasting Corporation operates transmitting stations at Lagos, Ibadan and Emign. A wire service is operated in the Northern Region

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[6]Associated Press Dispatch, The New York Times, May 16, 1967.

and the Eastern Region. Programs are broadcast in English and 15 other vernacular languages. The first television network in Africa south of the Sahara was inaugurated in the Western Region in 1959.[7]

III. RESOURCE AND TRADE

Main exports. Main exports are palm kernels, 27 per cent of the total exports in 1956-58. Nigeria is the world's largest producer. Cocoa, cotton, tin ore, columbites ore, timber logs and sawn, bananas, hides and skins, rubber, coffee, and ginger are also important exports.

Main imports. The main imports are machinery and transport equipments, manufactured goods, piece goods and synthetic fibres, and cotton piece goods.

Value of trade. The value of trade in millions of pounds (£s)[8] is as follows:

	1955	1956	1957	1958
Exports	132	135	127	136
Imports	136	153	152	167

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[7]United States Department of Commerce, United States Department of Commerce Publications (Washington: Government Printing Office, 1966), p. 15.

[8]Alfred Okigbo, Economic Survey of Nigeria (England: Oxford University Press, 1961), p. 133.

Nigeria's principal customers. Nigeria's principal customers in export and import trade are the United Kingdom who purchased 5.5 per cent in 1959, the Netherlands who purchased 16.20 per cent in 1959 and Western Germany, Japan, United States, France and Italy.[9]

IV. MARKETING AND COOPERATIVE SOCIETIES

Most of Nigeria's principal agricultural exports are handled by the Regional Marketing Boards. These boards purchase the goods and are responsible for their delivery to ports. The Nigerian Produce Marketing Ltd. takes over exports produced from the boards at ports of shipment to overseas sales of all marketing boards' produce.

The produce which the marketing board's agents are alone authorized to export are cocoa, palm oil, palm kernels, peanuts, cotton seasame seeds, soya beans, and in the Western Region citrus fruits.[10] There are other cooperative societies in other export industries such as printing and publishing and banking and transportation.

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[9] O. Olakanpo, "Monetary and Banking Problems in Nigeria," Bankers Insurance and Agents Magazine (March, 1966), pp. 185-195.

[10] Ibid.

V. INDUSTRY

Mills to extract oil from Palm kernels have been organized since the end of World War II. There are some weaving factories and other minor industries. The government has tried to encourage foreign investments by providing import duty relief and income tax relief.[11]

Mining. Although several minerals are found in Nigeria, the output of the whole industry is quite small. All minerals are controlled by the federal government. They include tin ore, columbite in the Northern Region and coal and oil in the Eastern Region. Nigeria is the only country in West Africa at present producing coal in large quantity.[12] Large lead and zinc deposits are also found in the Eastern Region, but they have yet to be exploited.

VI. LABOR

Most of the Nigerians are peasant farmers who produce food crops for themselves or for local sales.[13] The number employed

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[11]United States Department of Commerce, International Commerce (New York: United Nations Publications, 1965), p. 161.

[12]O. Teriba, "Bank Money in Nigeria, 1950-1962," (Ibadan: Department of Economics University of Ibadan, 1961), p. 50.

[13]Ibid., pp. 61 and 64.

in the principal wage-earning occupations in 1958 in undertaking employing ten or more persons were as follows:

Government services	122,789
Construction	123,846
Commerce	45,698
Mining and quarrying	49,506
Transport and communications	48,656
Agriculture, fishing and forestry	45,416
Manufacturing	29,693[14]

In 1946 there were 100 labor unions with a membership of 52,747, a number which had grown by the end of 1957 to 232,953, involving 279 trade unions.[15] A central labor organization, the Trades Union Congress of Nigeria, was formed in 1959 to replace the two such former organizations. Legislation covers such matters as conditions of employment, health, welfare, and other conditions of labor.[16]

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[14] J. U. Maxwell, "Banking Standards in Nigeria," _A Report of the Indigenous Banking Committee on Breaking Expatriate Banking Monoply_ (Lagos: Government Printing Press, 1962).

[15] International Bank for Reconstruction and Development, _The Economic Development of Nigeria_ (Lagos, 1954), pp. 97-98.

[16] _Ibid._, p. 108.

CHAPTER IV

FOUR BRITISH WEST AFRICAN TERRITORIES

I. LIMITED MUTUAL ASSOCIATIONS

As late as 1951, the four West African territories under the British administration had little in common and only limited mutual associations. The only traceable relation they had then was in the field of currency and banking. Here at least they were very well unified. The West African Currency Board provided their currency needs on an exclusive basis.[1] It has been described as a pioneer of the purely sterling-based colonial currency system and straddled the territories with their well-developed but distinct overseas trade connections and very unequal populations. The banking business of all the territories was concentrated almost entirely in the hands of two banks, each carrying on a unified operation based in London. It was related preponderantly to the overseas trading of the separate colonies.

By the year 1963 the territories had moved apart with Nigeria, Ghana, and Sierra Leone having acquired political independence. They still remain within the Commonwealth, and only Gambia with its

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[1]Editorial in the <u>West African Pilot</u> (August 9, 1956).

very small area and population continued in colonial status. Two new currencies had already been established. A third was shortly to make its debut, and only in the Gambia was the West African pound to remain as a relic of a comprehensive system. Similarly, the banking systems had become identified with the respective territories under the separate leaderships of the newly established central banks in the three former colonies.

II. DEVELOPMENT OF MONEY ECONOMY

The development of rudimentary practices of a money economy is well illustrated by the course of Currency Board figures. In June, 1951, the circulation of the Board's currency, the only legal tender in the territories, was put at £79 million, with notes still a little less in amount than coins. The total went on rising to a maximum of £107 million in June, 1957. The currency notes made up two-thirds of the whole total stock of money.

Following replacement of separate Ghanaian and Nigerian notes and coins by June, 1962, the total had fallen to £22 million. There were more coins than notes, and a further decline was foreseen as Sierra Leone prepared her monetary arrangements. The separate currencies have maintained parity with the pound sterling and are still heavily backed by sterling assets. These represent the assets handed over by the Board in redemption of its former currency liabilities, together with part distribution of its accumulated surplus. The profits record of the Board had indeed been exemplary. In a little over forty years, nearly £28 million had been distributed to the colonial governments. In the clearing-up operations, Nigeria received a further £6 million and Ghana £3 1/2 million.[2] In making these settlements in sterling, the Board was ensuring complete freedom of investment policy to the central banks which have succeeded it in providing the governments concerned with important liquid resources. An addition of outstanding Currency Board issues, plus the currency liabilities of the central banks of Ghana and Nigeria, gave a total of approximately £124 million for the summer of 1962 to compare with the £107 million of Currency Board liabilities at mid 1957.[3] The note issue was still far in excess of the coin.

A market development can be noted also in banking facilities and practices. At the beginning of the 1950's, banking operations were confined more or less to the large centers of overseas trade. Even there the banks had little contact with the native public except for a small amount of savings business. Much of the credit, so far as

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[2] Daily Times (September 30, 1961), p. 11.

[3] Ibid., p. 12.

it was required for domestic trade, was provided by extra-territorial trading companies.

Expatriate banks. In 1951 the two expatriate banks had forty-six branches in all parts of Nigeria. There were very few indigenous banks in Nigeria. There were about fifty bank offices in all. Before long, rapid expansion was taking place and by 1962 there were over 200 bank offices in Nigeria. The expatriate banks had multiplied their totals by over six times during the period. Meanwhile the aggregate external trade turnover, imports and exports, had grown from £390 million to nearly £730 million. It is clear from this comparison and from the geographic locations of new branches that the banking system had made a remarkable penetration into domestic business in a very short time.

III. EARLY BANKING DEVELOPMENT

Commercial banking started in Nigeria in 1892 when the African Banking Corporation opened a branch in Lagos and was given the monopoly of obtaining United Kingdom silver locally against pre-payment in London. The earliest attempt to regulate the business of banking in what was then the Colony and Protectorate of Nigeria was made in May, 1952, when the first Banking Ordinance was passed.

Some criticism has since been leveled at the successive colonial governments for not having attacked this problem earlier. By then a gullible public had been induced to deposit money in a number of indigenous banks of questionable reliability. In the early 1950's most of these failed as a result of dishonest and/or incompetent management. The failure inflicted considerable hardship on the unfortunate customers and loss to overseas banks and traders who had entrusted shipments to African importers through the medium of those banks. Most of those banks that survived those difficult years are still carrying on business today.

Monopoly of banking business in Nigeria. It is worthy of note that at the time of the Ordinance, banking in Nigeria was mainly in the hands of two British banks, Barclays Bank (Dominion, Colonial and Overseas) and the Bank of British West Africa.[4] These two banks have since changed their names to Barclays Bank D.C.O. and Bank of West Africa respectively. Between them, they had a total of twenty-six branches located mainly in the largest towns. They, indeed, monopolized banking business. Although they had in those days, many thousands of Nigerian customers maintaining small interest earning

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[4] Ibid., pp. 2-4.

savings accounts, Nigerian current accounts holders were comparatively few. The business of the expatriate banks consisted chiefly of conducting the government accounts and those of the British trading companies, together with the personal accounts of civil servants, commercial and professional people, mostly expatriates.[5] The banks' main revenue came from advances and from commissions earned on internal transfers within Nigeria.

The lack of active interest on the part of the large British banks in the business of the Nigerian community was the subject of much Nigerian criticism at that time and in succeeding years. The banks were accused of being unwilling to support the indigenous people. Nigerians felt that they had to open their own banks in order to obtain adequate credit because they believed that the expatriate banks discriminated against Nigerians.

> In those days, no Nigerian, no matter how prestigious, could walk into a bank in Lagos or elsewhere and be confident he would walk out with a loan or an overdraft in his pocket.[6]
>
> The expatriate banking houses believed that only very few Nigerians were credit worthy and even these few were handled with caution. Nigerian bankers also felt that the expatriate banks tried to stifle the growth of competition from indigenous

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[5] International Bank for Reconstruction and Development. (Lagos: The Economic Development of Nigeria, 1954), pp. 66-68.

[6] Ibid., pp. 70.

> banks; the banks had to fight early in their development against attempts by expatriate competitors to stifle them. Because of the challenge which the indigenous banks posed, big foreign combines refused to give them their support.[7]

A motion put before the Eastern House of Assembly on August 8, 1956, by Dr. N. Azikiwe, the Premier of the Eastern Region, reads in part:

> That this House views with grave apprehension the conspiracy of the Bank of British West Africa Limited to create a monopoly in banking business throughout the Federation of Nigeria.[8]

There is no doubt that all these accusations against the expatriate banks by the Nigerians played a part in influencing them in later years to undertake a more deliberate and forceful penetration into Nigerian businesses. These were some of the major factors in the tremendous subsequent expansion of the number and spread of their branches throughout the country.

Establishment of indigenous banks. Indigenous banks were founded for various reasons among which were:

1. To break the expatriate monopoly of banking business throughout the federation of Nigeria.

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[7] West African Pilot (July 2, 1958), pp. 2.

[8] The Premier, Eastern Nigeria, "Lack of Interest on the Part of Expatriate Banks" (Enugu: A Motion Put Before the Eastern House of Assembly, August 8, 1956) (mimeographed).

2. To provide finances for Nigerian businessmen.

3. To help the public to bank their surplus accounts instead of hiding them under their mattresses.

The two largest indigenous banks did make statements to these effects. On the occasion of the opening of a modern new head office in Broad Street, Lagos, on September 30, 1961, the National Bank ran a four page supplement in the Daily Times. This supplement contained a history of the bank written by the management. The following extract from the history indicates that the finances of Nigerian business was its principal objective.

It set itself the following objectives:

1. To see that every Nigerian who was likely to benefit from loans, advances, and overdrafts in any way be encouraged by the bank;

2. To help small as well as large businesses to hold their own in the commercial fields;

3. To help Nigerians establish industries and their own properties;

4. To operate and help in a way which will give Nigerians confidence to enter both the commercial and the industrial fields.[9]

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[9] Ibid.

The motive for founding the African Continental Bank Limited was similar, according to its founder, Dr. Azikiwe, who stated that the bank was founded primarily to finance the business activities of Zik Companies. Secondly, it was founded to protect the interests of the public so far as it is compatible with banking practice.

It is noteworthy that these statements contain criteria limiting the kind of finance that should be given. Thus the National Bank's loans were to be limited to Nigerians who were likely to benefit from loans, and the African Continental Bank's loans were to be compatible with banking practices.[10]

Given the fact that the bankers wished to finance Nigerian businessmen and their belief that both indigenous banks and other businesses were being discriminated against, it was hardly surprising that the banks sought aid from the regional governments when these governments came under the control of Nigerian politicians.
The National Bank's history describes this. The monopoly control of the expatriate banks was broken in 1952 when the first Action Group Government, led by Avvolowo, was installed in Western Nigeria. Conscious of the difficulties which had retarded the growth of indigenous

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[10] *Ibid.*

banks in this country for many years, the Regional Government was instrumental in getting the Regional Marketing Board and other corporations and agencies run by the government to bank their monies with the indigenous banks.

This was followed in 1953 by the Marketing Board buying preference shares in the banks. This was a turning point in the life of the banks. It enabled them to enjoy some new advantages.

As part owner of the National Bank through the Marketing Board, the Regional Government was not only interested in seeing that the bank was run on proper lines but it was determined to help in providing training in banking for its personnel. Furthermore, the bank's association with the Regional Government contributed in no little measure to the rapid growth of the bank's branches both in Nigeria and abroad. This happy relationship existed until the Federal Government asked the Regional Government to take over the bank in 1961.

<u>The 1952 Bank Ordinance.</u> The provisions of the Bank Ordinance enacted in 1952 are as follows:

1. No banking business could be transacted except by a company holding a license granted by the Financial Secretary to the Federal Government.

2. That a minimum paid-up capital of £12,000 for a company incorporated in Nigeria, £100,000 for companies incorporated outside Nigeria.

3. The applicant companies must have liquid resources higher than their liabilities.

4. No unauthorized company shall use the word "bank" or any of its derivations.

5. The existing banking concerns were allowed to continue their business until granted license or notified that a license would not be granted by the Financial Secretary.[11]

Presumably, the Colonial Government of the time felt it not politically wise to impose controls on existing banks with greater speed lest this should be interpreted as an attempt to destroy struggling indigenous concerns. In the end, however, most of the pseudo-banks failed. There can be no doubt that the delay in bringing the Ordinance into effect merely increased the ultimate amount of hardship to their customers.

Expatriate branch banking. While the years immediately following 1952 were marked by this painful series of failures, the

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[11]Opinion expressed by Dr. Isong at the Annual Convention of Nigerian Bankers Association Meeting, Lagos, September, 1963.

period was notable for the introduction by the expatriate banks of a vigorous policy of branch expansion. This continued with little abatement until the late 1950's. Though not without the competitive drive, the banks tried to avoid following each other automatically, especially where it was obvious to both that the business available would not justify such action. Each concentrated mainly on new or previously neglected areas. By the end of 1958 a sizeable chain of British branch banks had been established. These undoubtedly proved to be of solid value in the general advance in Nigeria's economy. Without them it would have been far more difficult, if not impossible, for the Marketing Boards to have arranged the orderly purchasing of the steadily increasing volume of export crops from the peasant farmers in remote districts. These branch banks took the place of those indigenous banks which weathered the storm of the early middle fifties.

The two British banks did not confine their expansion to the numerical total of their officers. Partly as an inevitable result of penetration into new areas, and partly due to deliberate policy, their contact with Nigerian customers became much closer. They pressed forward their essential task to attract more deposits. They also moved into the adventurous area of indigenous lending. Very often the banks felt themselves under the necessity of lending without any security whatsoever. They frequently relied upon the integrity of their customers whose means and standing were difficult to check. Naturally, no credit information was available then from such outside sources as are ordinarily drawn upon in more advanced countries.

The long period of rapid branch expansion did place great strain upon the banks' staffs.[12] The new and highly difficult business of lending to Nigerians was often thrust upon young and insufficiently trained personnel. As a result, the banks accumulated a heavy load of Nigerian bad debts. The experience gained, with regard to the importance of better staff selection and training and with regard to the technique of lending to an indigenous population in an underdeveloped country, proved of considerable value later. It was, however, experience bought at a high cost. There were also some Nigerian contacts that were valuable. Important advances were made along the road to making the Nigerian bank-minded.

Bank job as a stepping stone. Throughout the fifties, the efforts of the expatriate banks were also bent to the task of improving the standards of their Nigerian staff. The period coincided with the progressive Nigerianization of the civil service, so that the attraction

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[12] Editorial in the Daily Telegraph (October, 1963).

of government employment militated against the entry of better school learners into the banks.[13] Most often the banks were and still are used as stepping stones to other careers. Often young Nigerians becoming interested in their banking careers are compelled to yield to family pressures to travel to Europe or America for those higher studies which may lead to a future in law, medicine or other professions. The banks have combated these tendencies by steadily making their services more attractive financially and by schemes of training in Nigeria and England. Nevertheless progress has not come as fast as the banks would wish owing to the turnover and wastage in staff already mentioned and the difficulty of modifying age-old customs. Some also have not learned those high standards of integrity which are essential in banking business.

Although there is a slowly increasing number of Nigerian managers in the expatriate banks, they form a minority of the whole.[14] The problem remains one of paramount importance, and it may become increasingly acute as nationalistic pressure, expressed in diminishing immigration quotas, compels the expatriate banks to reduce the number of their expatriate employees.

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[13] Bank of West Africa, "Decrease in Demand Deposit," Annual Reports, 1954, Vol. 9, pages 6-15.

[14] Ibid., pp. 56-58

IV. CURRENCY AND BANKING LEGISLATION

Role of Bank of England in 1957. In 1957 the Federal Government invited a high official of the Bank of England, J. B. Loynes, to visit Nigeria and advise them on the following:

1. Establishment of a federal institution to perform appropriate central banking functions.

2. The introduction of a Nigerian currency and the administration of such a currency so as to preserve its external value, and its acceptability within the country.

3. The relationship of the federal institution to the federal and regional governments, to government institutions, to the commercial banks and to the public, and,

4. The role of such an institution in the development of a local money and capital market.[15]

Establishment of a central bank. After a thorough investigation the Loynes Report was presented in August, 1957. The issue of this document, with the draft banking bill and central bank bill which it included, marked a turning point in the history of banking in Nigeria.

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[15] Advisory Committee of Businessmen, A report prepared by the Eastern Nigerian Marketing Board (Enugu: Government Printing Press, 1957), p. 18.

It laid solid foundations for subsequent development. The draft bills were adopted with very few alterations and were passed into law in March, 1958. They were brought into force partially in September, 1958, and completely in July, 1959, when the new Central Bank became fully operative.

Both pieces of legislation followed orthodox British banking lines. Their main provisions are summarized as follows:

1. Establishing a central bank with the principal objective of issuing legal tender currency in Nigeria.
2. Maintaining external reserves.
3. Promoting monetary stability.
4. Acting as banker and financial adviser to the federal government which was to hold all the paid-up capital.
5. Making the unit of currency the Nigerian pound, divided into shillings and pence with a parity of one Nigerian pound to one pound sterling.
6. Maintaining this parity, the bank was required to buy or sell sterling on demand for immediate delivery in London at rates laid down, subject to an amount of not less than ten thousand pounds with respect to any one transaction.
7. Maintaining at all times a reserve of external assets consisting mainly of gold coin or bullion or British sterling notes.
8. Making reserve for the first five years to be not less than 60 per cent of notes and coins in circulation plus 35 per cent of other demand liabilities.
9. Making it, thereafter, that not less than 40 per cent of the notes and coin in circulation plus other demand liabilities.
10. Authorizing it to purchase, sell, discount and rediscount Federal Government Treasury Bills, inland bills of exchange, and promissory notes arising out of bona fide commercial transactions or in connection with the financing of seasonal agricultural operations, and with the marketing of crops.
11. Acting as banker to other banks in Nigeria and abroad.

12. Authorizing it to buy and sell securities of the Federal Government and to fix its own rediscount rate.
13. Prescribing the minimum amount of specified liquid assets to be held by the commercial banks in Nigeria expressed as a percentage of demand and time liabilities.
14. Calling for information from the commercial banks for the purpose of enforcing its requirements.[16]

From the date of its inception, the bank prescribed a minimum liquidity ratio of 25 per cent.

Bank legislation. The provisions of the Banking Act laid down, first that no banking business was to be transacted except by a company licensed by the Ministry of Finance after consultation with the Central Bank. The minimum paid-up capital for banks with head offices in Nigeria was retained at the figure of £12,500 laid down in 1952; but raised from £100,000 to £200,000 for expatriate banks.[17] Next a number of restrictions were laid down for licensed banks. Thus a bank was prohibited from granting facilities to any person totaling more than 25 per cent of its paid-up capital and published reserves, except in certain cases involving the produce Marketing Boards, exports, or another bank or branch. Again, facilities provided to

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[16] "Banking in Nigeria," The Bankers Magazine (January, 1963), p. 3.

[17] M. N. John, "Objectives of Indigenous Banks," Nigerian Digest of Statistics and Annual Reports (Lagos: Central Bank of Nigeria, 1962), p. 25.

directors of the bank and concerns in which they are interested must not exceed ₤500, if unsecured.[18] The facilities, to employees and officials, were restricted to the equivalent of one year's emoluments. Finally, the purchase, acquisition or lease of real estate except for banking business purposes or housing of staff was forbidden. As part of the system of regulation, banks were required to maintain at all times such holdings of specified liquid assets as might be laid down by the central bank and to render a number of specified returns to the central bank.[19] A bank examiner was appointed to examine periodically, the books and affairs of every licensed bank, and report to the governor of the central bank. He was required to inform the Ministry of Finance of any circumstances likely to call for action. Such action could include steps leading to the revocation of a bank's license.

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[18] Ibid.

[19] Ibid., pp. 52-53.

CHAPTER V

EVOLUTION OF THE NIGERIAN FINANCIAL SYSTEM

I. FIRST NIGERIAN FEDERAL SECURITIES, 1959

Within the statutory framework, steps were promptly taken toward the operative development of central banking practice. In May, 1959, the first Nigerian Federal Government Securities to be issued under the auspices of the Central Bank were offered for public subscription. The amounts were small, but the terms appropriately scaled in time and rates: £400,000 of 5 per cent Development Stock maturing in 1964, £600,000 of 5 1/2 per cent stock in 1969, and £1,000,000 of 6 per cent in 1979.[1] The loans were fully subscribed, though mainly from institutional sources.

Private subscription relatively small. The subscription from the general public totaled only about £100,000.[2] This was, however, to be expected as the public was not accustomed to the new type of investment. The absence of a stock exchange, and therefore, of normal

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[1]M. N. John, "Objectives of Indigenous Banks," Nigerian Digest of Statistics and Annual Reports (Lagos: Central Bank of Nigeria, 1962), p. 25.

[2]Daniel Okechi, Assisting Indigenous Banks (Lagos: The Banker, 1962), p. 13.

marketability was also a restricting factor in the general public response. To help in establishing a market, the banks agreed to accept names of potential buyers and sellers and forward them to the Central Bank, which maintained a central register, tried to link potential buyers and sellers, and suggested reasonable prices for deals. In spite of the cumbersome nature of these arrangements, quite a number of transactions took place. The first public issue of company shares took place in February, 1959; since then, a few other companies have made small issues with varying success.

II. ESTABLISHMENT OF INDUSTRIAL DEVELOPMENT BANK, 1964

Early in 1964, the Nigerian Industrial Development Bank was set up with the object of providing medium and long-term finance for privately-operated industrial and mining ventures.[3] Development banks do not need to follow as restrictive a credit policy as commercial banks because they do not have the same type of dual responsibilities to shareholders and depositors. Development banks are usually started with the express purpose of providing finance that commercial banks cannot properly provide. Because development banks do not have to be

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[3] Ibid.

prepared to repay depositors at any time, they can properly make long-term loans. For the same reason they can properly make loans when the risk is somewhat greater than a commercial bank should take. Finally, a development bank can properly make loans in the national or social interest rather than in the interests of depositors and shareholders.

Exchange of the new currency. The next step was concerned with currency arrangements. Until the Central Bank began to exercise its function as a bank of issue in July, 1959, the currency system of Nigeria was operated by the West African Currency Board on the traditional lines.[4] By the middle of 1959 considerable stocks of the new Nigerian currency had arrived in the country and the task began of issuing it in replacement of the old. An intense publicity campaign was launched by the government in the month's preceding issue, and speeches, broadcasts and press conferences were given by the government spokesmen. By these means and with the operation of the commercial banks on whom fell the main burden of physically exchanging the currency, no less than £16 1/4 million of the new

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[4]C. V. Brown, Development of Credit Institutions (Enugu: Nigerian Digest of Statistics, 1960), p. 16.

notes were put into circulation in the first month and £45 1/2 million in all by the end of 1959.[5] The replacement of coin proceeded more slowly and incidentally involved the Royal Mint in the largest order ever received from overseas. The whole operation was so smoothly accomplished that the Central Bank was able to declare the Currency Board notes and coins no longer legal tender as of July 1, 1962.

First treasury bills, 1960. Meanwhile yet another innovation had been made, in that the first treasury bills had been issued in April, 1960. They were ninety-one day bills in units of £1,000 issued on behalf of the Federal Government by the Central Bank at a price fixed by them at a little under the London treasury bill rate at that time.[6] Prior to this, there had never been any local outlet for short-term investment by the banks whose available funds were traditionally employed in London. The treasury bill issue was substantially supported by the banks and marked the beginning of the movement toward retention of their surplus funds in Nigeria. The Central Bank pursued a policy of fixing its rediscount rate for Treasury Bills at a figure which was designed to encourage investment therein while at the

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[5]Ibid.

[6]J. B. Loynes, Currency and Banking Legislation (London: Oxford University Press, 1958), p. 363.

same time deterring rediscount immediately after purchase. The first Treasury Bills Act limited issues outstanding to 10 per cent of the estimated revenue of the Federal Government during the current year. This percentage was subsequently raised, first to 20 and later to 40.[7] In the process of establishing a short-term money market, the first accepting house began business in 1960.

First stock exchange opened, 1961. The first stock exchange was established in July, 1961, in Lagos. The Lagos Stock Exchange began business in June, 1961. The series of government development loans issued in installments, and the industrial stocks and shares of the rising import-substituting industries have formed the main materials around which the market was developed. There had quickly appeared market-making firms specializing in providing the underwriting, the jobbing facilities, helping administer transactions and rendering services connected with the issues. There had been increasing quotations and dealings from year to year in both private and government securities, and competition for domestic resources between the two sectors had become very keen.[8]

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[7]Central Bank of Nigeria, Functions of the Central Bank (Lagos: Independence Printing Press, 1961), p. 411.

[8]Native Banking Boom in Nigeria (Lagos: The Banker, 1951), p. 36.

The Stock Exchange could grow only if there were in existence active financial institutions to feed the market with saving funds. Up until 1963, the demand for funds had been met by liquidating past foreign assets of money of government institutions and the commercial banks. It was hoped that in the future a deliberate policy to divert the nation's reservoir of savings held by all savings media must be actively pursued. The figures showing the growth of Stock Exchange activities as listed on page 96, Appendix B.

III. POLITICAL INDEPENDENCE SAW INFLUX OF NEW BANKS

The closing years of the 1950's and the period immediately following the attainment by Nigeria of full independence in October, 1960, saw a considerable influx of new banks. Some were purely expatriate in the form of branches of internationally known institutions such as Bank of America and the Manhattan Bank, while some were new institutions with an admixture of Nigerian capital. Only three of the entirely indigenous banks had survived from earlier decades, but two of them had grown considerably. By the end of 1962 there were seventeen licensed banks maintaining a total of 210 banking offices.[9] A list of these two classes of banks, expatriate and indigenous is given on page 97, Appendix C.

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[9] W. T. Newlyn and D. C. Rowan, "Money and Banking in British Colonial Africa," Bankers Magazine (April, 1954), p. 8.

First bankers clearing house opened in Lagos, 1961. The first Banker's Clearing House was opened in Lagos in May, 1961, largely through the encouragement and advice of the Central Bank. It opened its first branch outside Lagos at Kano in 1962 and its second at Ibadan some time later. In January of that year the appointment of the first Nigerian Deputy Governor of the Bank was announced.[10] In July, 1963, he became the governor, succeeding the first governor who returned to the Bank of England from which he had been secured.

Two banking acts in 1962. In 1962 some far-reaching changes were made by Parliament in the two acts which mainly governed the business of banking. Some of these changes reflected the altered status of independent Nigeria and the desire to sever all links with Britain which might appear to imply external control. The arbitrary parity of the Nigerian pound was changed from one pound sterling to 2.48828 grams of fine gold.[11] The Central Bank reserve of external assets, other than gold, instead of being limited to sterling assets in prescribed form, might henceforth include similar assets in other currencies freely convertible into gold or sterling. The minimum

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[10] Thomas Balogh, "Mechanism of Neo-Imperialism," _Bulletin of the Oxford Institute of Statistics_ (August, 1962), p. 16.

[11] _Ibid._, pp. 28-30.

amount of the reserve was fixed at not less than 40 per cent of the total demand liabilities of the banks.

As for commercial banking, the minimum paid-up capital for a bank with its head office in Nigeria was raised from £12,500 to £250,000.[12] No minimum was fixed for banks with head offices outside Nigeria. These were required to undertake to keep within Nigeria at all times out of their own funds, assets amounting to not less than £250,000. Under both heads, however, banks with existing licenses were given seven years to comply with these requirements.

The earlier act had prohibited a bank from acquiring real property except as might be necessary for conducting business or housing staff. This had proved difficult in practice, since there were cases where the development of an important site to no greater extent than necessary merely for the conduct of the owner's banking business was definitely uneconomic and wasteful. The definition of conducting business was therefore expanded in the new act to include provision for future expansion or other exceptional circumstances where the agreement of the Central Bank was obtained.

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[12] A. Hazlewood, "Economics of Colonial Monetary Arrangements," Social and Economic Studies (December, 1954), p. 314.

Under the new act the rates of interest charged on advances or other credit facilities by licensed banks were compulsorily linked to the minimum rediscount rate of the Central Bank subject to a stated minimum rate of interest. The interest rate structure of each licensed bank was made subject to the approval of the Central Bank. Before the establishment of the Central Bank, interest rates in Nigeria, which were confined to bank advances and deposits, since there were no Treasury Bills, moved as a rule in accordance with the Bank of England's discount value.[13] As far as the British banks were concerned, lending rates were normally quoted as a percentage over bank rate with stated minima, which rarely fell below 6 per cent except to the government. After independence the banks removed all reference to the Bank of England rate from their quotations. Even though Nigerian interest rates were no longer explicitly linked to London rates, they still tend to move in sympathy with London's. They have as of 1965 come more and more closely under the influence of the Central Bank of Nigeria's rediscount rate as the structure and mechanics of the money market are being developed.

Before the Act of 1962, banks could include balances held in the United Kingdom banks, money at call in the United Kingdom, British

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[13]Sayre P. Schatz, Development of Bank Lending in Nigeria (London: London University Press, 1964).

Treasury Bills and bills of exchange bearing at least two good signatures and drawn and payable in the United Kingdom among the specified liquid assets which they were required by the Central Bank to maintain.[14]

The new act removed all reference to the United Kingdom from the definition of specified liquid assets and substituted a reference to monetary areas approved by the Central Bank. At the same time the Central Bank was empowered significantly to prescribe the extent to which assets outside Nigeria could be included by any licensed bank in its total of specified liquid assets. This was read clearly indicating an intention by the authorities to compel the expatriate banks to return the bulk of their spare funds to Nigeria. In 1962, as a further encouragement along this line, the Central Bank instituted a system whereby any licensed bank could lend day-to-day call money in multiples of £5,000 to the Central Bank itself. Any bank using their facilities was required to keep at all times a minimum balance on its accounts with the Central Bank separately for each bank concerned. The rate allowed on day-to-day loans to the Central Bank was to be 1 per cent below the current Treasury Bill Rate.[15]

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[14]J. R. Fisher, Report on the Desirability of Establishing a Central Bank in Nigeria for Economic Development (Lagos: Independence Press, 1953), p. 106.

[15]Charles V. Callender, The Development of Capital Market Institute of Jamaica (Lagos: Independence Press, 1960), p. 76.

IV. COMMERCIAL BANKING IN NIGERIA

Commercial banking started in Nigeria in 1892 when the African Banking Corporation opened a branch in Lagos and was given the monopoly of obtaining United Kingdom silver locally against pre-payment in London. Until 1952, however, no effort was made to regulate the conduct of banking business. As a result of Paton's Report of 1948, the Banking Act of 1952 was introduced to regulate banking in Nigeria. Today commercial banking business is regulated by the Banking Act of 1958 as amended in 1961-62.

These conditions among others were fulfilled by seventeen commercial banks which were licensed to operate banking businesses in Nigeria. The seventeen commercial banks may be divided into three main categories as follows:

1. The first group consists of seven commercial banks which have head offices outside Nigeria such as two British, one Arab, one Indian, one French and two American banks. The two British banks, the Barclays Bank D. C. O. and the Bank of West Africa have been long established in Nigeria. The other five banks are recent entrants having been established in Nigeria in the last eight or ten years.

2. The second group of banks were four banks which are incorporated in Nigeria and have their head offices there. It must

be noted that all the banks in this group cannot be defined as foreign banks in the sense that their capital is derived fully from foreign sources. These are the United Bank of Africa Ltd. and the Berni Bank Ltd. The other two banks, the Bank of the North Ltd. and the Bank of Lagos Ltd. have substantial local interest. The controlling share of the Bank of the North is held by the government of Northern Nigeria.

The most important of these banks is the United Bank of Africa which is Nigeria's biggest international bank. It is affiliated with six large European and American banks. The United Bank for Africa was incorporated in Lagos in 1961 when it took over the nine offices and branches of the British and French Bank, a bank which operated in Nigeria as an affiliate of Banque Nationale pour le Commerce et l'Industie between 1949 and 1961.

3. The third group of banks comprises six indigenous banks of which two are cooperative banks run separately by two regional governments in the federation. The history of indigenous banking in Nigeria dates back to 1914. Between that date and 1952, eighteen indigenous banks were established. Many of these banks either failed or were never operated. Only three of the banks established during the period still exist. The continued existence of these three banks

owes a lot to the patronage. Without this, they would have been unable to satisfy the requirements of the Banking Act. Recently the largest and oldest indigenous bank, the National Bank of Nigeria and the African Continental Bank, had to be taken over respectively by the Eastern and the Western Nigerian governments. This was necessary in order to strengthen their capital resources and ensure proper management.[16]

The big five. Of the seventeen banks operating in Nigeria, there are five banks which have a dominant share of the banking business. These include three expatriate banks, Barclays Bank, D.C.O., the Bank of British West Africa, and the United Bank for Africa, and two indigenous banks, the African Continental Bank and the National Bank of Nigeria.[17] In the absence of data regarding individual banks, it is not possible to determine precisely the relative importance of individual banks. However, it seems plausible that the big five control 80 per cent of the total banking business in the country. Only the big five banks have substantial branch networks. Of a total of 218 branches and offices, these five own 192.

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[16]S. A. Alugo, "Post Office Savings Bank and Commercial Banks," Digest of Statistics (April, 1964), p. 4.

[17]Eastern Nigerian Guardian, Port Harcourt (May, 1963).

Of the five banks, the two long-established expatriate banks probably control nearly 50 per cent of the banking business. They control their business through a wide-spread network of branches. The two British banks operate 125 branches and offices, Barclays 65 and Bank of West Africa 60.[18] Of these, seventeen are situated in Lagos alone. The other expatriate bank of recent history operates on a smaller scale. Its business, like that of the two other expatriate banks, is spread evenly around the whole federation.

The branch networks of the three expatriate banks, especially those of the two British banks show an even regional pattern of distribution despite the fact that the Northern Region does not possess a volume of business proportionate to its size. A list of the commercial banks operating in Nigeria in 1964 appears on page 98 in Appendix D.

There are two main features which distinguish the operations of the two large indigenous banks from those of the large expatriate banks. First they are heavily dependent on the patronage of government and quasi-government bodies of their respective regions of origin, which provide a bulk of their deposits. Secondly, their operations are largely confined to their respective region of origin.

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[18] O. Olakanpo, "Commercial Banking in Nigeria," The Bankers Digest (Lagos: University Press, 1965), p. 20.

The African Continental Bank, which is owned by the Eastern Nigerian government is essentially a bank whose business and branch network are narrowly restricted to Eastern Nigeria.[19] Also the National Bank of Nigeria, which was taken over by the Western Nigerian government draws a large proportion of its business from Western Nigeria where it has most of its branches and offices. The extent of regionalization in terms of distribution of branches is more pronounced in the case of the National Bank than the African Continental Bank. Thus of the 24 offices and branches operated by the African Continental Bank, only nine are situated in Eastern Nigeria. As for the National Bank of Nigeria, only seven of its 30 branches are situated outside Western Nigeria.

The tendency toward regional indigenous banks has been further reinforced by the recent establishment of the Bank of the North which has its head office in the Northern Region. Although this bank is yet to develop a branch network, it is, no doubt as its name suggests, going to be a purely regional bank catering to the interest of the Northern Region.

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[19] S. A. Alugo, _Report of the Advisory Committee on Aid to African Businessmen_ (Lagos: Government Printer, 1961).

The scope and size of business of the other twelve banks are comparatively small. Five of these banks specialize in the finance of foreign trade and have very little domestic business.[20]

Bank deposits. As in advanced countries, the commercial banks in Nigeria play a dominant role in gathering funds and channeling them into various uses. In recent years, partly as a result of the growth of the economy and the sheer increase in the number of banks, this dual role of the commercial banks in the capital market has increased in importance. This is evident in the growth of aggregate deposits and the loans and advances of the banks.

In the decade 1954 to 1963, the aggregate deposits of the commercial banks rose from about £40 million to nearly £96 million, an increase of 140 per cent. The deposits of the commercial banks fall into three main classes. These are demand deposits, savings deposits and time deposits. The most important of these three both qualitatively and quantitatively are demand deposits. The tables showing these can be seen on page 99 in Appendix E.

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[20] United Nations, "Annual Report of the West African Currency Board," Statistical Yearbook, Vol. 36 (1959), pp. 3-4.

In absolute terms, demand deposits increased by only 48 per cent from about £33 million to nearly £49 million, over the decade. However, in relation to aggregate deposits, demand deposits have fallen from 95 per cent and now account for just about 50 per cent. In relation to total money supply as conventionally defined, demand deposits are just between 20 and 25 per cent. This low ratio of demand deposits to total money supply indicates the relatively limited use of commercial banks as agencies through which payments are made.

The use of bank money as a means of payments is still largely confined to government, semi-government organizations, and commercial institutions. Only rich and fairly well-to-do individuals make use of checks on a large scale. In 1963 only 28 per cent of demand deposits were held by individuals while the remaining 78 per cent were held by government and private commercial institutions.[21]

Until recently there was no central organization for the clearing of checks drawn on banks in Nigeria. One of the immediate tasks confronting the central bank when it was established in 1959 was to remedy this defect which in itself was a hinderance to the development of the banking habit.[22] Early in 1961 a clearing house was established

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[21] Ibid.

[22] United African Company, "Movement of Fund by the Currency Board," Statistical and Economic Review (1961).

in Lagos by the Central Bank in cooperation with the commercial banks. Nearly all the commercial banks operating in Lagos were members of the Clearing House. Another clearing house was established in Kano following the opening there of the first branch of the Central Bank in early 1963.[23] As the Central Bank opened branches in the three remaining regional capitals, similar regional clearing houses were established. These developments greatly facilitated inter-bank settlement of checks and enabled the banks to ascertain their overall cash position early each day.

The second class of deposits is savings deposits. Unlike demand deposits which are held largely by institutions, a large proportion of savings deposits is held by individuals. They are designed for people with small but regular savings from salaries and earnings. Amounts may be added to the deposits at intervals and interest at 3 per cent is payable on specific dates at a flat rate on the fluctuating balance. In theory the withdrawals are subject to three days notice, but this is not enforced in practice. Most banks operate their savings accounts on a demand basis since the enforcement of a notice period would seriously cut down the number of accounts.[24]

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[23]International Monetary Fund, "Bill Rate in London," International Financial Statistics (February, 1961), p. 63.

[24]Ibid., pp. 67-68.

Savings accounts make up 65 to 75 per cent of the total number of accounts but only 29 per cent of the aggregate deposits. Individuals account for over 91 per cent of the total savings deposits. Between 1954 and 1963, savings deposits as a portion of the total deposits have increased from 7 per cent to nearly 29 per cent. In absolute terms, savings deposits increased by 833 per cent, from £3 million to £28 million.[25]

Savings accounts are unprofitable to handle since the amount of money turnover per account is small and the number of entries involved in running it down each month is high. Servicing charges do not cover the operating costs. The servicing charge is calculated and charged as a flat rate on the declining debit balance. Most of the banks try to check frequent withdrawals from savings accounts by levying a charge on any withdrawals in excess of one per month. The going rate is three shillings. Nevertheless most banks carry a loss on the servicing of their savings accounts. The loss is carried partly to please the government and to encourage the saving habit in Nigeria. The American banks which charge for servicing accounts on a fixed rate per entry irrespective of the amount involved or the account turnover

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[25] Ibid.

are considering the imposition of a minimum carry-over balance to cut down the loss in servicing savings accounts.

The third class of deposits is time deposits. These differ from demand and saving deposits mainly in that withdrawal is strictly subject to notice. In absolute terms, time deposits increased by 375 per cent from about £4 million to nearly £19 million between the end of 1954 and the end of 1963.[26] The share of time deposits in aggregate deposits increased from about 9 per cent to 46 per cent over the decade. Nearly 75 per cent of time deposits is held by government institutions and commercial firms. The government by then had about 40 per cent of the time deposits. Individuals accounted for 21 per cent of time deposits.[27]

Compared with savings deposits, time deposits are fixed as to time and as to interest. The banks do make a distinction between two types of time deposits: fixed deposits and short time deposits.[28]

For fixed deposits the amounts deposited are for specified period of six months to twelve months and the interest payable is agreed upon by the bank and the customer. The current rates as of

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[26]H. A. Shannon, "Nigerian Financial Revolution," The Modern Colonial Sterling Exchange Standard, (1961), p. 53.

[27]Ibid., p. 36-37.

[28]Ibid.

1963 were 3 per cent for six months and 3 1/2 per cent for twelve months. In case of need, the banks would allow the deposits to be withdrawn, before the expiration of the period, but this would involve a loss of interest to the customer.[29]

Short deposits are for the slightly larger investor because the minimum amount which can be deposited is £1,000.[30] Unlike fixed deposits, the period for short deposits is not fixed, but the amount must remain on account for one month before interest can be paid. Thereafter, withdrawal can be made without a loss of interest provided seven days notice of withdrawal is given. For most deposits the average period for which funds are held is shorter than for fixed deposits. Short time deposits usually earn a 3 per cent interest rate.

As indicated already, aggregate deposits of commercial banks increased over the decade by 140 per cent. However, deposits have declined in relative importance while the share of both time and savings deposits in aggregate deposits has increased. Indeed the growth of aggregate deposits is largely accounted for by the increase

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[29]Nevin Edwards, Capital Funds in Underdeveloped Countries (1958), p. 215.

[30]C. V. Brown, "Government Participation in Some Indigenous Banks," Nigerian Journal of Economic and Social Studies (1964), pp. 244-245.

in time and savings deposits. Of the increase of £55 million in aggregate deposits, time and savings deposits account for nearly 73 per cent, and savings deposits alone for 38 per cent.[31] In the absence of data on ownership of deposits at the beginning of the decade no accurate estimate of the classes of depositors responsible for the increase can be made. However since individuals accounted for nearly 91 per cent of savings deposits in 1963, and in view of the fact that this form of deposit rose over the decade by 833 per cent, it may be concluded that the growth of deposits has been due mainly to the increase of individual deposits. At the end of 1963, 46 per cent of the total deposits was held by individuals, of which 59 per cent was savings deposit, 32 per cent demand deposits and 9 per cent was time deposits.[32]

The rapid growth of individual deposits and especially its savings components are partly a concomitant of economic growth and the spread of banking facilities. Branch expansion has put the banking facilities within the convenience of many people who previously saved with the Post Office Savings Bank or kept their savings under the pillow, for want of commercial banks within easy reach of their

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[31] Ibid., pp. 36-37.

[32] Ibid.

localities. Through advertising campaigns, the commercial banks have rendered a considerable public service by popularizing savings. Moreover, the small interest differential advantage which the Post Office Savings Bank previously had over commercial banks has now either disappeared or is no longer adequate compensation for the cumbersome procedure of withdrawal.

Overdrafts and loans. Commercial bank lending takes the usual forms of overdrafts and fixed loans. The overdraft method is very popular with banks and accounts for over 70 per cent of the total bank lending. The banks adopt a practice, on similar lines, to the British banks, of fixing limits up to which customers' accounts may be overdrawn with interest payable only on the amounts drawn. It is not the normal practice to charge a commission on the unused portion of the credit line, but most of the banks would like this adopted. Loans covering a fixed period, usually a short term is granted for specific purposes. In addition to these two forms of advances, the banks also lend by opening letters of credit to importers, and discounting of commercial bills. The latter method of granting of advances has been encouraged by the official introduction of a bill finance scheme for financing the marketing of agricultural exports handled by the Marketing Board. Under this scheme the commercial banks provide finance by discounting 90 day bills of exchange drawn by the Marketing Boards on the Nigeria Produce Marketing Company. The Central Bank backs this arrangement by providing rediscount facilities up to a defined limit.[33]

Apart from the discounting of bills for financing the Marketing Boards, one of the "Big Five" banks has introduced the French system of financing private firms on the basis of discountable paper as an alternative to the overdraft method. This form of accommodation which is only just being developed is made available to business firms of high repute.

Until recently, due to a lack of suitable domestic outlets for bank funds, loans and advances constituted a tiny fraction of the total assets of the commercial banks. The ratio of loans and advances to total assets was 7 per cent at the end of 1946 and 23 per cent in December of 1954. However, at the end of 1963, the ratio had risen to about 55 per cent. This growth of advances is more striking when related to aggregate deposits. The loans and advances rose from 8 per cent in 1946 to 30 per cent in 1954 and to 94 per cent in 1963. In absolute terms, total loans and advances of the commercial banks

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[33]R. S. Sayers, "Monetary Thought and Policy in England," Economic Journal (December, 1960), p. 221.

increased by 641 per cent from about £12 million in December, 1954, to £89 million in December, 1963.[34]

The growth of loans and advances has been accompanied by the decline in the seasonal fluctuations in bank lending. Until recently, loans and advances of banks were mainly geared to the financing of imports and exports. As a result, bank lending tended to be high during the drop seasons which comes roughly between September and January and to fall thereafter into the third quarter of the year. Corresponding to this was the seasonal variations in excess liquidity of the banks between the crop marketing period and other times of the year. In recent years especially since 1962 the degree of fluctuations in bank lending has fallen markedly with a corresponding fall in excess liquidity between the crop buying season and other periods of the year.

There are many reasons for this change in the pattern of bank lending. The most important reason is the structural change in the Nigerian economy. The rapid growth of manufacturing production which rose in value from £3 million in 1950 to £15 million in 1960 has increased the demand for bank credit on the part of industrial and

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[34] A. Lamfalusay, "Monetary Substitutes and Monetary Policy," <u>Bankers Magazine</u> (January, 1961), p. 67.

manufacturing firms whose credit needs are not seasonal.[35] Thus, between 1958 and 1963, the share of bank lending to the manufacturing sector in total loans and advances rose from 5 to 11 per cent.[36]

The second major reason is the withdrawal, due to government policy, of large expatriate firms from retail trade and produce buying. In the past these firms usually secured finance for their operation outside the banking system through short-term borrowings from overseas. Their replacement with small indigenous firms who lack funds of their own and have no access to direct overseas finance has meant a growing reliance of commerce on local banks for working capital requirements.

The third major reason which again stems from official policy, is the recent introduction of a produce bill financing scheme in which most of the banks participate. The scheme was introduced in 1962 for the financing of the agricultural exports handled by the Marketing Board. Earlier; seasonal finance for the Marketing Board's crops was found in London and the Board's sterling securities were hypothecated to cover overdraft facilities usually made at one per cent above the bank rate. Partially in order to save the foreign exchange loss on

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[35] M. V. Posner, "Competition in Lending Monetary Policy," Bankers Magazine (March, 1961), p. 51.

[36] Ibid., p. 61.

account of interest which this traditional short-term borrowing involved, the Central Bank endeavored in 1962 to arrange a local finance by means of bills of exchange for the Board. Thus the seasonal financial requirements of the Marketing Board which formerly were met through short-term borrowing in London, are now being provided for by the local banking system.[37]

As a result of this growing demand for bank credit, coupled with the slow growth of the deposits in relation to advances, there has been an increasing pressure on the resources of the banking system. While aggregate bank advances rose over the decade by 641 per cent, aggregate deposits rose by only 140 per cent.[38] This development has exerted pressure on bank liquidity. To meet the pressure, the banks have had to augment their resources by borrowing funds from overseas associates and branches reducing their overseas assets and increasing their capital. The commercial banks have also become more dependent on the rediscount facilities of the Central Bank. Moreover there has developed a keen competition for deposits among the banks in Nigeria. The newly established banks whose deposits business in Nigeria is in the early state of development have had to

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[37] The Daily Times (Lagos, Nigeria), June 3, 1963, p. 3.

[38] The West African Pilot (Lagos, Nigeria), April 6, 1963.

rely more on foreign funds for lending than the big indigenous banks, with a large share of government business and the older expatriate banks which are largely self-sufficient due to their ability to attract local deposits through a wide network of branches. Overseas borrowing from associate branches and banks is regarded as a costly way of bridging the gap between advances and loanable funds, since foreign funds have to be paid for at international market rates. In order to make themselves self-sufficient, the newer banks have adopted various devices to build up their deposits. These include advertisements, savings campaigns, and the offer of quick and efficient service. The latest innovation in the bid to attract deposits is the introduction in 1963 of a Mobile Banking Unit by the United Bank for Africa.[39] This is a pilot scheme aimed at the market women in the Federal Territory who are not used to normal banking hours. It is believed that these women have idle funds that are at present beyond the reach of the banks and other savings institutions. The Mobile Banking Unit is regarded as one device of capturing these funds and introducing banking facilities to the market traders.

Banking standards. Reflecting the mixed structure of the commercial banking system, the commercial banks in Nigeria vary

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[39] O. Olakanpo, "The Money Market in Nigeria," Bankers Magazine (September, 1963).

in size, quality and the nature of business. In the past there was a sharp division between the indigenous and the expatriate sectors of the banking system. This division was reflected in the asset structure, quality, capital, lending policy, and management. The indigenous sector was distinguished by poor staffing and management, extremely liberal forms of lending and low banking standards. On the other hand, the expatriate sector was remarkable for its high standards and extremely conservative lending policy. In recent years, due to official efforts to improve banking standards by means of legislation and bank supervision, banking operations in both sectors have tended to become similar.

The first attempt to enforce high standards by means of bank supervision was made in 1962 when a new Banking Examiner attached to the Federal Ministry of Finance was appointed under the Banking Act of 1958.[40] By the terms of the Act, the duty of the examiner is to examine periodically the books and affairs of each and every licensed bank. In addition, under certain conditions, the Minister may order special examinations. If, as a result of the examination a bank is found to be carrying on its business improperly, the Minister may

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[40] Nigerian Central Bank, "Annual Reports," Economic and Financial Review, Vol. 4, No. 1 (June, 1964).

require that steps be taken to ensure proper management or appoint an experienced person to advise the bank on the conduct of its business or recommend that the bank's license be revoked. Since the operation of the Banking Act of 1958, the Minister has had cause to recommend the withdrawal of the license of one indigenous bank.

The banking examiner had recently completed his first round of examinations of all the banks.[41] The purpose of periodical examination has not been simply to police the law, but to ensure through timely advice and guidance the development of commercial banking on sound lines. Through examination the authorities have been acquainted with the lending and investment practices of banks, and they have offered them useful guidance as to how to improve their performance and avoid pitfalls. In addition, advice has been given on such matters as staffing which poses a major problem for the sound development of indigenous banks. As a result of all these changes and new introductions of good banking practices, bank failures have been reduced very tremendously.

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[41]Federal Ministry of Commerce, "Hire Purchase," Nigerian Journal of Economic and Social Studies (1961), p. 115.

V. THE POST OFFICE SAVINGS BANK

The Post Office Savings Bank is one of the oldest savings banks in Nigeria. The Post Office Savings Bank came soon after the establishment of a money economy in Nigeria. It is the savings bank with the largest number of branches throughout the federation. By 1963 there were 220 Post Offices and sub-Post Offices in Nigeria.[42] Even this does not enable the Post Office to give a good coverage to the country as a savings institution. With 55,663,821 people to serve in an area covering 356,669 square miles, the Post Office Savings Bank, which is less efficient than the commercial banks, has a branch population and area density of 253,017 and 1,621 square miles respectively.[43]

Apart from the question of high population and area densities, the Post Office has some serious handicaps in its operation as a savings bank. First it is hampered in its operation by excessive red tape. Being an arm of the Ministry of Communications, which is run strictly on civil service and non-commercialized basis, there has been little effort on the part of the Post Office to adapt its rules and regulations to the convenience of its customers. Rigid withdrawal

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[42] Ibid.

[43] The London Times (London, England), February, 1966.

formalities and regulations are pursued with conservative protocol.[44] For example, the withdrawal of certain amounts at a branch may require the permission of the head office in Lagos which in some cases may take many days or weeks, particularly in areas where there are no telephones and telegraphs. Although the Post Office Savings Bank was never intended to operate current accounts, excessive handicaps in the way of depositors may have the undesirable effect of making savings less liquid. These restrictions scare away many of the Post Office Bank's customers because a large proportion of those people are in the lower income bracket. This is because these people can ill afford unnecessary delays whenever the need arises for part or all of their savings.

Lack of courtesy on the part of the staff and in some cases over zealousness on their part which makes them pursue officiously the numerous rules and regulations of the department have in no way improved the relationship between the Post Office Savings Bank and the public.

An examination of the volume of the commercial banks and the post office savings deposits for the twenty-year period, 1944-63,

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[44]Nigerian Central Bank, "Growth of Stock Exchange Activities, Central Bank," Economic and Financial Review (June, 1966), p. 37.

clearly shows that the Nigerian public prefers the commercial banks to the Post Offices and that the position of the Post Office as a savings bank is in fact rapidly declining. The chart can be seen on page 100 in Appendix F. The deposits of the Post Office Savings Bank rose from a few hundred thousand pounds in 1945 to about £4.7 million at its highest in 1956 and had steadily declined since then, stagnating around £3 million from 1959 to 1963.[45] This is despite the obvious increase in income brought about by increased exports and a series of wage increases.

During the same twenty-year period under review, the private commercial banks in Nigeria started with £2.8 million which grew steadily ever since to a level of over £47 million by 1963.[46] The steady and rapid growth of deposits at the commercial banks is regarded as a better reflection of the rapid economic and monetary expansion that is taking place in Nigeria. The decline of the Post Office Savings Bank deposits may be interpreted to mean a positive demonstration of the people's dislike for the savings system of the Post Office. This is more obvious if one considers the fact that by

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[45]Amogu O. Okara, "Savings in an African Economy," Social and Economic Studies (1966), p. 66.

[46]Ralph Hawtrey, "The Art of Central Banking," The Nigerian Journal of Economic and Social Studies (1965), p. 71.

1963, the Post Office had about 220 savings bank branches more evenly distributed than the 197 commercial bank branches.[47]

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[47] O. Teriba, "Monetary and Fiscal Policy, 1964-65," Bankers Annual Report (1965), p. 10.

CHAPTER VI

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

I. SUMMARY

It was the purpose of this study to briefly trace the historical development of the currency and banking system of Nigeria from 1825-1964 and to note and appraise the efforts of the Imperial Government in this difficult and exciting undertaking. The basis of this study was a review of the related literature and materials from the International Monetary Fund, World Bank, Banks of Canada and England, and materials from Yale University Library.

This study has shown that by 1925 both a currency and a banking system had been introduced in Nigeria and in the other three British colonies. They were modern in the sense that they had the essential qualities which allowed them, with certain later modifications, to be viable for the important increase in Western African foreign trade, internal expansion and the conscious development policies initiated in the 1950's. The system, the fascinating but complicated introduction that has been described, has moreover been amplified by the recent establishment of the Central Bank and other financial intermediaries. By the early 1950's the preconditions for national monetary policies had been created.

It is important to note that this study revealed vividly the impact which the British government and some other European metropolitan powers had in the shaping of the monetary system of Nigeria and the other three British West African territories. These two factors, the colonization of West Africa by the different powers, and the arbitrary separation of tribes by geographical boundaries have had two powerful, but opposite, influences on the history of currency and banking in West Africa.

It is noteworthy that without the influence of the Imperial Government, Nigeria as a whole would not have developed a single and a uniform currency. The greatest role of the West African Currency Board was that of unifying the four British West African territories in the field of currency and banking.

The banking system existing in Nigeria today is a European and American institution. It came to Nigeria and West Africa as a whole and did not spring up there as an autonomous development. It has been demonstrated by this study that the records of most of the indigenous banks were unsatisfactory. Some did not have satisfactory liquidity ratios at times and did not have qualified personnel so many failed.

The economic development of Nigeria would require increased credit facilities in particular for Nigerians. It was the impression of the Nigerians that the expatriate banks, which then controlled close to

90 per cent of deposits, would contribute rather little to meeting that demand, at least until they would feel that the level of business experience and sense of responsibility of the Nigerian community at least approached European standards. The task of providing credit to Nigerian enterprise and of educating Nigerian businessmen to these higher standards of experience and responsibility would therefore largely fall to Nigerian banks and governmental lending institutions. As a result, the share of the European banks in Nigerian banking is likely to decrease over the years just as the Post Office Savings Banks have decreased. The Post Office Savings Banks were among the pioneer financial institutions in Nigeria, but they have now declined in importance for several reasons. In the first place, they cannot cope with the keen competition from the commercial banks and other financial intermediaries; second, they are an arm of the Ministry of Communications, which is run strictly by civil service on a non-commercial basis; hence there has been little effort on the part of the Post Office to adapt its rules and regulations to the convenience of its customers.

In Nigeria the greater part of the money supply consisted of currency and not bank deposits which comprised a little over a third of the money supply as shown on page 101, Appendix G. The banking system in the process of development and the banks themselves vary in quality, size, and to some extent, in the type of business which they transact.

Before and during the 1950-1958 period, 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 its activities on the financing of government movement of cash crops and foreign trade. They provided the necessary cash for working capital but eschewed credit expansion on the security of local assets. As indicated in Appendix D, page 98, 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.

The 1952 Banking Ordinance required all banks operating in Nigeria to obtain a license. To become licensed, banks had to have, among other things, a paid-up capital of at least £12, 500, and an adequate degree of liquidity. The 1958 Ordinance required commercial banks to maintain a ratio between certain specified liquid assets, as amended in 1962, and cash balances at the Central Bank, net balances with other banks, and treasury and other bills. The Central Bank can announce the minimum ratio that banks are to maintain. The ratio that has been required during the period of this study is still 25 per cent.

The ordinance also contains a number of restrictions on the activities of commercial banks that are designed to protect the interest of depositors. The most important of these is a clause which limits the amount that a bank can loan to any one customer to 25 per cent of its paid-up capital and reserves. The 1952 Banking Ordinance prohibits banks from making unsecured advances in excess of £300 to any one or more of the directors of the bank. The 1958 Ordinance raised this limit to £500.

The most important roles played by the indigenous commercial banks of Nigeria were:

1. The encouragement and advice which were always available to any able-bodied Nigerian who was likely to benefit from loans and advances from the bank.

2. The help given to small-time as well as big-time business-men to hold their own in the commercial field.

3. The help given to the Nigerians to establish industries and own properties.

4. The giving of help in a way which gave Nigerians confidence to dare in both the commercial and industrial fields.

The Nigerians themselves argue that the banks have, in fact, financed the development of Nigerian companies which would not have been financed by the expatriate banks.

II. CONCLUSIONS

The conclusions from this study are as follows:

1. The evolution of currency and banking in British West African territories took place essentially during the hundred years 1825 to 1925. By 1925 it was basically complete, in spite of the later change-over of currency in some of the other countries. This is evident from the materials collected from these various sources.

2. The Imperial Governments and merchants contributed much to the shaping and unifying of the English speaking British West African countries in the field of currency and banking.

3. The Post Office Savings Bank with its 220 offices has declined as a financial institution in Nigeria. It is a necessary evil to the people it serves nowadays.

4. The commercial banks in Nigeria can do little with regard to the problems of development, apart from supporting where possible new and reliable industrial ventures with short-term working capital. This, however, is becoming increasingly difficult owing to a shortage of funds.

5. On a broad view of the future of Nigeria, she faces problems common to most newly independent and developing countries. She suffers from the general reluctance of the outside world to invest very heavily in the country at present.

6. From 1960 to 1962 inclusive, the inward movement of external assets of the banking system and the expansion of the bank's 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 coins and not bank deposits.

7. The Nigerian Central Bank, so far, is no more than an institution for mobilizing and purveying resources for development projects. It is in the successful performance of this role that it can prevent the economy from running into external deficit. As far as promoting monetary stability is concerned, the responsibility must be that of the government. The Central Bank can only help.

III. RECOMMENDATIONS

It is recommended that the expatriate banks and the indigenous banks work close together and have a mutual understanding of each others problems. This would work to benefit the economy of Nigeria and would usher in progress and steady economic development and growth. Nevertheless, some sort of competition between the two of them is highly desirable.

The Regional Governments' policy should have been directed toward promoting a stable indigenous banking system that could make a substantial contribution to economic development. A sound policy would contain the following interrelated elements.

1. That aid be restricted to viable banks.

2. That standards be adopted to ensure that aid was not used in any way that could damage that viability.

3. That the aid be given on a scale and in a form likely to enhance the viability of the recipient banks.

4. That inservice training for ambitious young Nigerians be given on both the managerial and operating levels.

There is little doubt that the Post Office Savings Bank as at present administered is a necessary evil to most of its customers, the bulk of whom live in the rural areas where there are no other alternatives at all. The details of the plans to commercialize the Post Office are not yet available, but it will be good if sufficient consideration is given in the plan to the great importance of the modernization of the Post Office Savings Bank facilities. If modernized, the Post Office Savings Bank could be an invaluable instrument for the mobilization of domestic savings, particularly in the rural and remote areas. If it is brought up to date in its banking systems, it may provide a good alternative to direct government participation in commercial banking. This is particularly so because the ideal distribution of its branches is a good structure on which could be built an effective savings facility for the mobilization of the savings of the rural and remote areas of Nigeria.

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APPENDICES

APPENDIX A

A Comparison of British Sterling Silver Issued for Circulation in West African Colonies and in the United Kingdom

Year	West Africa £	United Kingdom £
1886	550	712, 100
1887	7, 000	663, 415
1888	16, 150	492, 625
1889	33, 400	1, 792, 125
1890	65, 000	1, 340, 175
1891	80, 750	757, 750
1892	46, 325	741, 075
1893	141, 100	778, 975
1894	77, 990	707, 400
1895	235, 450	819, 996
1896	108, 815	868, 000
1897	63, 200	721, 975
1898	334, 340	716, 700
1899	418, 875	755, 950
1900	360, 220	919, 500
1901	154, 730	335, 846
1902	398, 750	275, 502
1903	253, 625	140, 072
1904	363, 025	195, 826
1905	143, 800	223, 500
1906	506, 600	805, 302
1907	700, 400	888, 421
1908	194, 900	422, 922
1909	669, 600	655, 128
1910	1, 259, 450	1, 133, 591
1911	874, 850	12, 191, 866

Source: Report of Departmental Committee on Special Currency for West Africa

APPENDIX B

Growth of Stock Exchange Activities:
Total Number of Transactions and Values

Number of Transactions	1961	1962	1963	1964	1965
Government	92	131	296	404	391
Industries	242	354	415	581	627
Total	334	485	711	985	1018
Total Value ('000)					
Government	710.4	1606.0	4868.3	5909.5	7194.9
	49.8	131.4	323.1	1086.6	734.8
Total	760.2	1737.5	5191.4	6996.1	7929.7

Source: Central Bank, Economic and Financial Review, June, 1966.

APPENDIX C

The Main Banking Companies as of End of 1965

Expatriate	Indigenous
Bank of West Africa	African Continental Bank
Barclays Bank	National Bank of Nigeria
Bank of America	Agbonmagbe Bank
Bank of India	Mushin Bank Ltd.
Bank de l'Afrique Occidental	Co-Operative Bank of Eastern Nigeria
Chase Manhattan Bank	Co-Operative Bank of Western Nigeria
Arab Bank	
United Bank for Africa	
Bank of Lagos	
Bank of the North	
Berini	

Percentage Distribution of Their Demand Deposits

	1963	1964	1965
Expatriate Banks	80	85	90
Indigenous Banks	20	15	10
Total	100	100	100

Source: "Monetary Thought and Policy", Economic Journal, December, 1966.

APPENDIX D

List of Commercial Banks Operating in Nigeria, 1964

Banks	Regional Distributions of Branches					
	Lagos	West	Mid. West	East	North	Total No. of branches
African Continental Bank Ltd.	2	3	-	9	7	21
Agbonmagbe Bank Ltd.	1	7	-	-	1	9
Arab Bank	1	-	-	-	1	2
Bank of America	1	-	-	-	-	1
Bank of India Ltd.	1	-	-	-	-	1
Bank of Lagos Ltd.	1	-	-	-	-	1
Bank of the North Ltd.	2	-	-	-	3	5
Bank of West Africa Ltd.	7	12	6	12	20	57
Bank de Afrique Occidentale	1	-	-	-	1	2
Barclays Bank D.C.O.	10	9	4	9	22	54
Berini Bank Ltd.	1	-	-	-	1	2
Chase Manhattan Bank	1	-	-	-	-	1
Muslim Bank Ltd.	1	1	-	-	-	2
National Bank Ltd.	2	17	4	1	3	27
United Bank for Africa	5	2	-	2	3	12
	37	51	14	33	62	197

Source: Compiled from West Africa Directory 1964-65

APPENDIX E

Growth of Commercial Banks in Nigeria
1954-63 (£000)

Year	Deposits					
	Demand	Time	Savings Banks	Total	Loans and Advances	Total Liabilities
1954	32870	4289	3445	40604	11895	52124
1955	31639	4726	5864	42229	19075	57743
1956	35352	4131	6525	46008	25511	67652
1957	37326	5648	8917	51891	34462	72913
1958	40266	6645	11145	58056	38198	79702
1959	40168	10846	14280	65294	40887	100529
1960	41117	8954	18441	68512	57000	117918
1961	41658	14068	21188	76914	59990	147327
1962	45696	17420	24224	86940	80410	142616
1963	48773	18948	28187	95908	89468	162582

Source: Nigerian Digest of Statistics and Annual Reports of Central Bank of Nigeria

APPENDIX F

Comparison of the Post Office Savings Bank and the Commercial Banks, 1944-63

Year	Deposits: Commercial Banks 000	Deposits: Post Office Savings Banks
1944	2599	) Between
1945	2880	) £100 -
1946	3260	) £1000
1947	3308	1847
1948	3062	2201
1949	3196	2554
1950	3212	--
1951	3992	--
1952	5614	3724
1953	6570	4059
1954	7734	4315
1955	10590	4659
1956	10656	4773
1957	14565	4557
1958	17790	4029
1959	25144	3615
1960	27395	3604
1961	35256	3455
1962	41644	3230
1963	47135	3053

Source: Federal Office of Statistics, Digest of Statistics, Vol. 13, No. 4, 1964.

APPENDIX G

Nigerian Money Supply, 1950-62
(£000, 000)

Year	Money Supply	Estimated Currency in Circulation	Demand Deposit	Ratio of Demand Deposit 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

Source: Annual Reports of the West African Currency Board,
U.N. Statistical Yearbook, 1959.

APPENDIX H

The Agbonmagbe Bank

The purpose of this section is to describe the manner in which the Western Regional Government's policy of aiding indigenous banks was implemented in so far as the Agbonmagbe Bank was concerned. This aid took two forms: a deposit and the subsequent conversion of part of that deposit into shares. Aid in similar form was given to other indigenous banks by the Western and Eastern Regional Governments.

Early history in brief. The Agbonmagbe Bank Limited was incorporated as a private company in 1945 by Chief Okupe. Until 1960 all of the shares in the bank were owned by the Okupe family. One section of the bank's Memorandum and Articles of Association has considerable significance for this study. Each shareholder was entitled to appoint one Director. This bank was the second oldest surviving indigenous bank in Nigeria. It grew very slowly in its early days. By 1952 it had a paid-up capital of £5,000 and three branches. During the following year, its capital was increased to £13,410. The 1953 balance sheet showed that deposits were about £10,000 in that year. Loans and advances were just over £3,500.

In 1955 the Western Region Production Development Board made a longterm deposit in the bank of £25,000 for three years at 4 per cent. On March 31, 1956, total deposits including that of the W.R.P.D.B. were over £134,000. The £25,000 deposit was apparently repaid on time in 1958. On March 31, 1959, the bank still had a paid-up capital of £13,410 and deposits were over £145,000. By this time advances had risen to nearly 70 per cent of the total deposits.

In September or October, 1959, the Agbonmagbe Bank received a fixed deposit from the Marketing Board of £200,000, which was more than total deposits six months earlier. In October, 1960, £80,000 of this was converted into shares in the bank. The capital was still £13,410 at that time.

£200,000 deposit. Sometime, probably in June, 1959, Chief Okupe said he approached the Premier of the Region at that time and asked him for government support for the Agbonmagbe Bank. The head of the government promised that the government would look into the matter later.

In June, 1959, he met the Minister of Commerce and Industry, whose Ministry was responsible for the Marketing Board, to discuss the matter of assisting the Agbonmagbe Bank. At a private meeting the decision to deposit the £200,000 in the Agbonmagbe Bank was made by politicians who did not consult their civil servants before making the decision. Although the purpose of the deposit was to help indigenous banking, no investigation was made to determine whether in fact the deposit would help the bank. Because the decision was made by politicians, and because there was no investigation, the Marketing Board and the Ministry of Trade and Industry had no way of knowing that the deposit approximately doubled total deposits at that time. As a result they could not have known whether or not such a large increase in deposits was in the bank's interest.

80,000 conversion to shares. Sometime in 1960 a bank examiner visited the Agbonmagbe Bank. His report was not produced in evidence at the Inquiry, but Chief Okupe admitted that the report recommended a more efficient staff, better accounts, and better auditors. Chief Okupe also admitted that the report found that his bank was granting advances in excess of what was legally permitted. With the bank's capital of £13,410, the maximum advance permitted by the law would be less than £3,500 to any one borrower. The bank had difficulty in using its £200,000 deposit to full advantage, when it was permitted to loan only a small amount to any one customer. When the examination revealed that the bank made illegal advances, it had a choice between calling in its illegal advances or increasing its capital. It is possible that the examiner found the bank's liquidity ratio too low.

The politicians again made the decision in this case to convert £80,000 of the deposits into shares without consulting their civil servants and without making any investigation. Nearly a year after the conversion of the deposit, the Marketing Board still had obtained no representation on the Board of Directors. One important question remains unanswered. "Why, when the Marketing Board owned £80,000 out of £93,535 capital, was it unable to obtain any representation on the Board of Directors?" There seemed to be two reasons for this. In the first place the politicians did not know what they wanted. The Premier himself appeared to have held more than one view on the subject. In his minutes of March 30, 1962, he stated:

> The Government does not intend to meddle with the affairs of the Bank. It was unfair for the Managing Director to suggest that any member of the Government intends to control the bank.

On August 24, 1962, the Premier appeared to have taken another view on the question of control of the bank. He decided to make it possible for some government officials to be members of the Board of Directors of the Bank.

It appeared that the bank had a better record than the accounts of the National Bank. Deposits, including the Marketing Board's £200,000 were over £460,000 in 1960. In 1961, partly as a result of the conversion to shares, deposits were about £326,000; but in

1963 they had fallen to just a little over £288,000. The drop of about £140,000 in deposits between 1962 and 1963 might have been the result of the Marketing Board withdrawing its deposit of £120,000 or it might have been that other depositors withdrew their funds. Whatever the reason, the effects on the bank had been very serious. The liquidity ratio appeared to have fallen from over 33 per cent on March 31, 1962, to less than 17 per cent a year later. This was, of course, considerably below the legal minimum of 25 per cent. In spite of the fact that the bank was able to reduce advances by nearly £50,000 the ratio of advances to deposits had risen from about 83 per cent to about 107 per cent. As a result, the bank appeared to be in a seriously weak position for the first time. It was also possible that the bank would not have been tempted to grant advances that exceeded 25 per cent of its paid-up capital if it had not received the £200,000 deposit from the Marketing Board. Therefore on the basis of the limited evidence that is available, it would appear that the Agbonmagbe Bank would be better off if it had not been aided. Balance sheets for 1953-1956 and 1958 to 1963 are in this appendix.

APPENDIX I

The Merchants Bank

Early history in brief. There were five indigenous banks established between 1933 and 1951. From February 1951 to May 1952, no less than eighteen indigenous banks were registered. One or two of these banks never really opened for business and with one exception the rest either failed or were closed by the police by the end of 1954. The one exception was the Merchants Bank which was registered on January 25, 1952. It survived until its license was withdrawn on September 23, 1960.

By December 31, 1952, it had a paid-up capital of ₤12,650. The capital was never increased. In that year it had a deposit of over ₤18,000, and it had liquid assets of nearly 70 per cent of deposits and advances. The bank made a loss of over ₤1,000 for the year. By the end of 1953 deposits had increased less than ₤3,000 but advances had arisen to nearly 86 per cent of deposits and liquid assets had fallen to 38 per cent of deposits. The bank made a loss of over ₤1000 again.

Deposits. In 1955 it received a deposit of ₤10,000 from the Regional Production Development Board. This deposit which was for two years at 3 per cent brought total deposits to ₤28,000 and was repaid when due. Accumulated losses had by this time reached £4,000. The bank received a number of other deposits from Public Corporations. These formed a substantial proportion of total deposits in the amounts of about £60,000 and £80,000 in December 31, 1956, and December 31, 1957, respectively.

There were two further deposits of £100,000 made to the bank in November, 1958, by the Regional Production Board. There was no investigation made to see if the bank met the criteria laid down by the Banking Ordinance. By December 1957, the bank was very heavily over loaned as the ratio of advances to deposits was over 90 per cent, and liquid assets were only about 15 per cent of deposits. The bank had accumulated losses of £5,992 or nearly half of the capital by this time. Although it was five years old, the bank was still unable to write off £396 preliminary expenses. These figures do not suggest sound and efficient management. In any case, the £100,000 deposit was made and it increased total deposits by over 50 per cent. The deposit was to remain in London for twenty-one days, and then be transferred to Lagos at the bank's expense, where it was to remain for twenty-one days. Although these conditions were accepted by the bank, the bank used the £100,000 to purchase United Kingdom Treasury Bills with a maturity of ninety-two days.

The Board expressed surprise that ninety-two day Treasury Bills were purchased from a forty-two day deposit and demanded the repayment of the whole £100,000 on March 11, 1959. £50,000 was repaid on that date, and the bank was forced to pay the remaining £50,000 on April 11. In the meantime the Managing Director had used £35,000 as a 10 per cent deposit on a ship. The remaining £15,000 was repaid on April 16. The Director was convicted and sentenced to prison for stealing this £35,000.

If there had been regular bank examinations, it would have been revealed:

1. That part of the £100,000 Development Corporation deposit had not been repaid.

2. That employees of the bank were taking money from the bank by ordinary IOU's.

3. That the Managing Director had refused to sign the 1958 accounts.

4. That the Managing Director ordered an investigation of the accounts by an independent auditor.

5. That the 1958 accounts had been printed with a forged signature of the Managing Director on the Balance Sheet.

6. That the Director himself had been dismissed.

7. That the bank was breaking the Banking Ordinance in many respects, and

8. That it was insolvent.

As no investigation was made, these bad banking practices were not discovered. The Merchants Bank license was withdrawn on September 23, 1960, and it subsequently went into liquidation. As a result the full amount of the deposits are unlikely to be recovered.

<u>The bank advances</u>. Most of its advances were illegal. Any advance to a single customer in excess of 25 per cent of its paid-up capital plus reserves was illegal. The December 31, 1958, Balance Sheet shows paid-up capital of £12, 650 and reserves of £453 making a total of just over £13, 000. The maximum permissible advance was, therefore, about £3, 250.

The 1952 Banking Ordinance prohibited banks from making unsecured loans in excess of £300 to any one or more of the directors of a bank. The 1958 Ordinance raised the limit to £500 whether such advances or facilities were obtained by its directors jointly or severally. When the bank examiner visited the Merchants Bank in October 1959, he found that one of the Directors owed the bank a sum of £54, 271: 7S : 10D. This was far in excess of the £500 limit for an unsecured loan, and also greatly exceeded the 25 per cent limit.

The 1952 Banking Ordinance also prohibited banks from making unsecured advances in excess of £300 to companies in which any one of its directors was interested as a director, partner, manager, or agent. The 1958 Ordinance raised this limit to £500. Companies in which the managing director of the Merchants Bank, Osoba was interested owed the bank over £13,000 in 1959. The chairman of the Bank operated three accounts which were not secured and also which did exceed the 25 per cent limit. These were the Nigerian Engineering and Transport Company, £5,950; the Nigerian Building and Civil Engineering Company, £6,862; and the Owodunni Trading Company, £3,841. The bank also made two secured advances to companies in which its directors had an interest. These advances exceeded the 25 per cent limit.

In addition to those already mentioned, the Merchants Bank had two overdrafts that exceeded the 25 per cent limit. The total advances to one of the directors, Osoba and his companies, were over £67,000 in October, 1959, and other advances in excess of 25 per cent limit totaled nearly £45,000. As the total advances of the bank were less than £92,000 in December, 1958, it is clear that almost all of this bank's advances were illegal.

It is, of course, impossible to guess what the fate of the bank would have been if it had never received any deposits from Public

Corporations. Nevertheless it is hard to believe that the bank would have been worse off if it had received no public funds and certainly a loss of these funds would have been avoided. Deposits increased nearly 1000 per cent between 1955 and 1958. This was an enormous increase in three years especially when it was remembered that the bank could legally lend only about £3, 250 to any one person. The high level of public deposits appeared to explain why the bank was relatively liquid at the end of 1958. Without this high level of liquidity it presumably would have been more difficult for Mr. Osoba to use £35, 000 as a down payment on a ship. It is therefore clear that at best government aid did not help the bank and at worst it may have contributed to its downfall.

Merchants Bank Balance Sheet

	1952		1953		1955		1956		1957		1958	
	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%
Assets												
Cash on hand	12.9	69.6	8.0	38.0	10.3	37.0	25.2	42.4	12.8	15.1	94.0	33.7
Loans and Advances, etc.	10.3	55.5	18.2	85.9	25.1	89.6	38.9	65.4	77.2	91.0	91.4	33.0
Liabilities of Customers, etc.	3.0	16.0	17.7	83.6	14.3	51.2						
Investments											99.4	35.7
Premises, etc.	8.2	44.5	7.8	36.9	2.9	10.4	3.3	5.6	3.0	3.5	3.6	1.3
Profit and Loss	1.1	6.1	2.2	10.3	4.0	14.1	5.4	9.1	5.9	7.0	5.0	1.8
Total	35.5	191.7	53.9	254.7	56.6	202.3	78.0	131.2	103.0	121.4	324.1	116.5
Liabilities												
Paid-up Capital	12.6	68.4	12.6	59.8	12.6	45.2	12.6	12.2	12.6	14.9	12.6	4.7
Reserve Fund											0.5	0.1
Total Deposits	18.5	100.0	21.2	100.0	28.0	100.0	59.5	100.0	84.8	100.0	278.4	100.0
Liabilities for Acceptances, etc.	3.0	16.0	17.7	83.6	14.3	51.2	5.1	8.6	4.1	4.8	30.7	11.0
Other	1.3	7.3	2.4	11.3	1.7	5.9	0.8	1.3	1.5	1.7	1.9	0.7
Total	35.5	191.7	53.9	254.7	56.6	202.3	78.0	131.2	103.0	121.4	324.1	116.5

Agbonmagbe Bank Balance Sheet

	1953		1956		1958		1959		1960		1961		1962		1963	
	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%	£000	%
Assets																
Cash and balances due					72.2	47.0	50.8	35.0			134.6	41.2				
Cash	7.4	39.0	54.8	40.7					221.6	47.7			67.9	15.8	31.9	11.1
Balances due	13.9	73.2	35.4	26.3									25.2	6.0	16.7	5.8
Loans and advances	3.6	18.7	45.1	33.5	86.3	56.3	101.0	69.6	240.3	51.7	272.2	83.3	355.2	82.6	308.0	106.9
Nigerian Treasury Bills													50.0	11.6		
Premises and others	10.3	54.0	15.1	11.2	20.2	13.2	20.3	14.0	21.0	4.5	19.8	6.1	29.0	6.7	29.4	10.2
TOTAL	35.7	187.2	151.0	112.1	178.6	116.5	172.1	118.6	482.9	103.9	426.6	130.6	527.2	122.7	385.9	134.0
Liabilities																
Paid-up capital	13.4	70.4	13.4	10.0	13.4	8.7	13.4	9.2								
Total deposits									463.3	100.0	326.5	100.0	429.7	100.0	288.2	100.0
Profit and loss	19.1	100.0	134.7	100.0	153.3	100.0	145.0	100.0	0.2	0.0	1.5	0.5	1.0	0.2	1.2	0.4
Reserves	0.5	2.5	2.7	2.0	4.9	3.2	5.2	3.6	5.0	1.0	5.0	1.5	3.0	0.7	3.0	1.0
Others	2.7	14.3	0.2	0.1	7.0	4.6	8.3	5.7								
TOTAL									482.9	103.9	426.6	130.6	527.2	122.7	385.9	134.0