THE IMPACT OF INDIGENIZATION ON COMMERCIAL BANKING IN NIGERIA

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BY

AUGUSTINE UGOCHUKWU AMADI

DEPARTMENT OF ECONOMICS
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ACT	Central Bank Act
ACGF	Agricultural Credit Guarantee Fund
CBN	Central Bank of Nigeria
CD	Certificate of Deposit
MCC	Mooney Construction Company
MNC	Multinational Corporation
NAB	Nigerian Agricultural Bank
NBCI	Nigerian Bank for Commerce and Industry
NIDB	Nigerian Industrial Development Bank
NSE	Nigerian Stock Exchange
₦	Nigerian Niara (currency symbol)
$	United States Dollar (currency symbol)
$£_{uk}$	British Pound Sterling
$£_{n}$	Nigerian Pound

Exchange rates, One Naira = one point fifty dollar

The Bank - Central Bank of Nigeria

INTRODUCTION

This study describes and analyzes the impact of the Nigerian Indigenization Decree, strictly in terms of the broad economic objectives which it pursues. In particular, it seeks to achieve a greater participation of Nigerians in the growth and destiny of the economy. The history, origin and role of the Central Bank of Nigeria in the development of the economy - specifically, the creation of a viable and financially sound sector, will be contrasted with that of the commercial banks (comprised of expatriate and indigenous banks).

The deforeignization of the economy, especially, the expatriate commercial banks is intended to improve the pattern of bank location (which is generally urban biased to the comparative neglect of the rural areas), and credit policies (catering to an enclaved and dominant class). These practices have discriminated against the indigenes and thereby promoted an imbalance in regional development. The indigenization was therefore an effort by the government to develop all backward areas, thus, discouraging the rural-to-urban immigration and the ensuing social problems that arises as a result of displacement.

This period is particularly an interesting one, for it saw: the establishment of a federal system in Nigeria, the attainment of internal self government, the achievement of independence in 1960, the Civil War, the military era, or the second Republic, and the change to a democratic form of government.

The earliest attempt to regulate the "Business of Banking' in what was the 'Colony and protectorate of Nigeria,' was made in May 1952, when the "First Bank Ordinance was passed."[1]

In April 1957, the Federal Government of Nigeria invited a high official of the Bank of England, J. B. Loynes to visit Nigeria, and advise them on the establishment of a Federal Institution to perform appropriate central banking functions, the introduction of Nigerian currency so as to preserve its external value and its acceptability within the country, the relationship of the federal institution to the commercial banks and the public, and the role of such an institution in the development of a local money and capital market.

After a thorough and extensive investigation, the Lyones Report was presented in August 1957. And the issue of this document, with the draft Banking Bill and Central Banking Bill which it included, marked a turning point in history of Banking in Nigeria and laid solid foundations for subsequent development.

The draft bills were adopted with very few alternations and were passed into law in March 1958, and completed in

July 1959 when the new Central Bank of Nigeria became fully operative.[2]

The main provision of the Central Bank Act can be summarized as follows:

Under the Act, a Central Bank was established with the principal objectives of issuing legal tender money in Nigeria; maintaining external reserves; promoting monetary stability and acting as a banker and financial adviser to the Federal Government (it was required to hold all the paid-up capital of the Government). The unit of currency was to be the Nigerian Pound (£n), divided into shillings and pence, with a parity of one Nigerian Pound to one Pound Sterling. To maintain 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 more than ten thousand Pounds (£ 10,000), in respect of any one transaction.[3]

Furthermore, the Bank was required to maintain at all times, a reserve of external assets consisting mainly of gold coin, or bullion. British Pound Sterling and Treasury Bills, and other British Government securities (the composition of external reserves was later modified).*

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*The 1962 Amendment to the Central Bank Act, called for a widening of the composition of CBN's external reserves holdings to enable it include it in its official external reserves assets denominated in currencies which are freely convertible into gold, or Sterling and was to include the following: foreign bank balances, treasury bills of foreign Governments, or those of international financial institutions.

The Bank was given the usual powers to purchase, sell, discount and rediscount Federal Government Treasury Bills and inland bills of exchange, promisory notes arising out of bonafide commercial transactions, or in connection with the financing commercial transactions, or in connection with the financing of seasonal agricultural operations. It was also authorized to act as banker to other banks in Nigeria and abroad; it was required to prescribe the minimum amount of specified liquid assets to be held by the commercial banks in Nigeria.

From the date of its inception, the Bank prescribed a minimum liquidity ratio** of twenty-five per cent.[4]

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 figures of \$35,000 or ₤12,500 laid down in 1952, but raised from \$28 ,000 to \$56,000 for Expatriate banks.[5]

Next, a number of important restrictions were laid down for licensed banks. Thus, a bank was prohibited from

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**The original Act gave the CBN the power to prescribe the liquidity ratio for the commercial banks, specified a ratio of 25 per cent. The ratio was designed mainly to safeguard the ability of the commercial banks to meet their depositors cash withdrawals and ensure confidence in the banking system. Later, Legislative amendments gave the CBN not only the power to alter the composition of liquid assets for the computation of the liquidity ratio., but also the liquidity ratio itself, which as a result became a tool of monetary control.

granting facilities to any one person totalling more than 25 per cent of its paid-up capital and published reserves, except in certain cases involving the Produce Markeing Boards exports, or another Bank/branch. As part of the regulations, banks' were required to maintain at all times such holdings of specified liquid assets as might be laid down by the Central Bank. A Bank Examiner was appointed to examine periodically the books and affairs of every licensed bank and report to the Governor of the CBN, who was required to inform the Ministry of Finance of any circumstances likely to call for action.

THE ROLE OF THE CENTRAL BANK OF NIGERIA IN THE DEVELOPMENT OF THE NIGERIAN ECONOMY

The Central Bank of Nigeria (CBN); like any other central bank, discharges all the traditional function's of a central bank. But, because Nigeria is a developing economy, the central bank had to emphasize the developmental role.

Even, in discharging the traditional function of monetary control, it had relied more on direct rather than on indirect control measures, because of the low levels of the country's economic and financial development. For example, it has been prescribing rates of credit for the commercial banks since 1969 and Merchant Banks from 1977.[6] But one should not lose sight of the fact that sectorial allocation of credit suffers from the basic defect that funds may be borrowed for one purpose and diverted to other purposes.

The developmental role (functions) emphasized by the CBN, includes the promotion of the local money markets. One of the main objectives of setting up the local money market facilities in Nigeria was to stem the out-flow of surplus funds into investment outlets in the London Money Market/Capital markets and hence Nigerianize the credit base. Other major reason included the enhancement of an effective monetary management which a well developed money market would provide the monetary authorities; and the promotion of commercial bank's management of their portfolio of assets and liabilities.

To promote the indigenous money market, the CBN designed and issued the "First Nigerian Treasury Bill" in 1960. This was followed by the introduction of Treasury Certificates in 1968. But before then, it established in 1962, a 'Call Money Fund' Scheme*** for investing temporary funds of commercial banks and other financial institutions on over-

***The CBN introduced a 'Call Money Fund' that provided the commercial banks and other financial institutions with an overnight investment of their surplus funds. Under the Scheme, participating financial institutions were required to maintain for clearing purposes minimum balances with the CBN, while any excess over the minimum balances were lent to the call money fund at interest rates slightly lower than the Treasury Bill rate.

night basis. This scheme was however, terminated in July 1974,[7] at a time when large increases in government revenue made it unnecessary to sustain the continued operation of the Scheme.

The growth rates of commercial banks accelerated with regard to deposit liabilities (See Table 1 for data supporting the high liquidity of the Nigerian economy). As a result, three new major money market instruments were designed and introduced by the CBN between 1974 and 1978,[8] to provide the commercial banks with outlets for their fast growing idle funds. These new Money Markets instruments are:

i) CERTIFICATES OF DEPOSITS (CD); aimed at facilitating the channeling of commercial banks surplus funds into the merchant banks. The main feature of the CD included a maturity range of 3.36 months and a wholesale unit issue of ₦50,000 or $75,000;

ii) BANKERS UNIT FUND (BUF); to provide an avenue for short-term investment of commercial banks funds in government development stocks. Participants were to invest in multiples of ₦10,000 in stocks of various maturities; and

iii) ELIGIBLE DEVELOPMENT STOCKS (EDS); under the eligible development stocks, government development stocks of not more than three years maturity were designated "Eligible Stocks" for the purpose of meeting banks specified liquid assets requirements.

The development of an Indigenous Capital market had also been the concern of the CBN. In 1961, the bank parti-

Table 1

MONEY SUPPLY

Year/ Month		Currency Outside Banks	Demand Deposits	Money Supply	Demand Deposits as Percentage of Money Supply
Dec.	1970	342.3	266.0	608.4	43.7
Dec.	1971	354.5	274.4	628.9	43.6
Dec.	1972	385.2	315.0	700.2	45.0
Dec.	1973	435.9	391.3	827.2	47.3
Dec.	1974	569.8	608.5	1,178.3	51.6
Dec.	1975	1,013.7	1,013.4	2,044.1	49.6
Dec.	1976	1,540.0	1,941.8	3,481.8	59.0

-Money supply is defined as currency outside banks plus demand deposits at commercial banks plus domestic deposits with the Central Bank, less federal and state governments demand deposits at commercial banks.

-Demand (current) deposits with banking systems net of government (federal and state) deposits.

Source: CBN Economic and Financial Review, Volume 15, #2, December 1977, p. 72.

cipated in the planning and setting up of Lagos Stock Exchange. The CBN, actively participated and promoted the growth of the Lagos Stock Exchange during the early years of its inception by giving it financial support in the form of annual subvention or appropriation.** The Nigerian Stock Exchange (NSE) have now three branches: Lagos, Kaduna, and Port-Harcourt. The NSE deals in Government securities which are issued and managed by the CBN, and private securities and debentures which have increased both in volume and value.

The CBN contributed immensely to the successful financing of the Indigenous Enterprise Promotion Scheme (contribution figures ranges from ₦30, to ₦200 million). In an effort to encourage financial institutions to provide the desired credit to finance the purchase of shares and businesses by Nigerians under the first and second phases of the Indigenisation Scheme, loans granted for this purpose by commercial banks are to be excluded from the 30 per cent ceiling on credit expansion.***

Another way in which the CBN has contributed to the development of the financial system and the Nigerian economy is through participation in the establishment of specialized financial institutions, such as the Nigerian Industrial De-

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**In three years (1963-65), CBN cash subvention to the Stock Exchange amounted to ₦14,000, or $21,000.

***Monetary policy, circular number 10. "Financing the Indigenisation Scheme" 1978/79 (internal memo), Lagos, CBN Research Department, 1978.

velopment Bank in 1964. The total resources of the NIDB have grown from an initial amount of ₦8.5 million to ₦97.6 million in 1977. As of 1976, the CBN held 94.2 per cent of NIDB capital equity. The Nigerian Bank for Commerce and Industry established April 2, 1973, with an authorized capital of ₦50 million of which ₦10 million was paid up. The NBCI's main function is to provide equity capital and loans for long and medium term investment to indigenous persons and bodies engaged in industry and commerce; the Nigerian Agricultural Bank (NAB) was established in April 1973, with an initial appropriation of ₦12 million from the Federal Government; and the Federal Mortgage Bank established in 1977.[9]

The CBN, advised the Government and carried through the set up of a ₦100 million Agricultural Credit Guarantee Fund in 1977, to guarantee commercial and merchant banks agricultural credits up to 75 per cent. These are aimed at increasing the flow of credit to the agricultural sector in feeding the nation, foreign reserve earnings and providing industrial raw materials. During the five-year period of its existence, (1973/74 to 1977/78), the NAB approved a total of ₦286.3 million for 177 projects and disbursed ₦124.4 million, priority being given to small scale farmers in its lending policy.[10]

The CBN also contributes significantly to economic research and the assembly of economic and financial statistics because of its wealth of experts and high level manpower.

Data collection are very essential for objective plannings by individuals, institutions and the nation. Its publications, such as the Annual Report, Economic and Financial Review, Official Gazette Supplement, and the Monthly Reports are concrete evidence of the CBN's contributions.

The commercial banks on the other hand continues to be an urban-oriented service. Very little money has really flown in to the (agricultural) rural areas (sectors) from organized banking industry so far. This is in sharp contrast to the role played by the Central Bank which have increased the flow of credit to the agricultural sector with the aid of the Agricultural Credit Guarantee Fund.

In a country where agriculture plays and contributes nearly half of the national output, hardly one per cent of the total bank credit is made available to this sector. It is a great paradox, that this sector has managed to subsist with hardly one per cent of the organized credit flowing to it all these years. But modern farming (advocated by the national planners) needs large amount of capital inputs to improve the level and quality of all aspects of agricultural production.

The credit policies of the commercial banks are discriminately in nature (mainly against the indigenes), and little inclination is shown to extend credit to the Nigerian merchants/farmers. The concentration of lending on foreign-owned and operated businesses led to the development of an enclave economy. This practice was prevalent among the Expatriate Commercial Banks.

In view of the low levels of income enjoyed by most Nigerians, the Indigenous Banks encouraged small demand, time, and savings deposits. They were very happy to accept savings account on which the average balance is very small and the number of transactions high. The Expatriate Banks in contrast, would consider many of them wholly uneconomic. This is one of the major reasons why rural savings have not been fully mobilized.

STRUCTURE OF COMMERCIAL BANKS IN NIGERIA BEFORE THE DECREE

The structure of commercial banks in Nigeria before the passage of the "Indigenisation Decree,"[11] falls under the following description:

aa). Expatriate Banks: Under the category, there were seven banks with entirely foreign owned capital; incorporated outside the country. Some of these banks maintained only one office in Nigeria with the exception of three banks, which had more than one branch;

bb). Government-Owned Indigenous Banks: By the end of 1970, there were only six indigenous banks whose capital was owned mainly by the Regional Governments through one or more Regional Public Corporation(s). These banks began as private indigenous banks incorporated in and maintaining head offices in Nigeria. The banks are: National Bank of Nigeria Limited (1933), Agbon-Magbe Bank (1945), African Continential Bank (1947), Cooperative Bank of Eastern Nigeria (1962), Cooperative Bank of Western Nigeria (1962), and the Bank of the North (1959).

cc). Private Indigenous Banks: There are only two of these banks the Muslim Bank, incorporated in 1958, and the Birini Bank, incorporated in 1945.

dd). Mixed Banks: In this category, there were three banks: the Bank of the North; the Bank of Lagos; and the Merchant Bank. They were partly owned on the basis of the capital/ share holding,they were incorporated respectively in 1952 and 1959.

All the commercial banks in Nigeria and their branches were located mainly in Urban areas with populations ranging from 30,000 to 50,000. Commercial banks offices increased from 66 in December, 1959 to 276 in December, 1970 (See the Table 2. For detailed and vigorous analysis, please see the chapter on commercial banking). These new branches are located mainly in the main centers of commercial activities. Conversely, a few branches were located in predominantly agricultural areas, which means that the problem of easy-credit availability and savings remains unresolved.

The pattern of location of commercial banks seems to follow the colonial pattern. Such offices were synchronous with colonial administration, providing services

Table 2

Licensed Commercial Banks in Nigeria since 1970

Class of Banks	Banking Offices in Nigeria, 1979	Head Office
Expatriate		
Standard Bank of West Africa (Nigeria, LTD)	67	London
Barclays Bank	89	London
Banque de L' Afrique Occidentale	4	Paris
Bank of India	1	Bombay
Bank of America	2	San Francisco
Chase Manhattan Bank	1	New York
Government-Owned Indigenous		
African Continental Bank	33	Lagos
National Bank of Nigeria	32	Lagos
Abon Magbe Bank	9	Lagos
Co-operative Bank of Eastern Nigeria	8	Enugu
Co-operative Bank of Western Nigeria	7	Ibadan
United Bank for Africa	15	Lagos
Private Indigenous		
Berini Bank	2	Lagos
Muslim Bank	6	Kano
Mixed		
Bank of Lagos	1	Lagos
Bank of the North	4	Kano
Merchant Bank	1	Lagos

SOURCE: Central Bank of Nigeria, Bank Examiner's Office.

catering to the needs of the enclave economies and the major participants therein, and their policies discriminatedly against the Nigerian indigenes.[12]

Of all the banks listed on Table 2, only about 15 per cent of the total number of banks branches are located in the rural areas, while a hefty 54 per cent of these banks serve the large urban centres.*

Indigenization is the word used to describe the take over of foreign business and firms by Nigerians. These stems from an old African story - "Foreign banks lack the desire to serve the needs of a developing society, while the Indigenous banks lacks the means."[13]

In 1972, the then military government introduced an 'Indigenization Decree' in a Government White Paper release, the Decree was to become operative on April 1, 1974.[14] There were three categories:

Schedule 1, were small business, 22 in number, which should be wholly owned by Nigerians;

Schedule 2, covered more sophisticated medium and large scale industries. Here, the requirement was that there should be a minimum of 60 per cent Nigerian ownership; and

Schedule 3, envisaged a minimum Nigerian equity participation of 40 per cent in all enterprises not included in

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*The concept "rural" and "urban" are being rather loosely used in this paper, since my distinction between the two is based entirely on population size. For more rigorous definition of these terms, see L. Atkin, Mabogunje, "Cities and Social Order" (Ibàdan: University Press 1974).

Schedule 1 and 2.

How did the Indigenisation Decree affect foreign banks? In the Enterprising Decree, the government decreed that "the controlling share in all formerly foreign dominated banks; must be in Nigeria, principally government hands."

This decree while differing in detail, provide for at least 60 per cent Nigerian ownership of the affected banks. Thus, for example, Barclays Bank of Nigeria, which had 48.33 per cent Nigerian public and private participation was required to transfer an additional 11.67 per cent of its shares to the government.[15]

The Nigerian Indigenisation Decree is totally justified in strictly economic terms as well as in terms of the broad objectives which it pursued and shall continue to pursue, so as to ensure that the hopes and aspirations of millions of Nigerians are not sacrificed. The more one examines the manner in which most commercial banks in the country were functioning, one is led to the view that this measure was inescapable and absolutely necessary.

The purpose of the Indigenisation was to promote rapid growth in agriculture, small industries and exports (non-minerals). To encourage new enterpreneurs and to develop all backward areas. The Nigerian Enterprise Decree was not a historic step, but rather, it is a step in the right direction towards greater participation of Nigerians in the growth and destiny of the economy. It assured improved and extended services.

As I have indicated earlier, there has been serious imbalance in the development of banking facilities in different regions within the country.

There is an urgent need to expand banking facilities in the states and regions which are 'underbanked'. Even in the developed states banking facilities are confined to urban areas; especially to the metropolitan areas to the comparative neglect of the semi-urban and rural areas. This has led to the complaint that banks mobilize resources in the form of deposits in certain areas and utilize them elsewhere thus aggrevating, if not promoting imbalance regional development.

The role that any commercial banking system has to play in a developing economy such as Nigeria, is to mobilize the savings of the nation, provide the cheap means of payment and allocate credit in such a way as to produce productivity in all sectors. It was expected by the decree planners that the Central Bank of Nigeria would see to it that these objectives were realized.

CHAPTER II

WHAT EXACTLY DOES INDIGENIZATION MEAN?

It is a new policy within the context of Nigeria, and thus needs elucidation. With the promugation of the Indigenization Decree in 1972, indigenization meant a transfer of proprietary interest in a business organization from foreigners to Nigerians. Indigenization, however, is not to be viewed as synonymous with "Nationalization." According to E. F. Schumacher, Nationalization when properly used means merely ownership by a body representing .... the general public of consumers.[16]

Nationalization extinguishes private proprietary rights, but does not by itself determine what is to become of the original ownership rights and who is to exercise them, since ownership is not a single right but a bundle of rights. Therefore, Nationalization is a purely negative measure which annuls previous arrangements and creates the opportunity and necessity to make new ones.

The transfer of ownership in Nigeria took the form of purchase and not the form of expropriation. According to CBN statistics, about 1,200 companies sold their shares to Nigerians as of December 31, 1977. Total number of shares sold through the Nigerian stock exchange was about 318.5 million valued at 235.8 million Naira or $353.7.[17] Also, private proprietary rights were not extinguished as is the case with nationalization. Furthermore, the new owners for the most part were private citizens and state governments when buyers were not found.

The Nigerian indigenization was a measure brought into force by the government to greatly increase the local shareholding in foreign companies operating in the country, many of them British. The Nigerian indigenization was a gradual attempt to deforeignize the country's economy. It does mean that the indigenous Nigerians would assume greater flexibility and responsibility for the ownership and management of the modern sector.

POSTULATES OF INDIGENIZATION

The most frequently mentioned reason for indigenization was the fear of economic domination from abroad. This argument has been debated from many points of view.

For instance, V. I. Bello, former Secretary of the Nigerian Enterprises Promotion Board noted that "political independence without economic emancipation was a sham," and that a political regime which does not and cannot harness the economic resources within its political boundaries is more or less tottering.[18]

This fear of foreign economic control was echoed by Professor Pita N. Ejiofoor, a Nigerian economist who felt that indigenization was at the heart of Nigeria's effort to take its economic destiny into its own hands.[19] The aim of the 1972 Indigenization Decree, he maintains was to do away with the foreign domination of the country's commerce and industry. According to an editorial in the Financial Times (United Kingdom), British investment in Nigeria excluding oil, banking and insurance are conservatively estimated at ₦250 million or $460 million. When retail and wholesale trades which are dominated exclusively by the Lebanese, Syrians, Cypriots, Greeks and Asians. The estimated increases to about $736 million or £$_{uk}$400 million.[20]

The then permanent secretary of the Federal Ministry of Economic Development and Reconstruction, I. F. Ebong, stated that" ... indigenization is one of the strategic aims of the second national development plan," because experience in the past has shown that political independence is nothing but an empty shell.[21]

Babatunde Jose, former chairman of the influential Daily Times Group Companies (Nigeria), felt that the raison d'etre of the indigenization scheme introduced by the Federal Government was to give economic power to Nigerians.[22] He welcomed the new measures; nevertheless, made the point that it would be necessary to ensure that the transfer of ownership did not lead to a fall in productivity. He suggested that seminars and workshops should be organized to educate prospective business owners, particularly those intending to buy sole ownership of enterprises on the responsibilities which indigenization places on them to ensure that there is no fall in output.

In 1974, the president of the Nigerian Economic Society, A. E. Ekukinam, expressed that Nigeria's indigenization policy had only one meaning and that was the reservation of certain types of business activities exclusively for Nigerian ownership.[23] This point of view is stressed in schedule one which listed more than 17 sectors of the economy which must be 100 per cent owned by Nigerians.

The Trevor Report,[24] cited by proponent of the Decree helped fuel the fire. For it contends that expatriates, mostly those in the banking sphere, have high standards of credit worthiness. Their credit and advance policies were "extremely conservative." In addition the banks executives are all Europeans lacking the intimate social relationship with Africans (mainly Nigerians) which the authors believe to be essential for the successful finance of indigenous enterprises.

Throughout the indigenization debates, it was fashionable to argue that large foreign investment meant exploitation of the country in the form of high remittance of profits to overseas investors. The argument claimed that foreign capitalist exploited Nigeria at will and that this would have to end. This patriotic argument had a powerful influence for it swayed and attracted a lot of sympathizers.

WHAT HAS NEO-COLONIALISM TO DO WITH THE PROGRAM?

The Nigerian quest for economic independence was presented in terms of neo-colonialism. The late charismatic leader of Ghana, Kwame Nkrumah, spread these sentiments vigorously in Africa. He insisted that despite decolonization in Africa, the former colonial powers wanted to keep Africa economically and politically subservint.[25]

Necolonialism, in Nkrumah views, manoeuvered men and governments; it created client states and despite nominal independence, the former colonial powers wanted to keep and sought to thwart and corrupt true independence.[26]

Neo-colonialism is not a precise term, it is what the East Germans call Sammelbergriff - an umbrella term, as it covers the totality of difficult form and methods of exploitation and oppression of economically weak and undeveloped countries controlled by imperalism. Therefore, neo-colonialism in the former colonies of Africa signifies an expression of economic as well as political grievances against exploitation.

Though obscured, the vital but bitter truth is that independence, like patriotism is not enough; instant freedom does not mean instant prosperity. Generally the emerging nation does not have the resources to be self sufficient. It, therefore, has to depend on the non-mineral primary products export for the vast majority of its foreign exchange earnings. This earning is used to import the raw materials, machinery, capital goods, and intermediate producer goods and consumer goods both to fuel their industrial expansion and to satisfy the rising consumption aspiration of their people.

Nost non-petroleum-rich developing nations, import demands have exceeded the capacity to generate sufficient revenues from the sales of exports because the prices of primary commodities have declines relative to manufactured goods (imports). This has led to chronic "deficits" on their balance-of-payment vis-a-vis the rest of the world.[27]

The most plausible interpretation of economic independence would be that of solvency, which Professor Peter T. Bauer of London, defines as "the ability of a country to pay for their goods and services without recourse to external grants and subsidized loans."[28] Professor Bauer believes that bilateral public aid, be it given by France or any other nation (developed), has political conditions attached to it. It is not gratuitous generosity, and it would be childish to deny the political, or commercial motivations behind what is variously called aid, technical assistance or cooperation.

Therefore, the fear of foreign economic domination together with the neo-colonial argument was widely used during the debate of the 1972 Indigenization Decree, and it has had a powerful influence.

MAXIMUM RETENTION OF PROFITS

The experience of the world's poor countries with foreign investment has been marked by a curious phenomenon: in comparison to the world's rich countries. A much higher proportion of earnings is sent home rather than reinvested in the underdeveloped countries. This practice has had a substantial impact on balance of payments problem in the new countries.

According to the data supplied by the U.S. Department of Commerce* (See Table 3) the receipt of income as a percentage of direct investment over the years 1970-76, and it clearly showed that foreign investment in developing countries has been a very profitable business.

In 1970, $51,819 million was invested in developed countries. The percentage return on this investment was 4.7, and the dollar receipts of income was $2,435 (.047 x 51,819), while $19,192 million was invested in developing countries in 1970, the percentage return on this investment was 12.2 and the dollar receipt of income was $2,340.

In 1974, $19,812 million was invested in developing countries and the percentage return on investment reached an

*Published in the Survey of Current Business, August 1977, Table 12.

Table 3

RECEIPTS OF INCOME AS A PERCENTAGE OF DIRECT U.S. INVESTMENT
(MILLIONS OF DOLLARS)

	1970	1971	1972	1973	1974	1975	1976
Developed Countries							
Direct Investment Position	51,819	56,950	62,000	72,214	83,025	90,923	101,150
Receipts of Income	2,436	2,775	2,911	3,875	4,892	4,609	5,217
Percentage Return	4.7	4.9	4.7	5.7	5.9	5.1	5.2
Developing Countries							
Direct Investment Position	19,192	20,719	22,274	22,904	19,812	26,222	29,050
Receipts of Income	2,340	2,712	3,079	4,272	6,086	3,619	5,763
Percentage Return	12.2	13.1	13.8	18.6	30.7	13.8	19.8

SOURCE: Survey of Current Business (United States Department of Commerce), August, 1977, Table 2.

all time high of 30.7, while only 5.9 percentage return was realized from $83,025 million invested in developed countries. Therefore, foreign investment in developing countries continues to provide a substantial higher return than in developed countries.

It would be of great interest to know, even very broadly what proportion of the profits made by foreign enterprises in Nigeria is actually reinvested in the country. Accurate figures are not available. However, the Central Bank of Nigeria, annual survey of foreign private investment in Nigeria for 1975,[29] estimates that in 1974, of the $760.65 million, profits amounting to $688.2 million was transferred from Nigeria to Europe, and only $72.45 million of profits was reinvested.

According to Pierre Jalée, figures dealing with trade and production can be regarded as firm data, beyond question except for small marginal errors in the groupings used. He cautioned that one must exercise the greatest reserve when it comes to the profits on the undertakings and private investments of the imperialist countries in the Third World. In this field, official statistics and public service records, however, technically correct, can only apply to the officially acknowledge portion of such profits which often bears only a distant relation to the whole.[30]

It was argued* during the indigenization debate, that

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*Maximum retention of profits earned in Nigeria argument.

indigenization would benefit Nigeria's balance of payments because it would considerably reduce the amount of profits remitted to Europe.

Multinational corporations in Nigeria not only use local savings to finance their equity investment, but also draw more heavily than do domestic firms on local credit markets for short-term working capital loans. For every dollar of net profits earned by a MNC subsidairy (Nigeria), 52 per cent will leave the country even though 78 per cent of the investment funds used to generate the dollar of profit came from local resources.

In fact, studies show that MNC's operate on roughly one and one-half to two times the level of indebtedness of their domestic competition for any given level of total assets.[31] Again the use of largely local savings, in this case working capital, makes possible a productive activity the profits which largely benefits recipients external to the local economy.

The indigenous business community of Nigeria, as a rule, does not transfer profits and dividends earned abroad, except for buying luxury imported goods, and thus, it was claimed that indigenization would help ease the demand for convertible foreign exchange. The profits earned by the indigenous business community would be ploughed back into domestic investment, and would not be dissipated abroad ot stashed away in numbered Swiss bank account.[32]

At face value, the local retention of profits argument enjoyed considerable support among Nigerian intellectuals. It was and still is a patroitic argument and emotionally, it swayed many minds.

INDIGENIZATION EXPERIENCE IN AFRICA

In the preparation of the original indigenization Decree the effects of indigenization attempted in Uganda, Kenya and Ghana played a considerable part. The Nigerian Enterprise Promotion Decree of 1972 was modelled after the Ghanaian Business Promotion Act of 1970 in which expatriate businesses were required to be turned over* to Ghanaian ownership within a prescribed time.[33]

Africanization of the civil service got underway soon after the end of the World War II, but it was a slow process as long as the various territories remain colonies. After independence, sweeping Africanization of the material, human and institutional infrastructures took place in the new countries, but trade, industry, export and import business, banking, insurance, publishing and advertising remained mainly in alien hands. The leaders of the newly-independent countries knew that eventually, something would have to be done to change this state of affairs.

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* A panel was set up to determine the fair values of the expatriate business, after which they were bought out by Ghanians.

In 1956, Egypt took over the Suez Canal Company.[34] It was the first experiment in economic nationalism or simply self reliance on the African continent and the leaders of the new countries strove to emulate it.

Uganda's effort in the indigenization of its economy in 1968 was indicative of things to come. The government of Milton Obote wanted to begin the task. A special commission on Africanization of commerce and industry report stated that ". . . Uganda's commercial and industry was predominantly in the hands of non-Africans most of whom are non-citizens."

The report went on to say that if this imbalance was not corrected before it was too late, a serious social and political situation might develop from which it would be very difficult for the country to extricate itself.[35]

The proposed Ugandanization called for the passing of a Trade Licensing Act, which would exclude non-citizens from carrying-on business in certain specified business areas as well as in designated parts of the country. It also recommended the introduction of an Industrial Development Agency and the training of Ugandans for management posts.[36]

The process of Ugandanization was to be gradual, but it did not turn out that way. Uganda was a country which indigenized in what might be called the "hooray" style. In early 1971, General Idi Amin ousted President Milton Obote, and on August 9, 1972, he ordered some 40,000 Asians to leave the country within three months.* As an African nationalists, "Amin believe that Africa was strictly for Africans and that in economic matters, it was time for Africans to start calling the tune."[37]

Anti Asianism was unquestionably an important ingredient of African nationalism and it certainly was a catalyst that precipitated Amin's action. He had no compulsion in expelling technicians, psysicians, teachers and government support personnel and officials.

In addition to Asians, Uganda also employed 7000 British expatriate administrators to run various government offices. Amin expelled many Englishmen, as well in utter disregard of the immediate consequences to the welfare of the country.[38] By early 1973, Uganda's economy was in the doldrums and was slowly crumbling.

In neighbouring Kenya, where between 70,000 and 90,000 Asians also had profound economic and administrative grip on the new country,[39] anti-Asian sentiment was part and parcel of the existing populist ideology. The anti-Asian-folk consciousness manifested itself through the prism of the Asian stereotype.

Kenyans made no secret of the fact that they considered Asians avaricious thieves, who abused their women and cheated all of them.

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*Prior to the expulsion, Amin gave the Asians a chance to nationalize and become permanent residents of Uganda.

Kenya, like other African countries, had inherited a state of affairs in which non-Africans were richer than Africans. It was non-Africans who owned the businesses in the main streets and industrial areas of Kenya.* The late Tom Mboya felt that his characteristic of the Kenyan economy should be eliminated.[40]

The Kenyan government was aware of this deep rooted resentment which was a powder-keg ready for explosion. In the mid-1960s, the government initiated the policy of indigenization, designed to eliminate Asians from trade and commerce within the country's economy.

Up to the present, the process of Kenyanization has been a gradual one, adhering to an orderly policy. Kenya's primary device in pursuing the goal of Kenyanization has been the licensing system (non-renewal of licenses for Asian shopkeepers).[41]

To make a dent in the foreign economic domination, the Ghanaian government promulgated the Business Promotion Act of 1970.[42] As of August, 1970, the Lebanese, Indian, Syrian businesses had to be turned over to Ghanaian ownership in the prescribed industries. Aliens (shopkeepers and sales proprietors) were strongly entrenched in Ghana's service industries where they performed a necessary but unpopular

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*Note, that there was no mention of anti-white sentiments throughout this discussion. Simply because white (settlers) are part of Kenyan populace.

middleman function. They lived apart from the rest of the Ghanaians and did not really like Africans.* Ghanaians, of course reciprocated, and the press often created the impression that alien businessmen were crooks, exploiters and undesirables.

The Business Promotion Act, was a popular piece of legislation for the Ghanaians, for it represented the beginning of the final phase of decolonization. To further this goal of independence, this decree simply eliminated foreign businessmen from medium-sized businesses. They had to sell out to genuine (that is, not frontmen) Ghanaian businessmen as of a certain date. The government wanted to make sure that the country's retail trade was dominated by the indigenes.[43]

This step was designed not only to make Ghana more self-reliant economically in terms of owning and running the businesses in certain sectors of the economy, but also to minimize the loss of foreign exchange which was brought about by regular repatriation of earnings of alien businessmen and traders.

The publication of the Business Promotion Act, almost coincided with the compulsory repatriation fo thousands of Africans aliens including Nigerians (many of whom were in business at Ghana) in December 1969. This large scale ex-

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*This is rather suggestive and can not be carefully substantiated with proofs.

pulsion of Africans from Ghana demonstrated that the concept of indigenization should not be equated with Africanization, because the Ghanaians expelled from their territory, Nigerians, Togolese, Malians and Dahomians.[44] Although, the indigenization policies in different countries have not been identical, they all provided examples for each other to follow. Therefore, since the first decade of African independence was devoted to national consolidation and nation building, the second decade seems to have been devoted to building-up economic self-reliance. The resulting emulation effect seems to have played a role as a catalyst in the indigenization process in Nigeria.

NIGERIAN INDIGENIZATION SO FAR

The Indigenization Decree began in earnest with the promulgation of the Nigerian Indigenization Enterprise Scheme of 1972, which took effect on April 1, 1974. The Nigerian Enterprise Promotion Board was to run and implement the new decree, its chairman was the permanent secretary in the Ministry of Industries. Upon launching the decree, the government also appointed a panel to probe the effectiveness of the original indigenization decree first introduced in 1972. The panel was ordered to report by March.[45]

Under the original decree which became operative on April 1, 1974, there were two categories.[46] Under Schedule I, were small businesses, 22 in number which passed entirely into Nigerian ownership. These were mostly service industries like hair dressing, baking, advertising, public relations, public transports etc. Schedule II covered more sophisticated medium and large scale industries. Here, the requirement was that they should be 40 per cent Nigerian owned.

The decree affected many foreign firms, mainly British firms involved in 42 per cent of the cases, French firms followed with 10 per cent and United States with 7 per cent. United Kingdom enterprises accounted for the bulk of takeovers in agriculture, banking, insurance and to a lesser extent, trade. Most of these investments had been made while the countries were under colonial rule. In contrast, United States enterprises accounted for most of the takeover in mining, petroleum, manufacturing and public utilities.[47]

Here is a partial listing of British firms and some French firms affected by the decree: Guinness, Dunlop, United African Company (a subisdiary of Lonrho), Leventis, Peterson Zochonis (which play a major role in the country's distribution systems). Engineering companies such as Taylor Woodrow, Costain, Frank and Rutley, Mooney Construction Company (MCC). British investment in Nigeria excluding oil, banking and insurance conservatively estimated at $\pounds_{uk}$250 million or $460 million.[48] According to Mr. Alan Wood, Chairman of Guinness Nigeria, his company has a total inyestment capital of $18.4 million or £$_{uk}$10 million in Nigeria.[49]

The government also decreed that the controlling share in all formerly foreign dominated banks must be in Nigerian, principally government hands. After a series of marathon negotiation, the final agreements while differing in detail, provide for at least 60 per cent Nigerian ownership of the affected banks. Thus, for example, Barclays Bank of Nigeria* which had 48.33 per cent Nigerian public and private participation was required to transfer an additional 11.67 per cent of its shares to the government.[50]

The price for any shares transferred was calculated on the basis of the book value plus some estimate of the future earnings.[51] This method penalized both the older commercial banks whose assets carried a depreciated book value, and constituted a hidden unvalued reserve.

Some of the foreign firms and individuals affected felt that the price at which they have been obligated to sell their shares has been low in relation to the value and prospects of the business. Correspondingly, many Nigerians, including employees of the companies themselves have secured bargains. And at the prices at which the sales have taken place, there have been no shortage of buyers, even at the

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*Changed name to Union Bank in 1979 as a result of pressure from and boycott from the government because of the parent corporation connection with South Africa. For further details, see <u>Times</u> (London) June 5, 1978, p. 17.

end of the process, when many thought that money might run out. In some cases, state governments have had to step-in and in a few cases there have been no buyers for small business.[52]

On the other hand, although spokesmen of some of the affected companies have expressed satisfaction about the geographical "spread" of the share purchasers, there has been apprehension that too many of the shares are now in the hands of too few individuals, concentrated mainly in the Lagos area where the headquarters of most of the companies are situated. This has thereby created a new class of millionaires what in Uganda were called "black Asians."[53]

It was stipulated that the board of directors and chairmen are to be majority Nigerian. In the past, the bank boards had at least token Nigerian membership but only some of the larger banks such as Standard Bank Nigeria had indigenous chairmen.[54]

The authorities stressed that the banks should continue to operate under "sound commercial banking principles" and towards this end, the foreign partners were to provide technical and managerial assistance designed to maintain effective credit and audit control at their affiliates. The managing director and all "senior executives" are to be experienced commercial bankers.

The panel under the chairmanship of O. A. Adeosun, managing director of the Nigerian stockholders in their report looked back critically on many aspects of the exercise;[55] at the same time it suggested additions to Schedule I [business which should be wholly owned by Nigerians], and Schedule II [minimum 60 per cent Nigerian ownership] and also proposed a Schedule III which envisages a minimum Nigerian equity participation of 40 per cent, in all enterprises not included in Schedule I and II [See Table 4.].

The panel in their report on the problem of indigenization so far have been twofold:[56] firstly, there have been downright evasion and dishonesty; secondly, there have been what one might term structural failures - the spread of ownership of foreign owned businesses has been concentrated into few hands creating a new class of rich Nigerians.

In principles, indigenization has done little more than transfer the ownership of business from a group of rich foreigners to a group of equally rich Nigerians.[57] This has been good for nationalism and Nigerian pride, but it has done little for social justice. In terms of general welfare and redistribution of income to the majority of Nigerians, the effect of the indigenization decree have been negative - if not counter productive - in the sense that it has enormously increased the economic and attendant political control of the new shareholders.

The panel also found that the main devices used to circumvent the decree included: "fronting, application for naturalization, extended use of the definition of Nigerian citizenship, interpretational problems of classification of

Table 4.

THE NIGERIAN INDIGENIZATION ENTERPRISING DECREE

NEW SCHEDULE ONE (ENTERPRISES TO BE WHOLLY OWNED BY NIGERIANS)

1. Cosmetics and perfumery manufactures.
2. Supermarkets and Departmental stores having a turnover of less than Niara @ 2 million per annum.
3. Distribution agencies excluding motor vehicles, machinery and equipment and spare parts.
4. Estate agency.
5. Furniture making.
6. Manufacture of suitcases, briefcases, handbags, purses, wallets, portfolios and shopping bags.
7. Passenger bus services of any kind.
8. Poultry farming.
9. Printing of stationary (when not associated with printing of books).
10. Slaughtering, storage, distribution and processing of meat.
11. Travel agencies.
12. Wholesale distributors (of local manufactured and other locally produced goods).
13. Commercial transportation (wet and dry cargo and fuel).
14. Film distribution (including cinema films).
15. Manufacturers Representatives.
16. Indenting.
17. Commission agents.

PROPOSED SCHEDULE II.

Enterprises which for reasons of public policy should be controlled by Nigerians in equity and management terms. These should be enterprises which, by their nature, are of strategic imporatnce to the economy. In this connection, the Federal Panel recommends that government sponsored institutions and private Nigerian citizen should have not less than 60 per cent equity interest in the following areas:

ADDITION TO EXISTING SCHEDULE II.

1. Supermarkets and departmental stores having a turnover of more than ₦ 2 million per annum.
2. Banking -- commerical, merchant and development banking.
3. Insurance--all classes.
4. Mining and quarrying.
5. Basic iron and steel manufacture.
6. Cement manufacture.
7. Petro-chemical feed stock industries.
8. Fertilizer production.
9. Pulp and paper mills.

10. Plantation sugar and processing.
11. Salt refinery and packaging.
12. Construction industry.
13. Plantation agriculture for tree crops, grains and other cash crops.
14. Textile manufacture industries.
15. Internal air transport industries.
16. Oil milling and crushing industries.
17. Distribution and servicing of motor vehicles, machinery and equipment, tractors and spare parts thereof.
18. lighterage.
19. Wholesale distribution of imported goods.

PROPOSED SCHEDULE III.

All other enterprises not coming within Schedules L or II above should have a minimum Nigerian participation of 40 per cent.

The second stage of the indigenization scheme shall come into effect not later than December 31, 1978. This will give time for efficient execution of the scheme. The Ministries of Justice and Industries are directed to ensure that all legislation, reorganization and strengthening of the Nigerian Enterprises Promotion Board and other preparatory work should be completed forthwith.

Source: Nigerian Government White Paper issued in 1976, p. 3936.

enterprises, and frequent amendments providing for exemptions on flimsy grounds." The panel apportioned blamed for these misdemeanors equally between foreign owners and "Misguided Nigerian citizens."[58]

According to Central Bank of Nigeria statistics, about 1,200 companies sold their shares to Nigerians as of December 31, 1977, valued at $353.7 million or ₦ 235.8 million.[59] What is more interesting is the mechanics of the transfer. In many cases, commercial banks advanced credits to priviledged individuals and corporations to acquire shareholdings.* The Lagos Stock Exchange should not be surprised by the small number of companies that went public. As a matter of fact companies that decided to go public were oversubscribed in some cases as much as 800 per cent.[60]

While accepting most of these criticisms the government pointed out that "the extended use of the definition of Nigerian citizenship was infact a deliberate government policy, especially where this relates to the exclusion of fellow Africans from the applicability of the decree."**

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*The total amount of loans granted by commercial banks for the purchases of shares and businesses under the indigenization scheme showed a remarkable increase in 1979. Between December, 1978 and December, 1979, the aggregate amount of loans outstanding in this area had increased by ₦ 11.3 million or $16.95 million (90.9 per cent) to ₦ 23.7 million or $35.55 million.

**This was in direct contrast to the Business Promotion Act in Ghana that expelled thousands of African Nationals many of whom are in business at Ghana

The panel recommended that immediate steps including punitive action should be taken to ensure compliance with the decree by defaulting enterprises.[61] These include empowering the Business Promotion Board (the body charged with carrying out the decree) to seal and take over defaulters, a tightening up of citizenship laws, a requirement that purchasers should provide proof of payment [in cases of suspected "fronting"] and a periodic review of the exemptions granted.

Turning to the structural* deficiencies of the decree, the panel defined six areas where failure had occurred:

i. Lack of power of the Board to seal up defaulters;

ii. Failure to make more companies indigenise by issuing shares through the Lagos Stock Exchange;

iii. Failure to match equity participation with management control;

iv. Failure to provide for prior Board or capital issues committee approval of all share prices;

v. Failure to lay down the basis of ensuring a wider spread of shares sold; and

vi. Weak and under-staffed administrative machinery to implement the decree.

The panel criticized the Central Bank of Nigeria for being too soft with commercial banks that did not meet the guidelines which required the banks to open new branches in the rural areas. The estimated new branches should be close to 261 by 1984.[62] In the past two years (1978-79), the

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*Structural in this context is viewed in terms of the organizational pattern.

twenty chartered banks opened less than 100 branches with First Bank having open 71 of the 100 new branches. The purpose of the opening new branches in rural areas was a bid by the government to harmonize the economy.

It was clear, even before the Civil War started in July 1967, that there were many structural contradictions in the Nigerian economy - the concentration of basic social and ancillary amenities, job opportunities with higher wages in urban areas (towns) vis-a-vis the rural areas. This has been primarily responsible for the rural - urban migration in Nigeria and the resultant urban unemployment and social problems.

The panels final recommendation,[63] which the government intended to implement to ensure that Stage II of indigenization will not suffer from similar defects. Of these, the most interesting are those dealing with wider ownership of affected businesses and the expansion of the stock market in order to achieve this objective, (freer and fairer market in quoted securities).

CHAPTER III

COMMERCIAL BANKING IN NIGERIA

Commercial banking plays an important role in the process of monetizing an economy. In the course of economic development, it acts as an engine that directs funds to the investible channels which can either maximize profits or social welfare.

The greater part of commercial banking in Nigeria is in the hands of expatriate international organizations whose main offices are outside Nigeria. They operate as branches of the same banks in Britain and France. The deposits acquired in Nigeria have been shown collectively in a single balance sheet.* Assets were acquired against those liabilities without regard to the location of the origin of the deposits being applied.[64]

The accounting and monetary policies followed by the foreign-owned (expatriate) commercial banks in Nigeria were determined by their head offices and were essentially chosen with regard to the monetary conditions prevailing in Britain and France. If interest rates increased in the United Kingdom as a result of a rise in the Bank of England's rate and the usual accompanying measures; interest rates would also be raised more or less by all the branches of those banks

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*The limited available dates are not disaggregated into expatriate and indigenous banks.

operating throughout the world, without (regard) reference to the needs or economic conditions of the individual countries involved.[65]

The total of the individual business undertaken in any particular country was determined by the decisions in the head office of the banks, and had no direct relationship to the demand for credit, the state and level of output, and employment in the country.[66]

Table 5 provides assets and liabilities of commercial banks. This consolidated balance sheet is drawn up for the nineteen banks total operations and not for their operations in Nigeria alone. Also, there is no distinction between the nature, classification and sizes of the banks listed in the table with regard to their paid-up capital.

In 1971, the commercial banks collectively had total cash balances of $57.6 million, $37.8 million of these balances were held in Nigeria while $19.35* were held in other banks abroad. During the same year, total loans and advances amounted to $753 million.** Also, they had investments worth $487.2 million in Nigeria and their total assets were $1,913.85 million.

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*This figure excludes overseas branches of the expatriate banks.

**For an in-depth analysis, see Table 10. Analysis of Commercial Bank Loans and Advances on Chapter Four.

Table 5.

COMMERCIAL BANK'S STATEMENT OF ASSETS AND LIABILITIES
($ MILLIONS)

	Cash	Balances Held With			Loans & Advances	Investments		
Years	Total	Banks in Nigeria	Indigenous Banks Abroad	Total	Total Loans and Advances	Total in Nigeria	Total Abroad	Total Assets
1971	57.6	37.8	19.35	57.15	753	487.2	N.A.	1,913.85
1972	$ 65.55	34.35	12.45	46.8	929.25	627.75	0.15	2,156.25
1973	$ 98.7	38.55	89.85	1,130.25	1,130.25	636.75	N.A.	2,658.
1974	$ 497.1	72.75	91.95	164.7	1,407.15	1,167.45	N.A.	4,216
1975	$1,243.05	117.75	148.2	275.7	2,305.95	1,248	N.A.	6,462
1976	$1,641.	199.65	229.2	438.45	3,184.35	2,025.45	N.A.	9,557.1

SOURCE: CBN, Economic and Financial Review, Vol. 17, #1, June 1979, p. 51.
N.A. means not available
Exchange rate, one dollar equal one and a half naira ($1/1.50₦)
*Excludes expatriate banks overseas operation.

Comparatively, 1974 figures shows an increase over 1971 figures. Total cash holdings increased from $57.6 million to $497.1 million. The total cash balances held in Nigeria and abroad in 1971 was $57.15 million, but in 1974, it increased to $164 million loans and advances also showed a noticeable increase * from $753 million to $2,305.95 million in 1974. Also, total investments in Nigeria increased from $487.2 million to $1,167.45 million in 1974.

Another characteristic of commercial banks in Nigeria prior to the indigenization decree was that such institutions concentrated their local lending on the foreign-owned industries operating in the country, such as the United African Company, John Holt & Company, and the Kingsway Department Stores.** Little inclination was shown to extend credit to Nigerian merchants to the magnitude that would place them in a strong competitive position with such well established merchandising firms named above; thereby, perpetuating the monopolistic strength of these large firms.[67]

The concentration of lending to foreign-owned and operated business led to the development of an enclave, especially, in the export sector, and thus perpetuated the dependence of

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*The increase in loans and advances, reflects commercial banks contribution in the indigensization scheme by providing funds to eligible Nigerians so that they can purchase shares.

**There is no supportive data available.

the country on primary export production. These activities also inhibited the growth and occupational mobility* of Nigerian traders.[68]

Expatriate banks' executives were all Europeans, lacking the intimate relationship with Nigerians which is essential for successful finance of the "indigenous enterprises." In addition, the foreign banks retained the conventions and standards which banks used in highly developed economies. One might say that for safety and profitability, such policies were in line with profit maximizing principles only. But such high standards tarnished their image and perception by the indigenes and was the subject of criticism by the Trevort Report.[69]

In the Report, it was documented that the small amount of lending to Nigerians limits the indirect benefits of expatriate banking, since without close contacts with Nigerian enterprises, the banks have only a limited capacity to improve Nigerian business methods.

According to Dr. N. Azikiwe, "there was an apprehension of conspiracy of the Bank of British West Africa limited to create monopoly in banking throughout the federation of Nigeria . . ."[70] Many Nigerians, also felt that the expatriate banks were deliberatly discriminating against Nigerian

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*This is true, especially, when majority of the traders are mainly unskilled and illerate.

businessmen and competing unfairly against the indigenous banks.

The indigenous banks used the unfair banking practice and discrimination argument when they sought aid from the regional governments. The history of National Bank describes vividly how persuasive these argument were.[71]

INDIGENOUS BANKS

Indigenous banks are incorporated within the country owned and managed by Nigerians. Between 1951 and 1954, several abortive attempts were made to establish locally-owned and managed banks to break the foreign monopoly in banking which proved unviable. Very few banks survived beyond two years of their inception. The others folded up almost as rapidly as they were set up due to inadequate capital and staff, over expansion and other structural handicaps.

In view of the low level of income enjoyed by most Nigerians, indigenous banks attracted small demand, time and savings deposits. The indigenous commercial banks are quite happy to accept savings account on which the average balance is very high. Such accounts seem popular with traders. The expatriate banks in contrast, would not maintain such accounts. They would consider many of them wholly uneconomic. In an effort to encourage thrift, some indigenous banks had special schemes* to encourage seasonal savings; the national banks shilling fund and Christmas fund" being cases in point.[72]

Between 1973 to 1976, there was a significant increase in demand, time and savings deposits.** Demand deposits increased from $646.05 million in 1973 to $6,199.05 million in 1976. Likewise, time deposits increased from $536.7 million in 1973 to $4,511.4 million in 1976, and savings deposits increased from $336.75 million in 1973 to $2,275.8 million in 1976. Based on these figures, one can infer that the campaign for increased savings paid off. The increased savings could also be as a result of increased earnings and income acquired from petro-dollar sales.

The habits of Nigerian Bankers regarding the holding of cash are still subject to change and it depends on economic conditions prevailing at the time. Hence, there is no stability in the holdings of individual banks as a group. According to the commercial banks statement of assets and liabilities cited earlier. Total cash balances held by banks in 1971 was $57.6 million, it increased to $65.55 million in 1972, $98.7 million in 1973, $497.1 million in 1974, $1,243.05 million in 1975 and $1,641 million in 1976.

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*Other methods used to attract funds from the public includes frequent advertising in the local media, (radio, television, trade magazines and billboards) designed to appeal to the nationalist feeling.

**The source of the data, is the CBN Economic and Financial Review, Vol. 17, #1, June 197 , p. 32, [Table 3(b)].

The advances of the indigenous banks consist of both loans and overdrafts and are all made to the indigenes. The charges made for advances vary between banks, customers and the type of advance. Table 6 shows selected predominant interest rates charged by commercial banks. First class advances was granted at 7 per cent in 1973/74, but there was a one per cent rate reduction in 1975/76. Produce advances to the marketing board was 10 per cent in 1973/74, but reduced to 9 per cent in 1975, and 8 per cent in 1976.

Overdrafts seem to be granted at rates between 8-12 per cent during the period under consideration. Loans on property mortgages are usually made at 12½ per cent, unsecured loans on promisory notes at 45 per cent; the two latter rates, being the maximun permissible under the Money Lenders Ordinance.*

Prior to the Nigerian Indigenization Decree, all indigenous banks offer "ancillary services" to their customers and the public beyond the acceptance of deposits and the granting of advances. The most important of these are the collection of bills and drafts of exporters; the opening of credits for importers; the remittance of funds within Nigeria, between towns and cities and abroad; acting as shipping agents; providing commercial informations of interest of importers and exporters; and the creation of a commercial library as well as legal department.[73]

Although, the indigenous banks operate according to the

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*Ordinance Number 49 of 1949.

Table 6.

SELECTED PREDOMINANT INTEREST RATES (% PER ANNUM)

COMMERCIAL BANKS DEPOSIT RATES | LENDING RATES

TIME DEPOSITS

End of the Month/Year	3 Months	3-6 Months	6-12 Months	Over 12 Months	Savings	Federal Savings Bank	First Class Advances	Over Drafts (Various Forms)	Produce Advances	Other Advances
Dec. 1973	3	3½	3½	4	3	4	7	8-12	10	10
Dec. 1974	3	3½	3½	4	3	4	7	8-12	10	10
Dec. 1975	3	3	3	4	4	5	6	8-12	9	9
Dec. 1976	2	2½	3½	3½	4	5	6	8-12	8	10

SOURCE: CBN Economic and Financial Review, Vol. 17, No. 1, June 1979, p. 34.

normal commercial banking principles; it might be asked, what can indigenous bankers hope to do that expatriate bankers with their greater resources, expertise and greater experience could not do better? Proponents of the decree had hoped that the indigenous banker should be able to use his greater knowledge of Nigerian businessmen to make better decision about the credit worthiness of his customers. They also presumed that the indigenous banker could show the businessmen how to keep better records and could advice him about purchasing suitable and efficient equipments.

The indigenous banks have not done as might have been expected of them during the post-indigenous era, especially, in the area of farm fanance.* Though, they have come a long way, they are still plagued by the burden of mismanagement, accounting incompetence, trained staff and support personnels shortages.[74]

The hypothesis that the branching policies of the indigenous banks appear to be more liberal than those of their expatriate competitors is tested in the analysis that follows, A. Soyode and T. A. Oyejide - in their studies - "Branch Network and Economic Performance; a study of Nigeria's commercial banks;" market share and profitability in commercial banking: The case of Nigeria"[75] tested the relationship between expatriate banks branch network and economic

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*See the chapter on rural finance for further details.

performance. Their study also showed that this relationship was in fact negative, especially for the Nigerian's indigenous commercial banks.

They identified various interesting dimensions of commercial banks branch networks. The starting point in their exercise was a comparison of individual commercial banks in terms of sizes and the number of their branch offices.

A comparison of each bank's share of total assets with its share of branches shows an interesting pattern. The top three banks in terms of assets [Barclays, Standard and United Bank of Africa] which owns 50.42 per cent (15.85% + 23.91% + 10.66%) of total assets, have similar share of branches, only 1.7 per cent* collectively. (See Table 7).

For the indigenous banks, the pattern is reversed: except for the Bank of the North,** each indigenous bank's share of total assets is less than its share of branches. For instance, Barclays Bank (Nigeria) with 23.91 per cent of total assets has only 2.58 per cent of the branches. On the other hand, National Bank which has only 5.93 per cent of total

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*$\dfrac{\text{Sum of bank branches in Nigeria} - \text{\# of branches operated by the three big banks}}{100}$

$= \dfrac{329 - 158}{100} = 1.7\%$

**Bank of the North originated as a foreign owned and controlled bank. Although, it is now an indigenous bank, its policies still effects the circumstances surrounding its origin.

Table 7.

"COMMERCIAL BANKS ASSETS AND NUMBER OF BRANCHES"

Banks	Assets		Branches	
	$Million	%	No.	%
Standard Bank (Nigeria)	544.785	15.85	65	2.64
Barclays Bank (Nigeria)	822.015	23.91	71	2.58
United Bank for Africa	366.39	10.66	22	3.09
National Bank*	203.685	5.93	56	17.02
Bank of the North*	214.44	6.24	15	4.56
Wema Bank*	19.53	0.57	12	3.65

Note: *, refers to indigenous banks
Exchange rate, one naira = $1.50
In, 1974, there were 329 bank branches in Nigeria.

SOURCE: Central Bank of Nigeria, Annual Report and Statement of Account, Dec. 31, 1974.

assets commands 17.02 per cent of the branches; and Wema Bank which has 0.57 per cent of total assets commands 3.65 per cent of the branches. T.A. Oyejide and A. Soyode's findings[76] concur with my general hypothesis - that "the branching policies of the indigenous banks appear to be more liberal than those of their expatriate competitors."

CHAPTER IV

THE DEVELOPMENT OF A VIABLE RURAL FINANCIAL SECTOR

Over the years, many causes for the phenomenon of agricultural stagnation have been documented. For instance, the Nigerian Minister of Agriculture commissioned a combined team of Nigerians and world bank experts in January 1980, to examine in-depth the food situation in Nigeria and to identify broad programs and strategies that will lead to an early achievement of self sufficiency.[77]

The team of experts drew up a food production plan for Nigeria. The plan contained far reaching recommendations on all aspects of food production, including crops, livestocks and fisheries. It also recommended a number of institutional and policy reforms to improve the extension services output delivery, input subsidies, marketing, storage and credit.[78]

The rural sector of the Nigerian population can be distinguished from the urban sector in terms of the volume of non-agricultural occupation within the two sectors. Economic activity in the rural sector depends directly or indirectly on the exploitation of land. It centres principally around farming, animal husbandry, poultry, fishing, forestry, food processing and cottage industry. It is estimated that agricultural activity occupies four-fifths of the rural population of Nigeria.[79]

A typical Nigerian rural farmer is usually a small-holder, in most cases planting an area of some 1.5-2 hectares, frequently divided into small and sometimes scattered plots. The size of the farm differs according to the pressure of the population of the land. The area farmed by an individual is generally smaller in the southern than in the northern parts of the country.[80]

In Nigeria, most family heads were allocated land rights by their tribal chiefs and by their birth rights. This has caused land to be subdivided to such an extent that most of these people lived at or near the poverty level. As a result, the males are forced to supplement their incomes elsewhere. This means that no stable farming community has evolved but instead, inefficient and wasteful methods of farming are still practiced.

Land and labor have remained the most important factors in the production of crops and livestocks for home consumption and export/agro-based industries. Most Nigerian peasants do not employ animal or mechanical power for ploughing or harvesting and rarely use fertlizers and other non-farm inputs. The latter requires a considerable investment outlay and demand for credit by farmers. In contrast, the capital requirements of subsistence farming as practiced in Nigeria are simple and relatively inexpensive. The peasant farmers provides from his own resources, the tools of his trade which consists of shorthanded hoes, cutlasses, axes, and reaping knives.[81]

The land tenure system gives the Nigerian peasant free access to land, and as long as he produces for his subsistence, his demand for land remains relatively small and can be satisfied within the compass of traditional tenure. The practice of mixed and continuous cropping, ensures some degree of regularity in the supply of basic foodstuff in the interval between two harvests of the main subsistence crops. The system of shifting cultivation or bush fallowing provides where land is still abundant a simple and inexpensive method of preserving the soil fertility.[82]

Nigeria's major food crops consists of starchy roots and tubers [cassava, yams, cocoyams, potatoes and plantains]; grains and cereals [maize, millet, sorghum, rice and kolanuts].

Table 8 shows an estimated yield of major crops and cash crops produced in Nigeria from December 1970 to December 1975. In 1970/71, 1,2625 kilogramme of cassava was produced. The total production steadily declined for subsequent production periods - 11318 in 1971/72, 7,478 in 1972/73, 8,066 in 1973/74, 8,631 in 1974/75 - However, yams, rice and millet production showed some increases during the period under consideration. In order to find out how relevant this estimated yield data is, let us take a look at the estimated areas under cultivation.

According to the data on Table 9 which shows an estimated areas under cultivation for major food crops, 1970-75 in thousands of hectares. In 1970/71, cassava was cultivated

Table 8.

ESTIMATED YIELD OF MAJOR FOOD CROPS AND CASH CROPS IN NIGERIA, 1970-75
(Kg 1 Ha)

Year	Cassava	Coco-Yams	Yams	Corn/Maize	Millet	Rice	Cow-peas	Wheat	Benni seed	Grounded nut	Soy-bean	Palm oil
1970/71	12625	5492	7992	1002	630	1134	233	-	-	-	-	-
1971/72	11318	4000	8159	1064	592	1395	211	-	-	-	-	-
1972/73	7478	5102	8871	609	648	1886	166	-	-	-	-	-
1973/74	8066	6623	8111	715	671	1304	162	-	-	-	-	-
1974/75	8631	4444	10656	912	1160	1952	374	-	-	-	-	-

SOURCE: Central Bank of Nigeria, Economic and Financial Review, Vol. 15, #2, 1977, December, p. 17.

Note:
(i) — means not available

(ii) Kg 1 Ha means kilogram per hectare

Table 9.

ESTIMATED AREAS UNDER CULTIVATION FOR MAJOR FOOD CROPS, 1970-75
('000 HECTARES)

Year	Cassava	Coco-Yams	Yams	Corn/Maize	Millet	Rice	Cow Peas	Wheat	Benni Seed	Grounded Nut	Soya Bean	Palm Oil
1970/71	920	250	1222	1431	4905	246	3772	10	-	1848	-	-
1971/72	899	200	1197	1197	4788	200	3791	10	-	1796	-	-
1972/73	844	266	788	1050	3692	237	2466	7	-	2032	-	-
1973/74	861	167	855	1130	5651	373	3256	7	-	2076	-	-
1974/75	815	108	671	579	4787	269	2937	8	-	1796	-	-

SOURCE: Central Bank of Nigeria, Economics and Financial Review, Vol. 15, #2, December 1977, p. 16.

Note: - Means not available

on 920 thousand hectares, cocoyams on 250 thousand hectares, yams on 1222 thousand hectares, corn (maize) on 4905 thousand hectares, rice on 246 thousand hectares, groundnuts on 1849 thousand hectares, cowpeas on 3772 thousand hectares and wheat on 10 thousand hectares. However, in 1974/75, the figures for cassava, cocoyams, yams, corn, rice, groundnuts, and wheat were as follows: 815, 108, 671, 579, 269, 1796, and 8 thousand hectares. All of the crops cited with the exception of rice, witnessed a reduction in areas under cultivation.

The reasons for the reduction in areas under cultivation is a function of many factors such as the level of farm prices, returns to investment and the efficiency of the marketing system. The behavior of yields of the major food crops during this period was broadly similar to that of land areas cultivated. As indicated earlier, the yields of the root crops and tubers have shown only slight increases. A variety of factors have combined to keep the yields low. Of great importance is the uncertainty of rainfall which can be debilitating under rain-fed farming. The availability of rainfall ranges from heavy rainstorms to severe drought, both of which are inimical to crop production. Another important factor is soil fertility.*

During the same period, there has been a growing demand

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*For detailed analysis, see Hans Ruthenberg, Farming Systems in the Tropics, Oxford 1971, p. 45.

for farm credit, which role from \$10.5 million in 1970, to \$13.8 million in 1971, \$28.8 in 1972, \$32.4 in 1973, \$40.8 in 1974, and \$55.95 in 1975. (See Table 3.0, for an analysis of commercial bank loans and advances). It is useful to examine briefly potential sources of funds for farm investment.

In Nigeria, there are two main sources from which agricultural credit can be obtained: the organized sector and the unorganized market. In the latter, the sources of funds are largely non-institutional money lenders, landlords, shopkeepers, relatives, bequested estate and personal savings. Business is conducted usually on a personal basis and it is not subject to any standard procedure. The rate of interest is usually prohibitive in this market because of the lack of any control over the activities of the participants.

Funds could also be obtained from the organized market comprising such institutions as commercial banks, cooperative societies, development and financial corporations and other specialized agencies set up by the government. The conditions and terms of credit in this sector are standized, while interests rates are controlled. In spite, a recent study has found that the unorganized sector is the main source of credit for the agricultural sector in Nigeria.[83]

Another important organized source of credit is the cooperative societies. These societies usually extend credit facilities to their members, and most of the loans are quite small and mainly short-term. Although, their activities maybe

Table 10.

ANALYSIS OF COMMERCIAL BANKS LOANS AND ADVANCES
($ MILLIONS)

Year	Agriculture Forestry and Fishing	Manu-facturing	Mining and Quarrying	Real Estate and Con-struction	Domestic Trade	Exports	Imports	Trans-portation and Communication
1970	$ 10.5	9.9	115.35	45.	48.3	104.25	90.0	28.5
1971	13.8	17.4	179.55	55.95	84.6	137.55	94.65	47.7
1972	28.8	15.3	216.	73.8	110.55	135.45	75.3	66.6
1973	32.4	9.45	274.8	114.9	127.35	129.9	138.0	77.55
1974	40.8	387.75	18.3	146.7	147.15	131.55	121.65	98.85
1975	55.95	616.05	24.45	319.2	216.45	150.9	345.9	123.
1976	119.4	913.5	21.9	618.45	315.15	144.75	300.9	271.05

SOURCE: CBN, Economic and Financial Review, Vol. 17, No. 1, June 1979, p. 33.

Exchange rate one naira equals $1.50

important to their members members, their overall impact as a source of credit for improving the agraian sector has not been all that impressive.[84]

In keeping with my general hypothesis as was shown in the last chapter, there is a general urban bias of bank branch location and concentration. Very little money has really flown into the argicultural sector from organized banking industry so far. Table 10 on commercial bank loans and advances supports this argument. In 1970, bank loans and advances to the agricultural sector was $10.5 million, while during the same year, $9.9 million went to manufacturing, $115.35 million went to mining and quarrying, $45 million went to real estate and construction, and $28.5 million went to transportation/communication.

However, 1975 figures attest the claim that the hypothesis have maintained that rutal finance has been a neglected sector by the commerical banks. Only $55.95 million went to agriculture, while a whopping $616.05 million went to manufacturing, $319.2 million went to transportation.

A translation of Table 10 using 1970-75 United Nations estimates of rural population in Nigeria show some interesting patterns. For instance, in 1970, of the $10.5 million advanced to the primary sector,* only $100 went to the farmer while the secondary and tertiary sector** receiving

*The primary sector consist of agriculture, forestry and fishing.

**The secondary/tertiary sector consist of manufacturing, real estate/construction and transportation/communication.

Table 11.

RURAL POPULATION IN NIGERIA - 1970 to 1975

Year	Total Population ('000)	Urban Population ('000)	Urban Population as a % of total Population	Rural Population ('000)	Rural Population as % of total Population
1970	66,174,	13234.8	20%	52939.2	80%
1971	67,856,	16285.44	24%	51570.56	76%
1972	69,581,	14612.01	21%	54968.99	79%
1973	71,350,	24972.5	35%	46377.5	65%
1974	73,163,	27070.31	37%	46092.69	63%
1975	75,023	29258.97	39%	45764.03	61%

SOURCE: Population estimates collected from World Banks - World Table. Published for the World Bank - The John Hopkins University Press, Baltimore, 1980, pp. 150-1.

Distribution of Nigerian population in percentile collected from Nigerian annual abstract of statistics: Lagos Federal Office of Statistics, 1970.

Table 12.

DISTRIBUTION OF COMMERCIAL BANKS LOANS AND ADVANCES ON PER CAPITA BASIS
USING RURAL POPULATION FIGURES ('000)

Year	Primary Sector	Secondary and Tertiary Sector
1970	$\frac{\$10.5}{52939.2} = .0001$	$\frac{\$83.4}{52939.2} = .0015$
1971	$\frac{\$13.8}{51570.56} = .0002$	$\frac{\$121.05}{51570.56} = .0023$
1972	$\frac{\$28.8}{54968.99} = .0005$	$\frac{\$155.7}{54968.99} = .0028$
1973	$\frac{\$32.4}{46377.5} = .0006$	$\frac{\$201.9}{46377.5} = .0043$
1974	$\frac{\$40.8}{46092.69} = .0008$	$\frac{\$633.3}{46092.69} = .0137$
1975	$\frac{\$55.95}{45764.03} = .0012$	$\frac{\$1058.25}{45764.03} = .0231$

SOURCE: Collected from World Banks World Tables. Published for the World Bank, The John Hopkins University Press, Baltimore, 1980, p. 150-1.

Data Compiled, using 1970-75 rural population figures.
- -The primary sector consists of agriculture, fishing and forestry.
- -The secondary and tertiary sector consist of manufacturing, real estate/construction and transportation/communication.
- -All commercial banks loans and advances are denominated in millions of dollars.
- -All rural population estimates are denominated in thousands.

$83.4 million in loans and advances, have a per capita distribution of $1,500. Subsequent years figures (See Table 3.2 attached) shows that the disparity between the primary sector and the secondary/tertiary sector have widened to an even greater extent.

The commercial banks with the resources of funds to assist in the transformation of traditional Nigerian agriculture do not cater to the needs of the peasant producers for credit. There was very little agricultural credit in the sense of the farmers receiving loans and advances for the purchase of seed, planting, harvesting and for holding livestocks.

The inference drawn from the analysis is that the credit policies of these banks (commercial banks) are understandably geared to the needs of commerce and industry which meet their rigid repayment schedules and provide adequate collateral security for their loans. According to H. A. Oluwasani and J. A. Also, "the repayment schedules of commercial banks are generally inflexiable and unsuited to the realities of agricultural production with its longer term gestation and short (term) run violent fluctuations in yields and prices.[85]

RURAL - URBAN DIMENSION OF BANK BRANCH CONCENTRATION

As in the distribution of most other modern services in Nigeria, there is a clear pattern of bias on the part of commercial banks for urban locations. In the particular case of commercial banks, there is admittedly, the obvious economic justification for this pattern of behavior - the major urban cities provides the immediate bases and sources of commercial banking business and profitability. This prompted A. Soyode and A. Oyejide to question whether those indigenous banks which are being nutured by various state and regional governments are also subject to this profit motivated urban bias.[86] For an answer, let us examine the tables- attached.

Table 13 provides a break down of bank branches in terms of their location by size or type of town. Three types of towns are identified: rural, urban and large urban, where rural towns are defined as towns with population less than 20,000; urban as those with population at least 20,000 but less than 100,000; and as large urban those with population of 100,000 and over,[87] (using the 1963 population census as a basis of population projection).

The table confirms the general urban bias of bank branch location mentioned earlier. Of all the banks listed in the table only about 15 per cent of the total number are located in the rural areas, while a hefty 54 per cent of these branches serve the large urban centres. For instance, the city of Lagos, has over 100 banks (headquartered and branches) alone.[88] On the disaggregated level, only three banks [that is, Wema, Pan African and New Nigeria] have 25 per cent or more of their brahcnes in towns classified as rural.

Table 13

COMMERCIAL BANK BRANCH LOCATION BY SIZE OF TOWNS: 1973-74

BANKS	All Banks	Rural		Urban		Large Urban	
		Branches	Percent	Branches	Percent	Branches	Percent
Standard Bank	65	8	12.31	18	27.69	39	60.00
Barclays Bank	71	14	19.72	26	36.62	31	43.66
United Bank of Africa	22	4	18.18	1	4.55	17	72.27
National Bank	56	4	7.14	18	32.14	34	60.71
African Continental Bank	33	5	15.55	12	36.36	16	48.48
Bank of the North	15	2	13.33	5	33.33	8	53.33
Bank of India	1	-	-	-	-	1	100.00
Co-op Bank of Western Nigeria	15	-	-	7	46.67	8	53.33
International Bank	5	-	-	-	-	5	100.00
Mercantile Bank	5	1	20.00	4	80.00	-	-
Bank of America	1	-	-	-	-	1	100.00
Wema Bank	12	3	25.00	2	16.67	7	58.33
Pan African Bank	11	5	45.45	3	27.27	3	27.27
Arab Bank	1	-	-	-	-	1	100.00
Co-op Bank of Eastern Nigeria	11	2	18.18	5	45.45	4	36.36
TOTAL	329	51	15.41	101	30.51	177	53.80

Rural Towns: Defined as towns with population less than 20,000.
Urban Towns: Defined as towns with population at least 20,000, but less than 100,000.
Large Urban: Defined as towns with population of 100,000 and over 100,000.

SOURCE: A. Soyode and T.A. Oyejide Branch Network and Economic Performance: A Case Study of Nigeria's Commercial Banks', Discussion Paper No. 75-02.

-means not available

It is clearly no accident that 13 of the 16 banks have at least 40 percent of their branches located in the large urban centres, only one [that is, national bank] is indigenous. Thus, while the urban bias is generally strong for the whole of the commercial banking system in Nigeria, it is particularly, so far the expatriate banks and the profit motivated attempt to cling to large urban centres is reduced to some extent, in the case of indigenous banks.

Newlyn, in his survey of banking in twenty-five British colonies,[89] found that the density of branch banking was lowest in Nigeria with an average of 962,000 persons per banking offices in Nigeria and a total population estimated over 50 million, each banking office in Nigeria served an average population of over 250,000 in 1962.

While this represents a considerable improvement, Nigeria would still be near the bottom of Newlyn's list, even assuming no improvements in the other countries. And According to recent statistics, Nigeria, is shamefully underbanked at present with fewer than 800 branches for a population conservatively estimated at 80 million.[90]

Apart from agriculture, there are many other productive fields whose contribution to the total economic well-being of the rural community are immense. The small scale and cottage industries, and also self employment of individuals like the village carpenters, painter and professionals like engineers, doctors, and pharmacist would be a very productive field of finance for the commercial banks.

Extending banking business to rural areas raises the costs of operating. Moreover, lending for agriculture is more risky as a result commercial banks have therefore confined their business to the less riskly and less costly ventures concentrated in urban areas. Profitability is no doubt a sound consideration in many fields of economic activity, but individual (business) profitability need not always concide with social profitability or the good of the society as a whole.

It is possible that the extension of business to rural areas by the commercial banks may not prove to be profitable for some years to come, but the society as a whole may gain from this by way of increased availability of food-grains, raw materials for exports and for the ensuing industrial base. It may increase the incomes and savings of the cultivators and eventually turn rural banking into a profitable business.

POLICY RECOMMENDATION

Nigeria needs a comprehensive approach in adopting a food promotion strategy. The main objective should be to make efficient use of the available land, labor and capital to raise income and generally reduce the rural-urban income gap. This involves eliminating the various marketing inefficiencies by investing in transport facilities, information, storage and the development of non-farm activities such as food processing and small-scale industries in the rural sector.

In addition, some institutional changes that will reform the land tenure system to permit more efficient use of land, and such changes that will restore a balance in research between export and food corps, need immediate government attention.

Some of the revenues from petroleum should be invested in the rural sector to solve these problems, to increase available and effective food supply in Nigeria. The commercial banks have an important role to play towards reducing rural poverty, unemployment and income inequality.

A number of factors are responsible for the relatively slow growth in available food supply. The lack of credit is a major contributor for the relatively slow growth in available food supply. This claim is further indicated by the pattern of branch locations of commercial banks.

It is only by adopting liberal policy measures with regard to location of branches, credit advances and other ancillary services that commercial banks can contribute significantly towards reducing rural poverty, unemployment and income inequality.

CBN was too soft with commercial banks that did not meet the guidelines which required the open of new branches in rural areas. It was estimated that about 261 new branches should be opened by 1984, in the past two years 1978-1980, less than 100 branches were opened by the 21 chartered banks.

There is an urgent need to expand banking facilities in the states and regions which are 'underbanked.' As the commercial banks enter the field of agricultural finance, they will be faced with certain important decisions. The first is that of location, while making the choice of a location for a bank, greatest care will have to be taken. In the first place, trade and marketing centres in the rural areas which are not being served by any financial institutions should be given preference and the centres chosen should have the potential of ultimately emerging as a 'growth centre'.

One of the important tasks before the banks operating in rural areas is to mobilize rural savings. At present (not all), the rural community is used to banking procedure and their savings if any, are used unproductively.

If the bank habit is to be fostered among the villages (rural dwellers), these conditions must be satisfied: firstly, absolute confidence in banks is to be created among the people. Education would make them realize the need for an usefulness of savings, but it they are to be persuaded to put their money in the banks they should be assured of the safety of their savings;

Secondly, a certain degree of secrecy is to maintained in respect of each account, for the villager does not like his neighbours or the Internal Revenue Service knowing how much money he has accumulated; and

Thirdly, the bank account should be easy to operate because we are dealing here with illiterates and the money that is deposited in a bank should be made available to the depositor when he needs it without any irksome delay. The failure of the rural credit co-operatives in Nigeria and the continued success of the village money lender illustrate the significance of this point.

One of the stumbling block to farm finance is credit worthiness. A new set of policies must be developed such that the credit worthiness of rural borrowers need not be measured as it was being measured until this time (hitherto). But, it has to to be judged from the potential credit-worthiness and the improvements which could be brought about by making available to them a small advance.

CONCLUSION

This study has endeavored: (1) to outline, describe and critically analyze the Nigerian Indigenization scheme on commercial banking in Nigeria and its overall benefits to the economy - mainly towards greater participation of Nigerians in the growth and destiny of the economy -; (2) to outline the history, origin and functions of the CBN, beginning in 1959 to 1980; (3) to survey the CBN's economic and development contribution to the Nigerian economy in contrast with those of the commercial banks; and (4) to survey the forces responsible for the limited development of a viable rural financial sector.

The first chapter of the study has attempted to explain the history and origin of the CBN, its developmental role which includes the promotion of the local money markets designed to provide outlets for commercial banks fast growing idle funds. The development of an indigenous capital market has also been the concern of the CBN. So, in 1961, the bank set up the Lagos Stock Exchange and it supported the Nigerian Stock Exchange during its early years. The bank established specialized financial institutions such as the NIDB and the NAB.

Chapter two has attempted to explain how the Nigerian Indigenization Decree affected the banking industry and the future prospects of the industry. Before 1972, Nigeria had no ordinance referring specifically to enterprising operators. It was not until April 1, 1974, that the country under the indigenization decree established the modus operandi.

The Nigerian Indigenization Decree was a measure brought into force by the government to greatly increase the local, shareholding and participation in foreign companies operating in the country, many of them British. The Nigerian indigenization was a gradual attempt to deforeignize the country's economy. It does mean that the indigenes would assume greater flexibility and responsibility for the ownership and management of the modern sector.

The decree was an attempt by the government to reduce the proportion of profits made by foreign enterprises in Nigeria that is transferred to Europe.

According to CBN statistics, about 1,200 companies sold their shares to Nigerians as of December 31, 1977. The decree affected many foreign firms, mainly British firms involved in 42 per cent of the cases, French firms allowed with 10 per cent and the United States with 7 per cent. The government decreed that all controlling shares in all formerly foreign dominated banks must be in Nigerian, principally government hands. The foreign banks that compiled are Union, or Braclays Bank DCB, Standard Bank and United Bank for Africa.

Many Nigerians, including employees of the companies themselves have secured bargains. There has been apprehension that too many of the shares are now in the hands of two few individuals, concentrated mainly in the Lagos areas where the headquarters of most of the companies are situated thereby creating a new class of millionaires. The concentration of shares in two few individuals prompted the panel set up to evaluate the indigenization scheme to question the geographical spread of share purchases.

The panel in their report on the problem of indigenization so far have been twofold: firstly, there have been downright evasion and dishonesty. Secondly, there have been what one might term structural failures - the spread of ownership of foreign businesses has been concentrated into few hands. The panel also found that the main devises used to circumvent the decree included fronting, application for naturalization, extended use of the definition of Nigerian citizenship, problem of classification of enterprises and frequent amendments providing for exemptions on flimsy grounds. The panel apportioned their blame for the misdemeanors equally between foreign owners and misguided Nigerian citizens.

Chapter three and four have dealth with the commercial banks, their locational pattern and their (lending) credit and advancement policies and their contributions if any to the development of a viable rural sector.

Commercial banks continues to be an urban-oriented service. Very little money has really flown into the rural areas from organized banking industry so far and this is a sharp contrast to the role played by the CBN which have increased the flow of credit to the agricultural sector via the aid of the agricultural credit guarantee fund.

A translation of Table 10 show some interesting pattern. In 1970, of the $10.5 million advanced to the primary sector, only $100 went to the farmer while the secondary and tertiary sector receiving $83.4 million in loans and advances have per capita distribution of $1,500.

A number of factors are responsible for the relatively slow growth in available food supply. The lack of credit is a major contributor for the relatively slow growth in available food supply. Coupled with the uncertainty of rainfall and the land tenure system. Rural finance is a neglected sector by the commercial bank and the pattern of branch locations of commercial banks further justifies the claim.

FOOTNOTES

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[51]Ibid., p. 1299.

[52]"Nigeria's Big Business Takeover," West Africa (London) April 1, 1974, p. 362.

[53]Ibid., p. 362.

[54]Urbach, Op. Cit., p. 1299.

[55]Osakwe, Op. Cit., p. 439.

[56]Alan Hutchinson, "Tensions Between Indigenization and Foreign Investment." African Development, December 1976, p. 1283.

[57]Ibid., p. 1283.

[58]Osakwe, Op. Cit., p. 439.

[59]CBN Annual Report, Op. Cit.,p. 45.

[60]Osakwe, Op. Cit., p. 439.

[61]Hutchinson, Op. Cit., p. 1283.

[62]"Banking on Nigeria's Farmers," West Africa, No. 3331, June 1, 1981, p. 1208.

[63]Hutchinson, Op. Cit., p. 1283.

[64]Nwani, Op. Cit., p. 62.

[65]Ibid., p. 63.

[66]Ibid., p. 63.

[67]Ibid., p. 63.

[68]Ibid., p. 63.

[69]Trevor, Op. Cit., paragraph 15.

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[88]Soyode and Oyejide, Op, Cit., p. 123.

[89]Ibid., p. 125.

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[91]Brown, Op. Cit., p. 81.

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