THE EFFECTS OF THE STRUCTURAL ADJUSTMENT PROGRAMME ON THE ACTIVITIES OF COMMERCIAL BANKS IN NIGERIA

BY

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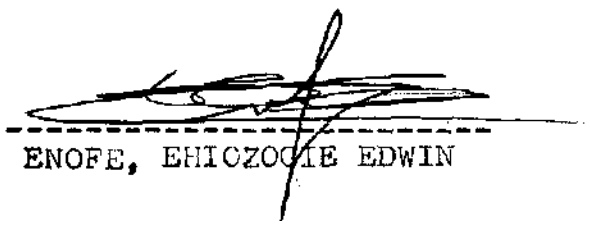
DEPARTMENT OF ECONOMICS FACULTY OF ARTS AND SOCIAL SCIENCES AHMADU BELLO UNIVERSITY ZARIA - NIGERIA

NOVEMBER, 1991

DECLARATION

I hereby declare that this thesis is entirely the result of my own independent investigation. I also declare that it has never been presented previously, and is not being currently submitted for any other degree, either in this University or in any other University.

The various sources to which I am indebted are clearly indicated in references in the text or in the bibliography.



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CERTIFICATION

This thesis, entitled THE EFFECTS OF THE STRUCTURAL ADJUSTMENT PROGRAMME ON THE ACTIVITIES OF COMMERCIAL BANKS IN NIGERIA, by ENOFE, Ehiozogie Edwin, meets the regulations governing the award of the degree of Master of Science in Economics of Ahmadu Bello University, Zaria, and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This thesis is dedicated to the Lord God Almighty, Who takes the glory for all things that concern me.

"Unto the Lord be the glory for all the good things He has done."

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ABSTRACT

This work sets out to investigate the effects of SAP on the activities of commercial banks in Nigeria. It tested the hypothesis that the expectation of the government to influence levels of inflation, productivity, growth and development through monetary policies on the commercial banks has not materialised.

It needs be noted, however, that policies were also targetted towards the commercial banks in the early 1960s up to mid-1986 before the introduction of the SAP.

The study, therefore, compared the economic activities of the commercial banks in the pre-SAP era (1980-1985) with those of the SAP period (1986-1989). This is meant to determine whether the policies in the SAP era have actually resulted in solving the national economic problems that those in the pre-SAP era could not solve.

The method used for the analysis was to take four of the major banks: First Bank, UBA, Union Bank and IBWA (AFRIBANK). Taking such performance indicators as their total deposits, loans and advances, capital base, profits level, staff strength,

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total number of branches, and foreign exchange transactions, among others, analysis was made on the effects which the SAP policies have had on the commercial banks in Nigeria.

The findings of this thesis indicate that the problems which the government seeks to solve still remain unsolved; that is, curbing inflation, increasing productivity, raising the level of growth and development, have not been achieved.

Also, in the course of coping with these SAP policies, the commercial banks have evolved new strategies for running their economic activities. Among these are new incentives and sharing investments with their customers.

Based on these and other findings, some recommendations were made to the government and the managements of commercial banks. It is hoped that these will contribute to the resolution of the controversy between the government and the commercial banks.

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Structural adjustment has become a common phenomenon among Third World countries since the 1980s. This has been due to the economic crises that have been in existence in these countries since the late 1970s, which has been accompanied by a serious social and economic retrogression in the early 1980s.

The World Bank (IBRD) and the International Monetary Fund (IMF) advocated structural adjustment programme (SAP) for these Third World countries as the remedy for their economic crises. At its (the structural adjustment) inception, both macro and micro definitions were given to it. These definitions can be stated as below.

Macro definition of structural adjustment

At the macro level, adjustments are the restructuring of aggregate demand and supply in the heavily indebted countries in order to restore growth while generating current account positions consistent with reduced external resource flows (Fischer, 1986).

It has the following stated objectives: maintaining a healthy current account position; reduction of the rate of inflation; a stable and high rate of economic growth; and a manageable level of foreign debt.

Policies are needed in order to attain these macro structural adjustments by first reducing demands and increasing the availability of resources. Khan and Knight (1982; 1985); Fischer (1986) and Khan (1987) put it that priority is to be first of all given to the movement in resources into the net export sector - meaning primarily, a sustained effective real devaluation. Secondly, Fischer (1986) added that if the economy is at full employment, then either consumption or government spending has to be cut to make room for investment, growth and exports. A third policy measure suggests that there should be tight fiscal policies in the form of reduced government budget deficits.

Khan (1987) stated that macroeconomic adjustment arises due to imbalance in domestic demand and supply. He also added that the essence of macroeconomic adjustment programme is to ensure that the supply-demand imbalance is eliminated in an orderly way before the economy becomes seriously distorted and external finance is exhausted.

Micro definition of structural adjustment

In the micro sense, structural adjustments are policy measures that increase the efficiency of the price system and the allocation of resources by

reducing tariffs and import quotas through moving to unify exchange rates. It is argued that most of the developing economies need to undertake structural reforms in the liberalisation of trade in domestic pricing in the financial sectors, in public enterprise, and in the fiscal system. This approach prompts four preliminary comments.

The first is that detailed calculations typically imply that the welfare cost of such inefficiencies amount to a small percentage of GNP. Second, part of the gain from implementing such reforms will take the form of greater flexibility of the economy in responding to shocks and to incentives. The notion is that an economy with a well-functioning price system is one that permits rapid change. The findings that export-oriented economies adjusted more easily to external shocks are consistent with this view (Balassa, 1983). Third, many of these inefficiencies may be very difficult to dislodge. For example, tariffs, subsidies and quotas are not the sole preserve of the developing countries.

Also, public sector corporations operate inefficiently in many countries.

Financial systems are strictly regulated, and for good reasons, in many countries, all these might not yield easily to structural adjustment plan. Fourth,

such programmes have to be sold to developing countries, because the pay-off is delayed and there are immediate costs of undertaking structural reform, and reasoned argument has to be made for the likely benefits.

The case for micro adjustment, it is argued, will have to be made for each country based on the details of its own particular distortions and on an analysis of the likely consequences of change. Macro adjustment on the other hand, can take place or may be essential in any economy - be it socialist or free market economy.

Since micro adjustment requires more of a change in approach than does macro adjustment, the case for particular reforms will have to be made by careful analysis rather than assertion.

Before the adoption of SAP in the Third World countries, and in Nigeria in particular, debt problem has been plaguing these countries over time. The adoption of structural adjustment was therefore meant to bail these countries out of their debt crises as entrenched in the "Baker Plan" of 1985 (Sanusi, 1987).

Apart from the above debt problem, other problems that beset the Nigerian economy include the effects of the worldwide oil glut in the second half of 1981. Policies were formulated between 1982 and early 1986

to tackle these problems. The policies adopted during this period included intensified payments and trade controls.

The resultant effects of the use of the policy measures were that the Nigerian economic problems increased rather than being solved. Such problems as drastic short supply of industrial inputs, plant closures, large-scale retrenchment of workers, shortage of goods and price inflation, rapid increase in external debt and in debt servicing payments were prevalent.

The end of 1985 witnessed the need for adopting the SAP which was meant to tackle the above-stated problems in the Nigerian economy, according to the government. In its inception, it was described as a bold and courageous effort of the present administration in embarking on far-reaching measures that frontally tackled the economy's structural problems (Aswhe, et al 1988).

SAP, in the Nigerian context, has some stated objectives. The main objective is to restructure and diversity the productive base of the Nigerian economy in order to reduce dependence on the oil sector and imports, as well as enhance efficiency in the allocation of resources, both in the public and private sectors of the Nigerian economy.

Other objectives are to achieve fiscal and balance of payments viability over the period; to lay basis for sustainable non-inflationary or minimal inflationary growth; to lessen the dominance of unproductive investment in the public sector; and to improve the sector's efficiency and intensify the growth potential of the private sector.

Measures have also been taken to effect these objectives. Two major measures, among others, are the monetary and fiscal measures (Kwanashie; 1989; Ezenwe, 1990). The commercial banks, among other banks, have been seriously monitored during SAP with the use of monetary policies. There have also been corresponding responses of the banks to these policy measures. The policies themselves have some serious implications on the entire Nigerian economy.

All these issues will be brought to focus in the main discussion in this work.

1.2 STATEMENT OF THE PROBLEM

The objective of the government to use more of restrictive policy measures (Ahmed, 1987) through the CBN policy guidelines on commercial banks' activities in Nigeria in order to bring the economy to a healthy state, has not yielded the expected result . Commercial banks have rather sprung up proliferically within this period than ever before. They have rather exploited the policy measures against them to go into new innovations and business incentives. This has, on the other hand, enhanced their profit making. The banks have also exploited the loopholes in the foreign exchange policies to make much gain.

The government policies against them have failed rather than being successful. The various problems which the government intended to curb through the CBN's monetary policies on commercial banks during SAP still remain unsolved. For example, according to Ayodele (1990), the commercial banks are faced with tougher controls, closer surveillance, higher interest and exchange rate problems, due to the 1988 reflationary budget. This has subsequently resulted in higher inflationary

pressures in 1989. Uzor (1989) described the policies as punitive rather than admonitory.

The following problems have resulted in the course of the implementation of the CBN's monetary policies on commercial banks: shortage of fund to commercial banks for operation and for credit creation; scouting round for deposits from different sources (Nwankwo, 1989; Ilimemomoh, 1989); and the bankers' disapproval of the policies resulting in some of them losing their jobs. There has also been the problem of the banks giving higher rates of interest on deposits and charging much more higher rates of interest on investible funds.

This study will examine these problems as they relate to the commercial banks and the entire Nigerian economy.

1.3 OBJECTIVES OF THE STUDY

The major objective of the study is the evaluation of the economic implications of the government SAP policies on the commercial banks in Nigeria for the period of 1980 to 1989. This time-

period is separated into pre-SAP era (1980-1985) and SAP era (1986-1989) for effective comparative analysis of the activities of the commercial banks before SAP with those of the SAP period. The economic implications here include that the commercial banks in Nigeria have responded in one way or the other to the SAP policies on them. Some of the responses include some new incentives for attracting deposits. The banks have also gone into business partnership with some of the investors that borrow from them (Ochejele, 1990).

A second objective aims at showing whether the economic indicators of the commercial banks in Nigeria have revealed improvements during the SAP period.

These performance indicators include total deposits, total loans and advances, capital base of the commercial banks, and their profit levels, among others.

Suggestions will finally be given for the steps the government and the commercial banks' managements ought to take for achieving a better economy in Nigeria.

1.4 METHODOLOGY

In this study, comparative analysis of the various economic indicators of the commercial banks will be made. Pre-SAP period (considering 1980-1985) and "during" SAP era (from 1986-1989) will be taken for analysis. The various values of the indicators which include total deposits, loans and advances, employment, profit levels, number of branches, capital base of the commercial banks, among others, will be compared and contrasted in the two-time periods. The differences in values will be analysed to show whether or not, the banks have fared well during the SAP period than in the pre-SAP era.

In a bid to have a more comprehensive analysis, the total (absolute), marginal and percentage values of the indicators in the various years will be computed and analysed. It is hoped that the marginal and percentage values will give a more comprehensive judgement of the activities of the commercial banks since the existence of SAP in Nigeria.

For the purpose of economic evaluation, the following conditions will be held constant:
(i) analysis will be based on the available data;
(ii) the activities in the pre-SAP era are considered

synonymous on one part, and those of the SAP era on the other part; (iii) the method of computing the data remains the same all over the years; and (iv) the values of the data are generally in absolute or percentage term, as the case may be.

In the analysis, a sample of the performance indicators of four of the major banks - First Bank of Nigeria Limited (FBN), United Bank for Africa Limited (UBA), Union Bank of Nigeria Limited (UBN), and International Bank of West Africa Limited (IBWA) - now called AFRIBANK - would be made on the result obtained from their data.

We will also consider the value of money in both periods and evaluate this with respect to the actual value that the total amount of each of the indicators is worth at the two periods of time respectively.

Due to lack of data on the sectoral allocation of funds by the commercial banks, the FBN data will be used to analyse the sectoral allocation (1982 to 1988 time period will be used). Since the profit is separated into "before" and "after" tax profit, a simple observation will be made on the value of the profit in both cases in a sequencial order. This

involves year to year analysis. The marginal values and the corresponding percentage values will also be obtained and analysed accordingly for all the banks under consideration.

The amount paid as tax (where tax is "before tax profit" less "after tax profit") will also be analysed, both in absolute term and in percentage term. The percentage term is given by: the tax absolute value over the absolute value of the "before tax profit" (in percentage).

It is hoped that this analysis will enable the work to identify whether substantial amount of tax has been paid by the commercial banks or not. It will also identify to what extent this has retarded their economic activities.

In the analysis of the banks' participation in the foreign exchange market transactions, the amount bidded by the various banks under consideration will be obtained. Some bids, starting from the first time (Bid No. 6 of 30/10/86) they participated in the transaction to some selected bids over some periods of time up to November 1988, will be taken for the analysis. Due to the available data on foreign exchange bids that the author could lay his hands on, the Bid No. 6 of 30/10/86; Bid No. 7 of 6/11/86;

and Bid No. 8 of 13/11/86 will be used as the starting values with which others in 1987 and 1988 will be compared and contrasted.

Also, due to the large series of data (because the bids were initially weekly, and later on, forthnightly), middle - June - of the years of 1987 and 1988; and the end of the year - December - of 1987, and November 1988, will be selected for the analysis. It is hoped that since the marginal differences in the bid rates are not all that much in the various time periods, the selected periods will adequately take care of the transactions that took place in the other periods that were not selected for the analysis.

The mode of the analysis here will be to find out how much the commercial banks actually earned or have been earning from the foreign exchange transactions. This is meant to confirm whether they do exploit the loopholes in the foreign exchange to enrich themselves or not. Since all the data for each of the years - 1986 to 1988 - under consideration will not be obtained, the FEM TABLE data will be used just to state the amount of million naira or dollar that each of the banks earned in each of the time considered. Thereafter, the data on the commercial banks gross earnings and foreign exchange earnings (obtained from the Nigerian Economist, August 29-September 12, 1988, p. 29) will be used to

compute the percentage values of the contribution of the foreign exchange earning to the gross earnings.

In general, the economic reasons that can be adduced for what led to the value of the commercial banks' data at one time or the other, will be stated. It is hoped that these economic arguments will drive home the objectives of the study and the hypothesis the work sets out to test.

1.5 HYPOTHESIS

We want to test the hypothesis that the expectation of the government to influence levels of inflation, productivity, growth and development through monetary policies on the commercial banks has not materialised. The banks have rather discovered new strategies for coping with their economic activities due to the policies formulated on them.

Both the policies of the government and the corresponding strategies of the commercial banks have brought about some economic retardations, such as low productivity, higher prices, lower level

of growth and development in the entire Nigerian economy.

1.6 SCOPE OF THE STUDY

The time period covered by the study is 1980-1989. It is split into two parts: 1980-1985; and 1986 to 1989. They are categorised as the pre-SAP period and during SAP era respectively. The areas concentrated on include the analysis of interest rate determination of the level of total deposit, loans and advances. The role the credit guidelines play in determining the level of loans and advances will also be analysed. Some of the Bids of the commercial banks in the foreign exchange market will be obtained and analysed.

Some performance of commercial banks indicators will be selected and analysed.

Due to the fact that we are analysing the activities of the SAP, the Monetarist, Structuralist and Marxian views of SAP will be stated. These are the various theories that are associated with the Third World countries' adoption of the SAP. Added to this is the SAP controversy at the international

scene, Nigeria's context, and the commercial banks' level. The comments of authors at these various levels will be stated.

The major performance indicators of the commercial banks chosenfor analysis are their total deposits; total loans and advances; capital base; profits level; total number of branches; total number of workers; sectoral allocation of loans and advances; and their performance in the foreign exchange market.

1.7 SOURCES OF DATA AND LIMITATIONS

The study relied largely on secondary data. Data will be obtained from various sources, including the Financial and Economic Review (various issues); the Nigerian Economist (some issues); Business Concord (various issues); and the Annual Reports and Accounts of the four commercial banks selected for analysis.

This study may be limited by the insufficient and unreliable data obtained from a secondary source. The work is also limited to the stated objectives and the methodology that will be used for analysing it.

CHAPTER 2

THE LITERATURE REVIEW

2.1 THE MONETARIST, STRUCTURALIST AND MARXIST THEORETICAL PERSPECTIVES TO SAP

2.1.1 Introduction

The issue of Structural Adjustment has been in many Third World countries before its introduction into the Nigerian economy. Its existence is commonly attributable to the world economic crisis, with particular reference to the Third World countries.

Professor Ezenwe (1989) established that the World Bank and the International Monetary Fund (IMF) see SAP as the indisputable remedy for the ills of the economies of the less developed countries (LDCs).

Fischer (1986) pointed out that the strategy adopted in 1982 to deal with the world debt crisis has averted financial collapse at the cost of a sharp showdown in growth and investment in the heavily indebted countries. He also added that the critical question is how the affected countries can restore growth while continuing to meet their debt servicing burdens.

The World Bank (IBRD) is said to be concerned with this question in that it contemplates its new role as the driver of growth in the developing countries.

In order to know the economic conditions of the developing nations, the following table is being given.

2.1.2.1 Economic indicators (performance) for indebted developing countries, 1980-1984

INDICATOR & GROUP		1980	1981	1982	1983	1984
Growth of GDP (%)	NP	4.9	5.1	4.0	5.4	5.7
	P	3.9	1.1	-0.1	-1.9	2.0
Current Account Balance ($ billions)	PN	-29.3	-45.9	-41.2	-33.8	-23.2
	P	-47.7	-66.7	-61.7	-25.6	-14.7
Growth of export volume (%)	NP	7.2	4.8	0.4	6.6	12.4
	P	2.2	1.8	-2.4	3.7	8.1
Growth of import value (%)	NP	9.7	5.9	-1.9	3.3	7.0
	P	4.3	2.8	-12.8	-15.5	0.4
Debt service/exports (%)	NP	11.0	12.7	14.6	14.4	14.9
	P	26.9	33.8	41.6	36.2	36.6
Investment (% of income)	NP	29.3	28.2	27.0	26.7	26.2
	P	25.8	25.2	23.0	20.5	18.6
Inflation (%)[9]	NP	15.3	12.7	9.7	9.9	10.7
	P	45.7	46.4	48.2	73.0	89.0
Fiscal balance (% of GDP)	NP	-3.8	-4.3	-5.5	-5.4	-5.1
	P	-1.9	-3.8	-4.4	-4.0	-2.4
Growth of money supply (%)	NP	27.8	22.3	21.0	20.8	21.2
	P	45.5	55.0	55.4	72.0	84.7

SOURCE: IMF, World Economic Outlook (Washington, DC, 1985), various appendix tables.

NP = represents countries that did not suffer any debt

P = represents countries that did suffer debt servicing problems during this period

'a' = represents "based on consumer price index"

2.1.2.2 Analysis

Each group accounts for about 43% of the total GNP of the developing countries. NP countries did not have problems servicing their debts, while the P countries have problems servicing their debts.

Three facts stand out. First, the success of the problem countries in reducing their current account deficits was achieved mostly through a reduction in imports, accompanied by a severe slowdown in growth caused by the world recession and tight domestic fiscal and monetary policy. Second, the growth slowdown was accompanied by a reduction in the share of investment in GNP. Third, the inflation rate and monetary growth rose rather than fell in the problem countries during the stabilization period (Fischer, 1986).

Fischer (1986) further added that in 1984, there was low growth rate as compared with that of 1980 in debt servicing countries; and the question of how to return to growth rates of GNP closer to the 5.5% of the 1967-1976 period is, especially, pressing for these countries.

The World Bank and the IMF call for structural adjustment to help restore growth.

2.1.3 The Different Schools of Thought on Structural Adjustments Programme

Three schools of thought will be reviewed here. These are: (i) the Monetarist Approach to Structural Adjustment; (ii) the Structuralist Approach to Structural Adjustment; and (iii) the underdevelopment Theorist Approach to Structural Adjustment - otherwise called the Marxist Theory of Structural Adjustment.

2.1.3.1 Monetarist approach to structural adjustment

This school of thought explained their analysis by making excess aggregate demand a direct function of monetary expansion. In this regard, inflation becomes a monetary phenomenon which can only be effectively controlled by severe deflation of consumption expenditures (Ayodele, et al, 1988). Professor Ezenwe (1989) enumerated the various policy issues here to include monetary, exchange rate, trade, public sector and other policies.

In Ruggles (1964) analysis, he pointed out that the monetarist recognises that rapid economic development is likely to provoke inflationary pressures, and they argued that one of the problems calling for high priority attention on the part of the authorities is a rapidly developing economy, therefore, is the restraint of inflation. In essence, he asserted, the monetarists believe that price stability is a necessary pre-requisite for sustained economic growth; and the presence of inflation results in some distortions in the economy.

2.1.2.2 Analysis

Each group accounts for about 43% of the total GNP of the developing countries. NP countries did not have problems servicing their debts, while the P countries have problems servicing their debts.

Three facts stand out. First, the success of the problem countries in reducing their current account deficits was achieved mostly through a reduction in imports, accompanied by a severe slowdown in growth caused by the world recession and tight domestic fiscal and monetary policy. Second, the growth slowdown was accompanied by a reduction in the share of investment in GNP. Third, the inflation rate and monetary growth rose rather than fell in the problem countries during the stabilization period (Fischer, 1986).

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The World Bank and the IMF call for structural adjustment to help restore growth.

Khan (1987), dwelling on demand management policies as a matter of macroeconomic adjustment, emphasised that the said policies are to restrain demand. He added that the two main instruments for controlling demand are monetary and fiscal policies. Ruggles (1964) expressed this issue more by stating that the monetarists do not claim that development with stability can be achieved through the exercise of monetary policy alone, rather that well-designed fiscal policy, and in some cases, other more direct controls, may be required including the need for basic reforms - like land reform - for achieving economic development.

Finally, it needs be noted that there are two basic assumptions of the classical-neoclassical monetarists' analysis. The first is that there is full utilisation of resources, and the second is that perfectly competitive market operations exist (Ayodele, et al, 1988).

We will now proceed to have a look into the monetarist analysis of the monetary and fiscal policies as instruments for controlling the economy.

Monetary policy

In the traditional closed economy model, interest rates are the transmission mechanism between monetary policy and aggregate demand. When the money supply expands, individuals buy real and financial assets in an attempt to restore portfolio balance (Khan, 1987). This lowers market interest rates and stimulates those components of aggregate demand that are sensitive to interest rates. In a small open economy, in contrast, the transmission mechanism is described in versions of the monetary approach to the balance of payments (Frenkel and Johnson, 1976; IMF, 1977).

This approach holds that, with fixed exchange rates, an expansion of domestic credit induces the public to dispose of surplus cash by buying foreign goods and securities, leaving domestic output and prices unaffected.

With flexible exchange rates, a similar expansion in domestic credit results in an increase in the money supply, a proportional depreciation in the exchange rate, and a corresponding rise in the domestic price level.

Khan (1987) asserted that these models are not operational in the developing economies due to their internal factors not being able to cope with the requirements for operating the models. He finally advocated controls by the authorities on the economy in order to bring about an effective working economic system. He also added that if exchange controls are ineffective, however, monetary policy has less power to affect aggregate demand. This brings about the standard monetary approach of the balance of payments being the relevant form of analysis.

During the adjustment process, Khan (1987) advocated a restrictive monetary policy would be associated with a fall in capacity utilisation and a rise in unemployment, since prices tend to be strictly downward. The size and duration of the deflationary effect would naturally depend on how demand and supply respond to a tighter monetary policy. The relevant factors were pointed out to include:

(a) the speed with which the initial monetary disequilibrium is offset by movements in international reserves (which, in turn, depends on the presence and effectiveness of exchange controls);

(b) the stickiness of domestic prices which will be determined by wage-setting behaviour and the degree of slack in the economy;

(c) the effect on investment of changes in the cost or availability of credit, and

(d) the extent to which policies were anticipated when wage contracts were negotiated.

Both the theoretical and empirical validity of these factors need to be explored to establish the effects of monetary policy in demand. Fischer (1986), in his own analysis, argued that monetary policy analysis is in any event needed in all adjustment programmes, whether or not a major anti-inflationary programme is to be part of the initial effort. He further stated that monetary analysis can start from the government budget. With both taxes and government spending determined in the real analysis and with the external deficit given, total real domestic credit creation is known. The corresponding rate of growth of nominal credit or money depends on the target inflation rate. An independent monetary policy may be possible in countries with reasonably developed security markets. Monetary policy may then have some - probably limited - ability to affect the real

interest rate. The extent to which domestic rates can differ from world rates will depend on the mobility of financial capital. Monetary policy will serve as an inflationary stabilisation means through surplus budgeting or minimal deficit budgeting.

Having got through the monetary policy analysis of the monetarist approach to structural adjustment programme, we will now go to the analysis of the fiscal policy postulation by the monetarist.

Fiscal policy

Khan (1987), in his paper(s) on fiscal policy as a monetarist weapon under structural adjustment, noted that the direct effects of changes in public expenditures are fairly well accepted. Public spending on goods and services is, itself, a component of domestic expenditure, and as such, it contributes directly to absorption. If government purchases are limited to non-tradable goods, they added to the aggregate demand for domestic goods. Public purchases of traded goods, however, have no effect on real aggregate demand or on output and inflation; they only worsen the trade balance. However, Fischer (1986) quoted Donovan (1981) as pointing out on this issue

that the record of IMF stabilisation programmes is that they succeed in improving the balance of payments relatively quickly but have no success in controlling inflation because corrective fiscal action typically raises prices as subsidies are reduced.

Other issues pointed out by Khan (1987) were that it is the direct effects of public sector purchases that have generated controversy. At stake is the issue of the extent by which an increase in public spending reduces or increases private spending, thus resulting in a rise in total spending different from the original increase in government spending.

Private spending could fall when public spending rises. Issues here include: "the financial crowding out proposition." (Khan and Knight, 1981); a situation which arises when extra public expenditure increases the private sector's tax liability ("Ricardian Equivalence" proposition by Banco, 1974); and finally, if nominal wages are flexible, or if the extra public spending was foreseen when wages were negotiated. Here, domestic prices could rise enough to reduce private spending by the same amount that public spending rose; thereby leaving aggregate unchanged. This is a situation analysed by the theory of "Rational Expectations Models" for private and public spending yet to be tested for developing economy.

Ruggles (1964) stated that the monetarist school of thought recognises a well-defined fiscal policy, and in some cases, other more direct controls, may be required. Khan (1987) explained further the impact of tax receipts on private sector by stating that it does not have direct effect on absorption rather on private spending, and also that there is the effect of constrained financial system in the economy since temporary tax measure is meant to reduce saving, and the marginal propensity to consume out of current income is affected also. He added that as transfers are essentially the observe of taxes,then effects on domestic absorption will be the opposite of the tax effects described above. A transfer should increase private absorption - though not necessarily total absorption - since that effect will depend on how the government finances its transfers.

In conclusion, the issues raised by the monetarist school of thought over structural adjustment with the use of monetary and fiscal weapons are relevant to the present Nigeria's case of structural adjustment policies when its various policies content is critically viewed. We will now proceed to the structuralist school of thought on structural adjustment.

2.1.3.2 Structuralist school of thought on structural adjustments

Khan (1987) stated that the structuralist school of thought on structural adjustments has two main ways in which the structural policies are different from the monetarist or demand management policies.

The first difference is that the structuralist place more emphasis on growth rather than on the control of domestic demand and an immmediate improvement in the current account. The second is that structural policies may take a long time to show results. They usually require a significant rise in investment in the more efficient sectors, combined with the release of capital and labour elsewhere. He added that such major adjustments take longer time to achieve than a programme to reduce demand, and thus, structural programmes have to have a longer time horizon.

On the part of Ruggles (1964), his explanation was that the structuralist holds the view which is contrary to the monetarist's. The structuralist holds the view that in developing economies with rapid urbanisation, structural maladjustments, themselves, may be responsible for imbalances which cause unavoidable price increases. The attempt to restrain such price increases may result in

unemployment and stagnation, which, in turn, may lead to political instability that threatens the very existence of the economy.

Khan (1987) further explained that in developing countries, the goal of achieving a more efficient allocation of resources and faster growth may some - times conflict in the short-run with that of reducing the current account deficit. Since these countries import most or all of their capital goods, structural programmes often have different current account objectives in the early years of adjustment than do programmes aimed primarily at curbing demand.

In particular, there is an extent to which the supply-side improvements require an initial rise in investment, while reductions in current account deficits would not necessarily be sought in the early years of a programme.

In Ruggles' (1964) view, he pointed out that the structuralist argued that the growth of real income and economic potential in a country increase demand in some sectors of the economy where bottle-necks prevent the expansion of the supply of goods.

In some countries, according to him, other sectors may create structural difficulties. One such

sector is exports and imports. Exports earnings may not keep up with the growth of the rest of the economy, because of either a failure of the export industries to grow, or a continued decline in world prices of the export goods. Under these conditions, it is argued that the increase in real income in the economy will cause an increase in demand for imported goods. Also, in the face of the failure of export earnings to rise at a similar rate, will result in balance of payments difficulties; and a rise in the prices of goods in the import sector. This further leads to import goods being directly reflected in the cost of living index; or being indirectly linked through the supply of capital goods or raw materials for production. The price increases in this sector may generate a price-wage spiral.

Khan (1987) stated also that structural policies can take many forms, depending on the nature of the economy and the types of problems it faces. Such policies can, however, be put into two broad groups:

(a) policies to improve efficiency and resource allocations; and

(b) policies to expand productive capacity of the economy.

He added that efficiency policies are meant for removing structural distortions; and that the capacity expansion policies come about by the split between consumption and investment, as well as on the nature and quality of the capital stock being added. (He quoted Krueger, 1986 and Sen, 1983 here). Other issues he noted are that private and public savings policies should aim at improving the fiscal position in the public sector which is being influenced by interest rate policies, while considering the case of private savings. (This is stated in McKinnon-Shaw hypothesis: McKinnon, 1973).

In Ayodele, et al (1988) analysis of the Nigerian economy, they stated that, given the structural weaknesses of the entire economy, coupled with the characteristics of the economic problems which relate to such weaknesses, a structuralist approach would probably have been preferred.

The above analysis is a summary of the structuralist school of thought. We will now proceed further to the underdevelopment theorists (or Marxist theory) analysis of the structural adjustment.

2.1.3.3 Underdevelopment theorists (Marxist theory) approach to the structural adjustments

This theory analyses the concept of dependency of the Third World countries on the advanced countries in the process of their economic development. The theory is based on "centre-periphery notion" of d e v e l o p m e n t . This notion, in itself, has a serious theoretical implications for the study of class structure and inequality in Third World nations, even though it is very abstract and at points very ambiguous (Koo, 1981).

Dependency theorists maintain that the segments of the labour force which participate in the industrialised and modernised sector tied to metropolitan capital (i.e. the "internationalised sector") prosper and benefit collectively from "dependent development", while those which are segregated from it suffer from deprivation and the lack of adequate income. Its effect, they assume, is the "fragmentation of class interest" or "the disintegration" of the peripheral class structure.

Parallel to this centre-periphery model, there are a number of authors' views on the structural duality of developing economies in the form of "formal" and "informal" economies, and the accompanying process of "marginalization".

A common assumption underlying these conceptions is increasing sectoral inequality in the process of dependent capitalist development and its pre-eminence over traditional class divisions.

The centre-periphery model

Writers on dependency conceptualised the centre-periphery model in two forms. The first is that at the level of international relations, the model involves the relationship between the advanced capitalist countries and the economically underdeveloped dependent countries. The second form is that at the domestic or national level, it refers to the relationships between the industrial modernised sectors or regions and the backward, poor sectors or regions.

It is central to dependency theories that these external and internal dimensions of the centre-periphery relations are structurally similar, inter-locked, and mutually reinforcing in that both are viewed as the consequences and manifestations of a single process, the evolution of the world capitalist system (Koo, 1981).

One of the most significant propositions advanced by dependency writers is, therefore, that

the expansion of the international capitalist system brings about the dual processes of the centre-periphery polarisation (Sunkel, 1973). Galtung (1977) relates the centre-periphery polarisation to imperialism; where imperialism is "a system that splits up collectivities and relates some of the parts to each other in relation to harmony of interest or conflict of interest."

More specifically, the imperialist centre-nation splits up the periphery-nation and creates its bridge head in the centre of the periphery-nation. In this process, there develops harmony of interest between the centre in the centre-nation and the centre in the periphery-nation, and disharmony of interest between the centre and the periphery in the periphery-nation.

Frank (1967) discusses this issue as "metropolis" (developed) and "satellite" (underdeveloped) relations, in that he argued, "a whole chain of constellations of metropoles and satellites relates all parts of the whole system." He also claims that this is a chain of exploitation in which the surplus generated in a satellite is extracted and syphoned-off to a metropolis; and from there to a next higher metropolis.

The issue of sectoral segregation, as well, exists here. Sunkel (1983) puts it that the integration of less developed economies into the world capitalist system introduces "a wedge along the area dividing the integrated from the segregated segments." He explained further by stating that the integrated segment of the population enjoys from the extracted surplus, while the segregated segment suffers worsening poverty and unemployment or underemployment.

Other dependency theorists who air the same view but in different frames of languages are Furtado (1970); Cockroft, Frank and Johnson (1972); and Cardoso (1972).

Cardoso's point was that internal structural fragmentation which emerges in what he describes as "dependent capitalist development" in countries like Argentina, Brazil and Mexico causes the privileged class not to be restricted to the bourgeoisie but includes a part of the middle and a part of the working class, arguing that "those employed by the 'internationalised' sector structurally belong to it." In Arrighi's (1970) view, he argued that "for the (multinational) companies in question, the exploitation of natural resources or of market opportunities in the periphery with capital-intensive

techniques is far more important than the exploitation of cheap labour." He (Arrighi) called the employed workers in the internationalised sector as the "labour aristocracy"; and that since these workers benefit from dependent economic relations, they will have vested interest in maintaining the present pattern of the centre-periphery relations, opposing any radical change that will reduce external dependency.

Marginalisation

Marginalisation in dependency theories broadly refers to increasing underdevelopment and poverty in the periphery of the urban economies of less developed countries (Amin, 1974). Similarly, "marginality" may be defined as "the difficulty of access to a reasonable and stable income." (Sunkel, 1973; Peattie, 1974). The most common expression of marginalisation is the proliferation of petty trading and various personal service activities or the "involution" of informal economic activities (McGee, 1977; Hart, 1973).

Finally, it needs be noted that the basic underlying analysis of Marxist-oriented dependency scholars is exploitative relations between the formal-informal sectoral relations (Portes, 1978). Also, it

needs be noted that in a sense, the centre-periphery thesis presents an alternative model to the traditional Marxian class model, in that the former assumes that the individual's economic and social conditions in peripheral societies depend on one's association with the internationalised enterprises rather than on one's relationship to the means of production. Also, if material and social deprivation in the early industrialising western societies are to be understood by the proletarianization process, the same problems in newly industrialising nations must be grasped in terms of marginalisation (McGee, 1973).

In conclusion, the three theoretical perspectives - Monetarist, Structuralist, and Marxist or Under-development theories - to the current Third World Structural Adjustment Programme in the face of their economic crises have some relevance to the present Nigeria's economic condition in the process of her implementing the Structural Adjustment Programme policies on the entire economy, and on the different sectors of the economy.

2.2 SAP CONTROVERSY

SAP controversy will be viewed in three perspectives: the international or Third World countries, Nigeria's, and the commercial banks levels. The comments of authors at these three levels will be taken into consideration.

2.2.1 SAP Controversy: International Scene

Various authors have aired their views on SAP at the international level. These include Miles (1978), Donovan (1982), Guitan (1982), Kirkpatrick and Onis (1985), Nnanna (1987), Sanusi (1988), Humphrey and Jaeger (1989), Professor Ezenwe (1989) and Okonta (1989), among others. The point noted by Nnanna (1987) was that the impact of SAP varied among countries. It also varied within the various sectors in the same economic entity. He based his point on the data that were available to him. The result he obtained from the use of these data was that the broad theoretical objective of SAP was achieved mainly on the external sectors, and there was salutary effect on the domestic sectors of the selected LDCs.

In his analysis, he quoted Guitan (1982) and Donovan (1982) who are of the opinion that the

economic problems of several LDCs can indeed be reversed based on the adoption of a mixture of appropriate economic measures that are often prescribed under the umbrella of SAP. They also added that these measures have to be sustained. They argued that SAP only fails due to the inability of the programme managers to successfully implement the policy prescriptions. Professor Ezenwe also holds this view. Guitan also argued that the broad policy objective of SAP has been widely accepted. But Miles (1978), Overseas Development Institute (1984), Kirkpatrick and Onis (1985) as further quoted by Nnanna (1987) are of the view that SAP policy measures have caused retardation in economic growth, as well as severe hardship on those whom the programme is ostensibly designed to assist; and as such, it is not the panacea for the economic difficulties facing the LDCs. The conclusion of Nnanna on these arguments was that the efficacy of SAP in uplifting the economic fortunes of the LDCs remains debatable.

Guitan (1982) further observed that, in spite of these lapses in programme impelemention in LDCs, a comparative survey, involving a sample of several programme and non-programme LDCs, has shown that, in broad terms, programme countries recorded significant reductions in their external deficits, while at the same time, exhibiting only marginal changes in their

growth rates of real GDP and consumption.

Humphrey's and Jaeger (1989) gave the following statistical data, which are in tune with Guitan's above analysis. Sub-Saharan Africa's GDP grew by 2.3% per annum between 1985 and 1987, whereas the GDP growth rate was lower than the population growth rate. In any case, the GDP growth rate of this 1985/1987 period was more than that of the 1.1% decline recorded in the preceeding four years. The region's per capita GDP was 15% below what it was a decade earlier.

Sanusi's (1988) analysis, which is also relevant to this above analysis, is as follows. He first of all noted that the impact of deregulation has been felt in all the major sectors of the African economies that have adopted economic reforms. The examples he gave here were that there have been increased domestic savings mobilisation in the money markets following interest rate deregulation, especially in Tanzania, Senegal, and Madagascar. He added that output growth has been slow in the real sector in most of these countries with resultant pressure on domestic prices. It needs be noted also that rapid rationalisation of labour in the labour market has resulted in massive unemployment and considerable

social and political unrest. There have also been some improvements in balance of payments positions due to reduced imports and larger exports in the external sector. Sanusi's conclusion was that West African countries experienced short-term difficulties but Nigeria has been able to weather the storm better because of her stronger resource base. He, however, added that things have been moving in the positive direction for other African countries, though at a much slower pace than desirable.

Humphrey and Jaeger (1989) hold the view that there was increase in public consumption and investment (import inclusive) due to the phenomenal increase in export earnings, export prices (especially from oil) and the negative real interest rates in the 1970s in the international capital market. This resulted in some countries borrowing from international market to finance imports during and after the boom.

This was the genesis of the World Bank recommendation of structural reformations in the Third World countries. It was meant to bring about economic recovery and revitalisation of genuine development in the problem state of the structural and institutional features of the Third World economies. Their conclusion was that there was a

substantial improvement in the growth rate of the sub-Saharan African countries due to the adoption of far-reaching policy reforms by many sub-Saharan African countries, Nigeria being inclusive. They, therefore, argued that the world bodies were out to help the African countries rather than exploiting them.

Okonta (1989), who reported their works, agreed with them in some, and disagreed with them in other respects.

From all the foregoings, it can be realised that the general consensus among policy makers and researchers in both the developing and developed nations, (Nnanna, 1987) is that SAP can only still be adopted in the LDCs when the welfare of the less privileged is made more tolerable.

It needs be noted, however, that the conditionalities that are now being attached to most SAP packages are relatively less stringent when compared with the SAP packages that were designed in the early 1970s. Nowadays, adjusting countries have more access to "new" money (like enlarged IMF/World Bank facilities) than in the past. This, notwithstanding, the new outflow of capital in the adjusting countries is expected to have considerably declined

in real terms due to the introduction of multi-year debt rescheduling arrangements. Other IMF facilities include Special Programme of Assistant (SPA); Special Facility of Assistant (SFA); Structural Adjustment Facility of IMF (SAF); and Enhanced Structural Adjustment Facility of IMF (ESAF).

It needs be noted that these same controversial viewpoints of authors at the international level also exist in the Nigerian context which is discussed below.

2.2.2 SAP Controversy: The Nigerian Case

The viewpoint of Ahmed (1987) and Odozi (1988) was that SAP is generally recognised as the most comprehensive and radical economic reform programme ever introduced in Nigeria.

Sanusi (1988) observed that available short-term evidence strongly indicates that the reform measures have had a salutary impact on mainly the products and financial markets, while developments in the labour market continue to be unsatisfactory in Nigeria. Ayodele (1988) argued that most of SAP's policy instruments do not attain their established targets

due, mainly, to the unrealistic nature of their theoretical framework to the Nigerian dynamics. He buttressed this point by pointing out that there was the reversal of most of the SAP policies in 1988. The reversal include the lowering of the rediscount rate from 15% in 1987 to 12.75% in 1988, the reflationary package of 1988 against the deflationary package of 1987.

Odozi (1987) and Samuel, et al (1990) hold the view that SAP has had both positive and negative effects on the Nigerian economy. Areas of positive impact include improvements in the allocation of foreign exchange, more inflow of autonomous funds, among others. The following negative impact exist: deficit in the balance of payment accounts of Nigeria, FEM-induced inflation, debt, among others.

From all the foregoings, the controversy in the adoption of SAP in Nigeria stands unresolved. This same argument exists in the area of concentration in this thesis; that is, the commercial banking experience during SAP. The various arguments advanced in respect of the commercial banks are reviewed in the succeeding section.

2.2.3 SAP Controversy: Commercial Banks' Experience in Nigeria

Before going into the specification of the views of authors on commercial banking in Nigeria, it needs be noted that banks or banking has been defined in the following ways.

The Paton Commission of 1948 defined banking as "... the business of receiving from the public on current account money which is to be repayable on demand by cheque and of making advances to customers".

The Bank Act states that "bank" means any person who carries on banking business and includes a commercial bank, acceptance house, discount house and financial institution.

The Act adds that:

> banking business means the business of receiving monies from outside sources as deposits irrespective of the payment of interest of the granting of money loans and acceptance of credits or the purchase of bills and cheques or the purchase and sale of securities for accounts of others; or the incurring of the obligation to acquire claims in respect of loans prior to their maturity or the assumption of guarantees and other warranties for others or the effecting of transfers and clearings and such other transactions as the commissions may on the recommendation of the Central Bank, by order published in the Federal Gazette designate as banking business.

A commercial bank was described in the Act as a bank whose business includes the acceptance of deposits withdrawable by cheque. Acceptance houses specialise in granting of acceptance facilities, while discount houses are those whose main business consists of trading in and holding commercial bills of exchange, treasury bills and other securities. A merchant bank is defined as any person in Nigeria who is engaged in wholesale banking, medium- and long-term financing, equipment leasing, debt factoring, investment management, issue and acceptance of bills and the management of unit trusts. The Act added that financial institutions mean those institutions allowed to transact banking business, but which are neither a commercial bank, nor an acceptance house, nor a discount house, nor a merchant bank. In practice, according to Adekanye (1989), these functions overlap as commercial and merchant banks tend to compete freely for the same business. Also, the distinction between merchant bank and discount house is not real.

Having noted the meaning of "banks", "banking" and "commercial banking" as above, we will now proceed to authors' views on the SAP policies on commercial banks in Nigeria. Professor Ezenwe

(1990) pointed out that the Nigerian SAP is more "growth" rather than "development" oriented. This has led to the use of such indicators as balance of payment, exchange rates, money supply, interest rates, investment rates, among others, to measure the level of the economy.

Adewunmi (1989) pointed out that the introduction of SFEM, later called FEM, but now called IFEM, under the SAP, has brought the banks into the centre stage of foreign exchange management in Nigeria. It was also noted in a Special Correspondence (1989) that the authorities have come hard on banks still transacting business above the stipulated IFEM rate. It, however, noted that transactions are still taking place discreetly in the free market. The commercial banks have also hikened their prime lending rates due to the CBN's increase in rediscount rate. However, the CBN now allows banks to negotiate rates freely with their customers.

A School of thought, according to the above Special Correspondence, advocated further increase in the prime lending rates in order for the government to mop up excess liquidity and bring back its monetary and credit policy on a sound footing. Ayodele (1990) recognised the above-noted

hikened lending rates. He argued that it has resulted in a worsened exchange rate and increase in the rate of inflation. He quoted the Minister of State for Planning and Budget as having observed severe pressures on the exchange rate due to the mixture of policy measures being adopted during SAP. He added that this has resulted in high rate of inflation.

Ayodele likened the Minister's argument to the situation of the transfer of public sector bank account to the CBN. He and Ochejele (1990) gave the estimate of the transferred amount to be ₦10b and ₦13b respectively. With the use of the Fisher's and Cambridge group's models respectively, Ayodele arrived at postulating that the "signing" of the denominators of the independent variables in the two equations will determine how "P" could be effectively controlled. The Fisher's model is given by:

$$P = \frac{MV + M'V'}{T}$$; where

P = price level;

M = quantity of legal tender;

V = velocity of circulation of M;

M' = quantity of credit money;

V' = velocity of circulation of M';

and T = goods/services for money.

On the other hand, the Cambridge group equation is given by:

$$P = \frac{M}{ky}; \text{ where,}$$

k and y are the proportion of total real resources which people wish to hold and total resources respectively.

The result obtained from the use of these models was that if the new policy could cause (MV + M'V') or M in these models to fall, the objective of mopping up excess liquidity and subsequently reducing "P" and consequently stabilising the economy would be attained.

In a further analysis of the transfer of the government funds from the commercial banks to the CBN, Ayodele and Ochejele argued that it (the transfer) might impose temporary, if not permanent, financial impotence on commercial banks . Ayodele, however, argued that the transfer might bring about two important developments: the situation of a reduction in the commercial banks' excess liquidity, which will affect their IFEM bids by a fall in their exchange rate; and

secondarily, an encouragement in competition among banks for deposits. Sanusi (1988) has the view here that massive advertisement became one of the enormous innovations of the commercial banks in this competitive argument. Odozi (1988) also holds the view of increase in competition in the area of call in for customer deposits and other areas. One needs to point out here that the transfer of government accounts from the commercial banks cannot on its own effect changes in the price level, since many economic variables - such as level of production, elasticity of demand for goods and services, income of the consumers, population rate and human capital development, among others - interract in an economy to determine the price.

If the level of production, for example, is not boosted, the reduction in the ability of the banks to create credit through the accounts transfer will not necessary reduce the price spiral since there will be fewer commodities to cater for the teaming population.

On deposit rates, Odozi (1988) argued that the upward revision of deposit rates has stimulated savings mobilisation with total savings growing significantly. He also argued that although the divergence between the average deposit rate and the average lending rate is wider than desirable, the

impact of the prevailing interest rate regime since the introduction of SAP has, on balance, been positive. Ahmed (1989), Oke (1989) and Akinyosade (1990) also have the same view of this wide divergence between saving and lending rates. Agba's (1990) view on this issue was also the same when he approached the situation through the inability of small-scale industries to borrow due to high lending rates.

It needs be noted that the deposits and lending rates are issues under the policy on the deregulation of interest rates. Since the policy allows the "invisible" hands to determine the price level, one will expect that the banks will necessarily increase the lending rates for the purpose of making their profits. Since some prospective investors will necessarily be eliminated from the market because of inability to pay the rates, the level of production will necessarily reduce. This will, finally, result in the vicious circle of poverty.

In any case, Ahmed (1987) argued that it was too early to access the impact of deregulation of interest rate, which started in August 1987. He, however, placed emphasis on the policy objectives for the introduction of the deregulation policy.

Sanusi (1988) observed the policy to have triggered off efficiency in the financial sector. On the area of credit policy guidelines, Akinyosade (1990) holds the view that the monetary and credit policy under SAP have been implemented largely by the CBN and the commercial and merchant banks. He added that the monetary and credit policies adopted from 1986 to date were designed to achieve the objectives of the SAP.

He also added that over the years, the monetary authorities operated restrictive monetary policies, but revised these policies where necessary in response to signals from major economic indicators.

His and Uniamikogbo's (1990) assessment of the performance of the policy measures is that they have been "unsatisfactory". Some examples Akinyosade gave to buttress this assessment are that commercial banks' compliance with guideline targets in their allocation of loans and advances to high priority sectors recorded some improvement between 1986 and 1988, but fell short of the set targets. The same case applies to the merchant banks. Sanusi (1988) and Professor Ezenwe (1990) also have this account of non-compliance of commercial banks. Akinyosade's emphasis is that it is penalties measures on the commercial banks that make them to adhere to the

credit policy guidelines given to them.

It needs be pointed out that Ajilima (1990) observed that the commercial banks are reluctant to extend credit to small industrialists as most of them are ill-equipped with the requisite skills for proper credit and overall enterprise management and control. He added that the continued use of directives on the commercial banks in respect of the sectoral allocation of their credit and the interest rates to be charged may be ineffective - especially that these directives contradict the prevailing deregulation syndrome under SAP. Sanusi (1988) also has a similar argument, and he finally advocated that banks should be given greater flexibility in their credit operations. Under rural banking programme, while Akinyosade observed that the commercial banks have not responded very well to the policy on establishing branches in rural areas; Uniamikogbo holds the view that the commercial banks have done extremely well in this scheme.

In the area of foreign exchange, Akinyosade observed that since the commercial and merchant banks have become the authorised dealers in the management of foreign exchange due to the abolition of exchange control in 1988, the said banks now take charge of the disbursement of the bulk of Nigeria's foreign

exchange resources. This is coupled with their being principal actors in the operation of the auction market and the autonomous market. He further commented that the response of these banks to the policy was as a result of their holding a high percentage of the total external assets which was on behalf of their customers, deposit in the domiciliary accounts, and investment. Odozi (1988) also noted this high gain.

This action can, therefore, be understood as the banks having high percentage due to their self-gains in the entire economy.

Oke (1989) suggested to the financial system, which includes the commercial banks, to try to stabilise exchange rates and manage foreign exchange prudently, both for its own survival and the achievement of the national objective of economic growth and development. He also explained that there is the temptation to exploit customers on foreign exchange transactions in a situation of acute shortages of foreign exchange.

Forecasts have also been made about the commercial banks in the course of their operations during SAP. These range from the folding up of the inefficient banks, or their readjustment to suit

better performance in the medium or long-term situation (Sanusi, 1988); to the process of de-control of the commercial banks in the future (Ahmed, 1989) to mergers and take-overs taking place (Udoh, 1987).

Other issues that authors have addressed their minds to concerning the situation of the commercial banks during the SAP are their profitability, problems and prospects. Suggestions were also subsequently made for the future operations of banks in Nigeria.

Uzor and Aswhe (1987) pointed out that banks did capture top earning spots in 1986. Some improved their 1985 profit levels substantially. This apparently gave the impression that the banks are in boom during the time of depression. However, banks argued that the performance of the industry leaders is certainly not enough to conclude that the entire industry is on a winning streak. They stressed that more banks have been loosing ground since 1980. They also stated that even where the profit did not fall absolutely, the rate of growth did decline. Sluggish growth was also recorded by some of the banks. Experts have also argued that since banks are operating in the same economic environment, they cannot be immune to the harsh reality of the economy. They are rather observed to be under a tighter situation since a disproportionate

percentage of their income comes from the lending and investment activities. It is observed that the regulatory authorities have been busy putting tight screws on these aspects since 1984.

The authors also observed that the withdrawal of ₦6.6 billion deposits with banks awaiting foreign exchange cover in late 1986 forced banks to liquidate profitable investments in millions. The banks have been found to believe that the only option they have is to liquidate loans and hold liquid sterile cash. They envisaged that this will bring about profits to dive. Due to the happenings in the banks, Udoh (1987) entertained the fear that current account owners might soon be declining from putting their money with the banks, since they do not earn interest rate at all. He, therefore, suggested that very demanding treasurers in corporate bodies should freely leave their large liquid funds in banks due to the high interest they are paying. Odozi (1988), however, observed that the returns to banks relative to their capital base and funds employed are not out of tune with the earnings of comparative firms in the manufacturing and commercial sectors of the economy. He further observed that with the escalation in personnel costs and increased competition arising from the rapid growth in the number of banking firms, it

is unlikely that the present level of profitability in the industry will be sustained in the medium and long-terms. He also observed that far-reaching rationalisation is taking place among the banks. Channelling of resources to productive sector of the economy was also attributed to the banks. It was also recognised that the banks have not got things through perfectly.

Oke (1989) gave the values of the total number of commercial banks and their capital base as follows: 12 commercial banks were in existence in 1960 with 190 branches and a total asset of ₦235.8 million. They grew to 41 with 1,665 branches and a total asset of ₦59.2 billion as at 1988 ending. He also noted that the total paid-up capital of commercial banks grew rapidly from ₦29.0 million in 1965 to ₦87.9 million in 1975; ₦565.4 million in 1985, and ₦861.4 million at the end of 1988. The banks' reserve funds, on the other hand, was observed to grow even more rapidly as a result of high profitability and regulatory requirements on statutory reserves. He noted that the increase in the number of the banks is a sign of the prospects in the financial system.

Ayodele (1990) argued that the problems of the financial system in Nigeria, which includes the commercial banks, are inadequate capital base,

imprudent lending practices leading to large and increasing bad and doubtful debts, concentration of credit on the short end of the lending spectrum, and substantial depreciation of the Naira exchange rate, among others. On the other hand, he enumerated the challenges that these financial institutions are facing during SAP to include the deregulation of interest rates, liberalisation of trade and exchange regimes, the debt conversion programme, privatisation and commercialisation of public enterprises, increased responsibility of the banks in the management of the nation's foreign exchange resources, and the determination of the exchange rate and the interest rate structures.

Other suggestions are that indirect control should be adopted and that there should be the removal of direct controls of the CBN on the commercial banks (Ahmed, 1989). He interpreted the indirect control to be non-discriminatory and non-interference with competition. He argued that this will be in the long-term interest of the banking system. He, however, emphasised that indirect control can only work when banks adhere to the "rule of the game".

Udoh (1987) also has similar suggestion in the

areas of the banks adaptation to technology, training and innovation, among others.

Finally, it is evidently clear from all the above arguments that the affairs of the commercial banks in Nigeria during this SAP period have been controversial in the views of various authors, just as it were with the Nigerian context and the Third World countries' scene.

It can, therefore, be argued that the issues under discussion stand unresolved. Every point made must have been from the author's evidence or data of analysis and the tools of analysis that have been employed.

CHAPTER 3

THE EVOLUTION OF SAP IN NIGERIA

The need for structural adjustment in Nigeria was witnessed during the Shagari's regime in 1983. In February 1983, a committee - The Expert Committee on the State of the Nigerian Economy (otherwise called the Odama Committee Report) which formed the National Economic Council (NEC) - was set up to look into the state of affairs of the Nigerian economy, and thereafter, recommend policies for the government to restructure the Nigerian economy in order to set it (the economy) in the path of economic recovery, growth and development.

This Committee recommended the adoption of structural adjustment for handling the economic problems of Nigeria. These problems include: external imbalance, domestic inflation and unemployment, over dependence on imports for the productive, as well as the consumption activities of the economy. According to Odama Committee Report (February 1983);

> Structural adjustment requires a broad set of mutually consistent and interracting policies which are directed towards the restructuring of major economic activities including production, resource management, distribution,

> and consumption. We need, therefore, to restructure our economic activity through improved incentive systems, priorities in government budgeting, etc ... We need to rationalise production to increase the use of local resources, increase capacity and manpower utilisation and reduce unproductive activities. Above all, we must improve planning and control systems through effective budgetting, monitoring, evaluation and enforced implementation of pricrities.

In order for Nigeria to be able to cope with financing her debts, she consulted the World Bank for loans. The World Bank, like the IMF, has the conditionality of SAP to be adopted by the borrowing country in order for the said country to obtain loan from it. It happens that both the NEC and the World Bank advocated the adoption of SAP in Nigeria respectively. In any case, Odama (1987) pointed out that the World Bank and the IMF main focus of structural adjustment in developing economies is to restore balance in the external sector of their economies, particularly their balance of payments (Ayodele, et al, 1988; Ojowu and Associates, 1987). In this, the World Bank and the IMF inspired SAP deviates from the NEC in that the domestic issues - inflation, unemployment, distribution of resources - of the developing nations, like Nigeria, are not of paramount

importance to the said bodies, asserted Odama.

Since the Nigerian government has accepted the loan from the World Bank and the IMF, it was also made subject to the SAP of these bodies. This led to the adoption of SAP in Nigeria from July 1986, which was expected to end in June 1988, but which is still in existence till date.

These bodies advocated the use of the price system in the Nigerian economy, as it were also with other developing countries. This emphasises the market forces of demand and supply determining the rate at which the Naira is exchanged with other foreign currencies, and de-emphasises government control in the allocation of resources. This was hoped, according to the World Bodies, to lead to the determination of the "realistic" value of the Naira vis-a-vis the foreign currencies. This also includes the ensuring of a more optimal use and allocation of foreign exchange to the various sectors of the economy than could be achieved through the import licencing policy. The import licencing policy was invariably abolished. Furthermore, the market-determined exchange rate for the Naira was expected to improve the external imbalance by curtailing imports and boosting exports,

and also enhancing the inflow of foreign capital investments, among others.

The philosophy under which SAP was couched, according to Ayodele et al (1988), was economic reconstruction, social justice and self-reliance, which are assumed attainable through progressive deregulation, shrinkage of the public sector and strengthening of the influence of the market forces for efficient allocation and coordination of resources and economic activities respectively.

Professor Idachaba (1990) gave his own analysis of the philosophical foundation of SAP to include self-reliance, national economic security, economic natinalism, guided market forces, equity, social justice and the philosophical position of the nature of man.

In the explanation to the use of the price system, the following areas were specified to be affected, among others. These are the decontrol of certain government parastatals and corporations, trade liberalisation, reduction in government expenditure and the removal of certain commodity price subsidization; financial sector, public enterprises and in the fiscal system. Note here that

the power to buy under the market system is dependent on income. This points to only the capitalist having power over the market.

Odama (1987) and Ayodele, et al (1988), as well, enumerated the areas that structural changes have taken place in Nigeria since 1984. These include budgetary control with respect to tight fiscal measures; money supply situation in that there was a general slow down in the rate of growth of money supply in Nigeria. The instruments used here include squeeze on domestic credit to both individuals and governments, selective credit ceiling for the sectors of the economy and general increases in the cost of borrowing money (interest rates). There has also been wage freeze, imports reductions, exports promotions, privatisation of public enterprises; reduction or total elimination of subsidies in social product prices like the hospital fees, school fees, energy prices. Other areas are the general trade liberalisation and the devaluation of the naira.

Odama (1987) and Obadan (1987) explained that the SFEM is regarded by the policy makers as the main hub of the structural package for transforming the Nigerian economy. In the operation of this SFEM,

which started by the first weekly bidding on September 29, 1986, the dual exchange rate system - otherwise called SFEM, which was later called FEM (due to the merging of the first and second tiers); but now called IFEM - was introduced. Before the second-tier (which is the market-determined rate), the first-tier (which is the government fixed or determined exchange rate of the naira against other foreign currencies) was in operation. Both became FEM in July 1987. The policy of FEM constitutes between 200-300% devaluation of the currency in 1987. It is more than this rate now.

In the analysis of the theoretical framework of the SAP in Nigeria, Ayodele, et al (1988) stated that the classical thesis of "government being at best when it governs the least" was being adopted. Also, they stated further that SAP was couched under aggregate demand management not of the "Keynesian school", but of the "Monetarists". This makes excess demand a direct function of monetary expansion. It has some assumptions; two of which are the full utilisation of resources, and perfectly competitive market situation. In further analysis, they stated that the classical/

neoclassical monetarist theory which underlies the aggregate demand management thesis focused merely on the demand aspect of the national income balance, while it was made incapable to explain what happened on the aggregate supply-side of the income balance.

The classical theory of interest rate was also adopted in the savings-cum-investment balance of the Nigerian economy. This makes saving a function of high interest rates.(Ayodele, et al, 1988). They also argued that it is expected that this high interest rates on savings will encourage people to save; and this will lead to having money to be invested in the economy, and subsequently, resulting in the creation of job opportunities in the labour market. For this purpose, interest rates were deregulated. The banker were now free to fix their own interest rates. This also gave an opportunity for banks to have competition in the financial market through vigorous advertisements for customers (Ayodele, et al, 1988).

On fiscal aspect of budgetting, Ayodele, et al (1988) stipulated further that the classical/neo-classical approach is that deficit budgeting is a concrete base for the creation of new money in order

to promote the growth of money supply. This approach was adopted in the 1987 budget.

In the final analysis of the Nigerian context of the SAP, other few comments by authors will be pointed out still.

One is that it has become clear that since the inception of FEM, which is now IFEM, the CBN has intervened a number of times to influence the rate of exchange. This, therefore, makes the use of the market system questionable. Ojowu (1987) and Obadan (1987) observed that the imperfect nature of market forces in Nigeria will preclude the realisation of the objectives of SFEM; and due to the underdevelopment of market forces in developing economies, the market forces cannot be relied upon to bring about the desirable structural adjustments.

It is worth noting that recommendations have been given by authors as to the policies to be adopted as regard the SAP. Ayodele, et al (1988) recommended that the structuralist approach to SAP would have been preferred, considering the structural weaknesses of the entire economy coupled with the characterstics of the economic problems, which relate to such weaknesses.

Professor Idachaba (1990) gave three caveats for the proper articulation of policies. The first is that policies should be assessed with respects to the policy instruments used and the philosophical undertone on which the policies are built. Secondly, that the underlying value systems of policies should be made explicit in order to guide implementation and evaluation; otherwise, evaluation and implementation become open-ended and lack focus.

The third is that there is nothing absolute or static about a philosophical frame as this is dynamically influenced by changing constraints and opportunities of the spatial and temporal environment though some minimum stability in philosophical posturing is required for policy stability.

In conclusion, the Nigeria's SAP is an off-spring of the [illegible] World SAP, and the activities of the Nigeria's government in the implementation of the SAP is, thus, being controlled by these world bodies - the World Bank and the International Monetary Fund (IMF).

Having noted the above, some policy framework in Nigeria before SAP and during SAP will be examined now.

For the purpose of this study, some areas of policy targets before and during SAP will be taken into consideration. The various areas to be taken into consideration before SAP will be the role of the Oil Glut in the external sector; External Sector and External Trade; Fiscal Policy and Monetary Policy in Nigeria. The areas to be considered during SAP are Fiscal Policy and Monetary Policy; (S)FEM = FEM = IFEM; and International Trade Policy, among others.

3.1 SELECTED POLICIES IN NIGERIA BEFORE SAP

3.1.1 Regulations in the Banking Industry Before 1986

Paton enquiry/the banking ordinance

The banking industry is the most regulated in any economy due to the need to protect the depositors; promote financial and monetary stability; promote an efficient and competitive banking system; and to protect the consumer of banking services.

The regulation of banking activities in Nigeria started when the Paton Enquiry was inaugurated in 1948. The enquiry recommended the establishment of the Banking Ordinance, which finally took place in 1952.

There has been non-banking regulation for 50 years in Nigeria before the inauguration of the Paton Enquiry. The Banking Ordinance set the standard and procedure for the conduct of banking by prescribing the mandatory minimum capital requirement for banks and regulated banking business generally to check incessant bank failures.

The Central Bank of Nigeria (CBN)

The CBN was established in 1959 in Nigeria as the apex of financial institutions, and it was charged with the following functions: it was in charge of the regulation and control of the financial system in order to ensure efficient payment mechanism and to promote monetary stability.

The Banking Act which was promulgated in 1969 makes provision for the CBN to exercise its power in maintaining monetary and financial stability in the economy. The Act itself makes provisions for the granting of licences to banks and imposes restrictions on certain activities of licensed banks and specifies the minimum capital requirements for indigenous and expatriate banks. These requirements have, however, been amended a number of times.

The CBN, according to the Act's provision, was in a position to perform the following functions: to

(a) stipulate various prudential ratios to ensure the liquidity and capital adequacy of banks;

(b) prevent banks from investing in certain risky and illiquid assets which could over-expose the security of depositors' monies and precipitate conflict of interest and unfair competition in the economy;

(c) impose limits on the size of loans that can be granted to one single borrower to avoid over-exposure and ensure equitable spread of available credit;

(d) control interest rates on deposits and lending which give preferential treatment to certain activities accorded priority status such as agriculture and industry; and

(e) impose direct and selective credit controls on the size of overall lending to the private sector and ensure allocation of a minimum proportion of available credit to certain sectors, which, under free market system, might be denied adequate credit to the detriment of the economy.

It should be noted that the civil war and the euphoria of the oil boom in the 1970s brought about more rigid controls of the financial system, as well as other sectors of the Nigerian economy in the 1970s and 1980s.

3.1.2 The Nigerian Foreign Exchange Control Act

This was enacted in 1962, but came into force in the middle of 1967.

It was meant to regulate the external trade and foreign exchange transactions. This Act was also in charge of the industrial sets up in Nigeria.

It needs be noted that this Act has provision covering a wide range of activities, such as foreign exchange permission on selected items.

In 1968, the Exchange Control Regulations and procedures were further tightened. Thus, transfers in respect of dividends, profits and other capital transfers were suspended. Payments for certain invisible items including management agency fees, royalties, technical charges and commissions and expenses due from Nigerian firms to their agents and representatives in countries outside Nigeria was suspended. Reduction of cash gifts to charitable

organisations abroad were reduced from ₦500 to ₦100 per person per year. All shipping companies were required to give, at least, one month's notice of their foreign exchange requirement for charter-fee to the Federal Ministry of Finance, giving all relevant information in respect of vessels and the terms of charter.

In 1970, it was required that payments for current transactions be met only out of current receipts or as foreign exchange became available, and it was an offence to export Nigerian currency. Personal remittances by foreign nationals residing in Nigeria were limited to 50% of their gross taxable income in Nigeria, and were subject to prior approval by the Central Bank. Basic travelling allowance of ₦500 per annum per person was reduced to ₦200 a year (₦100 a year for children) in 1970. All these were further reduced in 1971. Following a strong wave of foreign exchange scandals, the Federal Government promulgated the Foreign Exchange Anti-Sabotage Decree, through which some highly placed Nigerians were prosecuted and convicted.

3.1.3 Export promotion

The government felt the need to improve her balance of payments situation through export expansion. To this effect, the government embarked on massive export drive. To do this, it adopted the following policies.

(i) Protection for domestic industries

Here, the government restricted the importation of goods whose local supplies were found adequate both in terms of price and quality in 1972. This policy was equally introduced in 1978 when total ban was placed on certain category of consumer commodities; for example, frozen meat.

(ii) Granting of incentives

Right from time, the government has embarked on the giving of incentives to domestic businessmen and industrialists. In 1965, the government introduced the granting of incentives to attract further investment in the private sector. In 1970, industrial concessions were granted industrialists in Nigeria in respect of certain capital and initial allowances. Similarly, in that year, special assistance was rendered to Nigerian businessmen to enable them to expand their activities. The super tax introduced during the civil war was abolished in 1972. In the same year (1972), import duties on raw materials for industrial production were reduced by between 10% and 50%. The two-tier tax on marketing board produce was abolished and replaced by a single tax of 10% (ad valorem).

The Federal Government, in 1971, started to buy made-in-Nigeria goods. In the same manner, the

government in 1972 exempted companies earning a profit of less than ₦6,000 from company tax. Similarly, the 25% import duty on paper used for manufacturing exercise books was abolished.

3.1.4 Other policies that were geared toward influencing our external sector include:

Quantitative restrictions: this took the form of quotas and total ban. In 1964, a ban was placed on all categories of imports from Japan, except textiles. This was, again, relaxed in 1966. Ban also took place in 1976 with the hope of stimulating some expansion in the output of local industries and to lead to a reduction in the volume of imports. Nigeria joined the Organisation of Petroleum Exporting Countries with this objective in mind.

Reserves policy (1961): for the purpose of diversifying Nigeria's external reserves held by the Central Bank;

Trade agreement and economic cooperation (1961): for the purpose of protecting Nigeria's balance of payments. Other agreements were in 1962 and 1972.

Exchange rate policy (devaluation) of 1973 was also adopted. The naira value depreciated during its operation.

Indigenisation decree (1972): for the purpose of Nigeria's self-reliance in her economic fortune then being controlled by foreign interests. The Nigerian Enterprises Promotions Decree was promulgated in 1972, with a view to transferring the ownership and control of Nigerian businesses to Nigerians.

The indigenisation decree had the effect of forcing the foreign businessmen to sell all or part of their businesses to Nigerians depending on whether such businesses were in schedule I where there is total relinquishing of activities by foreigners to indigenes, or in schedule II . requiring part ownership by Nigerians. The schedule I was later 60% ownership of the government of Nigeria, and 40% of foreigners; and the latter, vice-versa.

3.1.5 Fiscal policy in Nigeria in the pre-SAP era

The use of fiscal policy in Nigeria started since the first development plan period of 1962-1968.

The fiscal policy in the first plan period was designed to: raise revenue for the government; restrain expansion of consumer demand; increase savings and investments; influence the structure of capital function; and improve the country's balance of payments position. Indirect control was largely used in effecting the fiscal policy within this plan period.

However, in 1964, steps were taken to restrain consumer demand by imposing higher custom duties on a wide range of imports, while public consumption expenditure was curtailed.

Additional fiscal meausres were taken in April 1965, for the purpose of increasing government revenue, protecting the country's industries and encouraging private investment. In August 1965, there was a further tightening up which resulted in the imposition of geographical ban on some goods, while both import and exercise duties were increased.

There was also stringent but selective import restrictions which started in 1967 and was consolidated in 1969 for the purpose of home substitutes.

Under the Second National Development Plan, 1970-1974, there was continued pressure on

financial resources and on foreign exchange. As a result of the magnitude of the Reconstruction and Development Programme, there was need for the continuation of a strict fiscal policy era.

The following objectives were meant to be attained within this plan period: making available for financing economic development the maximum flow of material resources consistent with minimum consumption requirement; maintaining reasonable economic and price stability in the face of inherent inflationary pressure; and minimising existing inequalities in wealth, income and consumption standards which may tend to undermine production efficiency, offend a sense of social justice and endanger political stability.

Various measures were adopted to achieve these stated objectives. Such measures include restriction of the importation of goods, so that home made goods could be resorted to; reduction in import duties on raw materials; abolition of super tax; tax free company profits of less than ₦6,000; and the promulgation of the Nigerian Enterprises Promotion Decree.

These measures were meant to lower the cost of home-made manufactured goods and to reduce retail prices.

The Third Plan, 1975-1980, was designed when government revenue was at its peak. Consequently, it was intended that the fiscal policy of this period would be geared to reducing inflationary pressures.

The following measures were, therefore, adopted during this plan period. Import liberalisation was pursued by relaxing all administrative controls, removing all non-tariff barriers to trade and considerably reducing import and excise duties where they were still significant.

Some of these measures were later abandoned due to some difficulties that later arose during the plan period. Some of these difficulties included the fact that, the volume of production and the price of Nigeria's crude oil had fallen, following the glut which had begun to run a balance of payments deficit from 1976 and mounting budget deficits, among others.

Due to the above situation, there was a reversal of the planned import liberalisation to sharp increases in import and excise duties on a

wide range of products. The importation of some commodities was put under licence, while others were completely banned.

Under the Fourth Plan of 1981-1985, fiscal policy was directed at three basic objectives. These are to encourage domestic production; to contain inflationary pressure; and to raise additional revenue.

The plan was largely geared toward self-reliance. In addition, adequate provision was made for essential imports required in the various sectors of the economy. By 1982, the state of the economy was in such a bad shape that the government had to embark on some emergency fiscal, monetary and other policies like the economic stabilisation Act of 1982.

3.1.6 Monetary policy in Nigeria in the pre-SAP period

Monetary policy in Nigeria, as in every other economy, has the following main long-term objectives: to maintain a high and stable level of employment; to maintain reasonable stability of prices; to maintain rapid but steady economic growth; and to maintain a satisfactory balance of

payments and an equitability with one another. It needs be noted that these objectives are in consonance with the general macro-economic policy objectives.

Between 1958 and 1964, the major objectives of monetary policy in Nigeria were the maintenance of "a sound and stable currency" and the promotion of economic development through the provison of adequate supply of finance.

In general, the short-term objectives of monetary policy in Nigeria vary from period to period. This variation is being determined by changing conditions in the economy.

The principal tool employed in 1958 and 1964 in achieving these objectives is the selective credit control. Here, 15% ceiling was placed on the rate of expansion in the aggregate of each of banks' loans and advances. Other measures during the period include the banks required to maintain restraint in granting credit for consumption expenditures; the reduction from 78% to 3% in 1964 of the proportion of commercial banks liquid assets held overseas, which could count as part of specified liquid assets for satisfying the liquidity ratio requirement and its outright abolition in 1966; increase of the minimum and

maximum deposit rates from 3% to 3½% and 3% to 4% respectively; and others. These measures were designed primarily to curtail the rate of credit expansion.

Between November 1966 and April 1970, monetary policy was directed chiefly at three main objectives: conservation of foreign exchange reserves; raising of adequate funds for financing the civil war; and combating the mounting inflationary pressures by encouraging the expansion of the productive sector.

The first was necessitated by the rapid deterioration of the external payments position. It was also caused by the steep rise in the foreign exchange-financed requirements of the armed forces and the enormous capital flight from the economy due to the civil war and the speculation that the Nigerian currency was likely to be devalued following the devaluation of the sterling in 1967.

The other two objectives were also necessitated mainly by the rapid expansion in the armed forces expenditures.

The basic monetary policy pursued during this period was that of relative ease by lowering

measures were introduced in April 1975. One of these was the revision of the interest rates structure. The range of the lending rates of commercial banks was changed from 7%-12% to 6%-9%. As a way of encouraging savings, the deposit rates were increased. Some other policy changes also took place.

3.1.7 The Economic Stabilisation Act of 1982

It needs be noted that all the policies in Nigeria up to the early 1980s culminated in the Economic Stabilisation Act of 1982. During the period 1982 to mid-1986, a number of policy measures, largely, demand management in content, were taken. In April 1982, the Federal Government enacted the Economic Stabilisation Act designed to arrest the deterioration in the balance of payments position and revamp the economy. This indicates that all the policies before the Act have not met up with the economy's set out objectives.

Background information/knowledge to the enactment of the Act

The purpose of the enactment of the Act was due, largely, to the collapse of the oil market.

The oil boom of the 1970s resulted into some fundamental changes in Nigeria, among which were heavy dependence of the economy on crude petroleum export as the main source of foreign exchange earnings and government revenue. By 1980, the oil sector which accounted for 22% of the GDP provided 80% of government revenue and over 96% of export earnings. Secondly, the competitive nature of the agricultural sector in the international market was eroded by over-valued naira exchange rate, inadequate pricing policies, rural-urban migration and neglect arising from the so-called oil syndrome.

The share of the agricultural sector in GDP fell rapidly from 40% in the early 1970s to 20% in 1980. Low productivity in the agricultural sector became so acute that Nigeria became heavily dependent on imported food and agro-allied industrial inputs.

Also, the structure of policy incentives and controls encouraged import-oriented production and consumption pattern with little incentives for non-oil exports. For example, according to Omoruyi's (1987) account, exporters were compelled to surrender foreign exchange receipts to authorised dealers; and because of the over-valued naira exchange rate, the official naira equivalent of the foreign exchange receipts often fell short of the cost of non-oil exports.

Another issue was that the public sector, assisted by the Nigerian Enterprises Promotion Decree of 1972/1974, became the prime mover of the economy through huge investments of growing oil revenue in social, physical and economic infrastructure. By 1980, the government accounted for about 50% of GDP and over 60% of modern-sector employment.

The collapse of the world oil market (1981-1986)

From about mid-1981, the world oil market started to collapse and with the collapse, an economic crisis emerged in Nigeria. The resultant declines in oil export and prices were reflected in declines in foreign exchange receipts and government revenue. For example, crude oil exports fell from a daily average peak of 2.2 million barrels per day (bpd) in 1979 to 1.23 and 1.0 million barrels per day in 1981 and 1982 respectively, and had since remained at below 1.3 million barrel per day. Crude oil prices, which rose rapidly from US$20,94 per barrel in 1979 to US $36.95 in 1980 and US $40 in 1981 fell to US $29 in 1983 and to a trough of US $14.85 in 1986. Consequently, foreign exchange receipts which rose from US $15.7 billion in 1979 to a peak of US $25.9 billion in 1982 and 1983 respectively, had collapsed to only US $5.2 billion in 1986.

Thus, external reserves fell sharply and foreign debts mounted in the face of rising imports; government deficits widened and efforts at containing the adverse developments created some other serious problems such as economic depression, rising prices and unemployment.

Measures taken to effect the Stabilisation Act

The stabilisation measures concentrated on exchange control, import restrictions as well as measures in monetary and fiscal policies.

Efforts were made in successive years to reduce the public sector deficit through a reduction of capital and recurrent expenditures and an increase in revenue. Some government programme (s) shifted to maintenance and rehabilitation projects, especially in the social and health services.

Government workers were laid off through efforts at streamlining public sector employment to reduce the burden of the wage bill. Similarly, existing exchange control measures were reinforced and made increasingly more stringent.

From 1984, all imports were placed under specific import licensing. In October 1985,

government declared a fifteen-month economic emergency period during which specified proportions of workers' salaries and companies' profits were compulsorily paid to government.

ON January 1, 1986, about 80% of the subsidy on petroleum products computed based on the prevailing exchange rate was removed and consumers made to pay more for them. Several initiations were also embarked upon from 1983 to negotiate with overseas creditors on the rescheduling and re-financing of trade arrears.

Results of the measures adopted to effect the stabilisation Act

The various austerity measures drastically reduced supply of raw materials and spare parts to the import-dependent industrial sector, leading to extensive plant closure, substantial drop in capacity utilisation and retrenchment of many workers.

Severe market shortages led to very high prices of many essential commodites. Investments, both by the public and private sectors, shrunk and the depression deepened. Thus, by end-1985, real per capita GDP and consumption were well below the

levels recorded in the early 1970s.

External debt service obligations increased to 32% of exports. The external debt outstanding rose to over US $ 18billion out of which about US $5 billion represented trade arrears.

It became obvious that the various measures, especially the restrictive exchange and trade control, taken since 1982, were mere penalties as their effectiveness at solving the fundamental and financial problems of the economy was constrained by the continued fall in foreign exchange earnings, the over-valuation of the naira exchange rate and other distortions and rigidities in the economy.

3.2 THE NEED FOR THE ADOPTION OF THE SAP

The genesis of the SAP was as a result of the failure of the state of economic emergency to solve its stated objectives.

Three policy options were being considered during the emergency period. These included:

(i) to maintain the status quo, i.e. a continuation of the austerity

measures but without structural adjustment;

(ii) to accept IMF structural adjustment facility including its conditionalities;

(iii) to reject the IMF loan but adopt a variant of the traditional (typical) structural adjustment package, designed and implemented by Nigerians.

Though the IMF-sponsored SAP was rejected after a long debate in Nigeria, the authorities still saw the need for a structural adjustment in Nigeria. During this period, the authorities argued that the country's international worthiness became so eroded that the inflow of essential inputs was seriously impeded as most overseas banks refused to extend further credit to Nigerian banks, which had accumulated huge arrears on their confined letters of credit. The above situation, coupled with the advice of the world economic bodies - the IMF and the World Bank - resulted in the adoption of the IMF-sponsored and the World Bank SAP.

Much has been discussed about SAP in Nigeria in Chapter 2. We will look into the policy packages of SAP in this second part of this Chapter 3. The various areas to be concentrated on are the external sector and

the foreign exchange market; the monetary and fiscal policies, among others.

3.2.1 International trade policy

Before the SAP period, and up to the end of 1986, the problems of high magnitude of indebtedness through trade imbalances and short-, medium- and long-term loans; naira over-valuation arising from trade imbalances; high magnitude of corruption and various abuses in the foreign exchange market, where foreign exchange was allocated through import/export licencing schemes; and inadequacy of inflow of foreign investment have been existing in the external sector.

The foreign exchange market (FEM) was, therefore, established in September 29, 1986, for attacking the imbalances in the external sector. (The FEM will be discussed in full detail after this sub-topic). The objectives in mind of the government in the 1986 and 1987 year periods include the achievement of a healthy balance of payment (bop) position through a realistic exchange rate policy, export promotion and diversification, as well as restriction on external borrowing. Through the above objectives and policies, the government hopes to achieve the broader policy

objectives of economic reconstruction, social justice and self-reliance. With respect to export promotion and diversification, non-oil exports (both industrial and agricultural) were encouraged, and free export zones were created. Exporters were given such incentives as: export-financing, duty-free importation of inputs for export industries, retention of 100% of export proceeds by exporters, and the reduction of advance payment of assessed import duty to 25%.

There was also a continuation of restricting external borrowing by the government, except selected agricultural projects designed to increase the production of food, raw materials for industries and export, as well as water and health projects.

In 1988 budget year, the problems in the external sector were still sustained due to some inadequacies in some policy instruments. An example here is excessive borrowing in the face of high debt service burden/ratio.

The policies that were formulated within this budget year are as below, and they are meant to attack the retained external sector's problems.

The first is sustaining the operations of FEM. Another is reforming the 1987 tariff structure; and

also adopting a debt conversion scheme to reduce external debt stock and at the same time pursuing debt rescheduling programmes in order to ease the debt service burden.

The objectives which these measures were meant to satisfy were many and varied. Among these included, provision for the importation of very "essential" goods and services which are regarded as crucial to Nigeria (not individuals) in the process of national economic recovery programmes; making significant improvements on the very low level of capacity under-utilisation - about 32% in 1987; and making adequate provision for the protection of local industries to allow for their growth as well as effective sourcing of raw materials, among others.

There were also decrees on smuggled goods; harmonization of rates on spares and CKD components; locally produced goods; prohibition of items; local fish supply and its free duty measure; harmonised cpmmodity and coding system, the tariff board, and tariff stability and precautionary notes.

It needs be noted that the list of banned items was pruned down from 74 to 16 in 1986; and the export incentive and miscellaneous provision decree No. 18 was promulgated in July 1986 to provide refinancing

and rediscounting facilities by the CBN aimed at assisting the banks to provide the requisite export financing. This became necessary because following the abolition of the commodity boards in 1986, the commercial and merchant banks once again assumed the task of providing the funds to finance export activities of the private sector.

In short, the SAP was out to - in relation with the external sector - induce increased production in the Nigeria's export crop subsector with the hope of boosting exports, providing much needed agricultural raw materials for local industries and generating more rural incomes and employment opportunities. Fiscal and monetary policies were combined with the external sector policy in order to achieve the desired objectives during SAP.

3.2.2 Exchange Rate Policy (IFEM)

The exchange rate policy within the context of the SAP is embedded in the external sector or international trade policy of the SAP era. It (the exchange rate policy) is being treated separate here due to the significant importance of the position it plays in Nigeria's drive to attaining the SAP objectives. The exchange rate policy was meant to

achieve the healthy balance of payment position objective. In this, a realistic exchange rate for the naira was adopted.

The foreign exchange market (FEM) was adopted as from July 2, 1987 in the course of articulating this policy. This (FEM) is attained through the merging of the first-tier (government fixing of prices or exchange rates) and the second-teir(S)FEM - which started Septermber 29, 1986 (the market forces determining price) in the course of the operation of the exchange values.

This FEM, which was initially (S)FEM in the introduction of SAP is now IFEM (inter-bank foreign exchange market) due to the substantial involvement of the banks in handling Nigeria's external sector and monetary values. The objectives of the IFEM was to allow market forces of demand and supply to determine the naira exchange rate and thereby do away with the discretionary administrative fixing of the rates. Another objective was to reduce the demand for imports through increased domestic prices for such imports; also, it was expected to increase exports as a result of improved international competitiveness for Nigerian producers, thus reducing the degree of the over-valuation of the naira, discourage a high

import propensity and to correct past structural distortions.

The realistic exchange rate was also meant to stimulate capital inflow and pave a way for a more self-reliant and sustainable growth.

The operational framework of the IFEM is the closed auction system, whereby the Central Bank calls for bids from all authorised foreign exchange dealers once a week, which was later forth-nightly, for available foreign exchange. Within the limit set for each authorised dealer, available foreign exchange is sold to successful bidders on the counter sale to their customers at a price determined at the bidding sessions plus a one per cent (1%) margin fixed by the CBN.

Interbanks transactions are also permitted. With the exception of transactions related to government foreign debt, contributions to international organisations and transfers to Nigeria's missions abroad, which were carried out at the official first-tier rate were expected to move in sympathy and eventually merge with the (S)FEM rate within a period of nine months.

Initially, some experimentation was resorted to in determining the (S)FEM rate. The "Average of

Successful Bid Rate" was first used as the basis for determining naira exchange rate. This was found not appropriate, hence the introduction of "Marginal Rate"as from 9th October, 1986. This did not work satisfactorily, in terms of ensuring fair competition and professionalism in bidding. The Dutch Auction pricing system was later introduced with effect from April 2, 1987. Later, bi-monthly bidding sessions were adopted. In the course of the operation of IFEM, there is a space for the Monetary Authorities to intervene in the market to ensure its orderliness and stability as well as to exercise supervision and monitoring functions over its operation.

The IFEM guidelines include eligible transactions, documentation requirements, processing of applications, submission of returns and sanctions.

The major sources of supply of foreign exchange to IFEM is expected to be the CBN, augmented over time with flows from autonomous sources, such as foreign currency domiciliary accounts and capital inflows from corporate bodies and non-corporate bodies. The World Bank provided a loan of US $452 million for funding the (S)FEM in 1986. Also, part of the foreign exchange in the Escrow accounts from the counter trade deals have been used to finance the market. The African Development Bank was also

contacted for a loan of $300 million much of which was expected to be used in funding the (S)FEM. In 1988, $7.004 billion was expected from foreign exchange with $1.2 billion from non-oil proceeds. FEM was expected to take $3.935 billion of the above amount from the two stated sources.

3.2.3 Fiscal policy in the SAP era

The fiscal policy during SAP started by reviewing some of the fiscal measures before July 1986. It was expected to ameliorate the envisaged inflationary impact of the FEM and also to protect infant industries, hence, contractionary in form. An Interim Customs and Excise Tariff was introduced which made temporary adjustment in the tariff structure. The 30% consolidated import levy introduced at the beginning of 1986 was abolished. Import duties on basic industrial raw materials, agricultural inputs and some consumer/final goods were reduced. On the other hand, duties on some capital, consumer and luxury items were raised.

Import prohibition list was reduced from 74 to 16. Deductions of workers' salaries were abolished and money was refunded to workers (Ahmed, 1987).

In 1987, the fiscal measures were strengthened and re-inforced. Duties on public transport items as well as those on newsprint and kraft paper were downward. Advance payment of import duty was reduced to 25.0% of the assessed cost of goods.

The taxation measures in 1987 were geared towards improving the revenue collection machinery, maximising tax revenue, stimulating investment in priority sectors and reducing the tax burden. The new tax reliefs granted, relating to companies and individuals in 1987, include the enjoyment of tax free dividends for a period of three years if:

(a) the company is incorporated in Nigeria;

(b) the equity participation is imported into the country before 1st January, 1992; and

(c) the recipients' equity participation in the company constitutes at least 10.0% of the company's share capital.

In addition to this, the company paying the share dividends will enjoy a tax free period for five years if it is engaged in any of the following activities: agricultural production within Nigeria; processing of Nigerian agricultural products within Nigeria; and the production of petro-chemical or

liquified natural gas (LNG). Concerning Companies Income Tax, the tax rate was reduced from 45.0% to 40.0%. Finally, Capital Allowances rates were reduced by 5.0%, 12.5% and 5.0% points, respectively, for furniture and fittings, research and development expenditure, and motor vehicles.

These are values from 15% to 10%, 25% to 12½%, and 25% to 20% respectively.

In summary, the fiscal policy which has been contractionary is still geared toward the realisation of the SAP objectives in Nigeria.

3.2.4 Monetary policy during SAP era

The monetary policy during SAP was meant to moderate inflationary pressures. Hence, in 1986, appropriate changes were made in the Monetary Circular No. 20, January 1986. These include the reduction from 10% to 7.6% in the ceiling imposed on the rate of credit expansion by the big and medium-sized banks. That of the merchant banks was also affected.

The 1987 monetary policy Circular No. 21 was also out to fulfil the 1986 monetary policy objective. Other objectives include stimulating domestic financial and efficient resource allocation;

encouraging foreign capital inflow and increase export earnings from non-oil sources; stimulating local production of goods and services; and ensuring an improvement in the balance of payments.

The monetary policy in 1987 was largely restrictive, curtailing the growth in money supply to 11.8% and placing a ceiling of 4.4% on the expansion of aggregate bank credit to the economy.

It also reduced the categories of sectors of the economy for purposes of bank lending from 4 to 2, namely, "high priority sectors" - comprising agriculture and manufacturing enterprises - and "others". Monetary Circular No. 21 was further amended on 1st August, 1987 - for the purpose of attaining the objectives of SAP as follows:

(i) the 8% of ceiling on commercial bank credit expansion for the whole year was revised to 7.4% for the last three quarters of the year. Quarterly targets were also set to facilitate monitoring of the banks' performance.

(ii) In the case of the merchant banks, their ratio of total loans and advances to total assets (less contigent liabilities) during the remaining three quarters of 1987 was reduced from 55.0 to 37.5%. It had earlier on been raised from 50% to 55% in January 1987.

(iii) Henceforth, the ceilings would apply to all loans to agricultural production and marketing, manufacturing, export and export financing.

(iv) New and small banks with total loans and advances of not more than ₦100 million as at end-December, 1986, were allowed to increase their lending by up to 15.0% in 1987.

(v) Banks granting credit in excess the permissible rate of expansion were required to deposit an amount equivalent to the excess with the CBN. Such deposits would be non-interest bearing and not eligible for inclusion in the bank's liquid assets holding for the purpose of calculating the statutory liquidity ratio.

All controls on interests rate were removed in line with the emphasis on deregulation of the economy under the SAP. The miminum rediscount rate of the Central Bank was fixed at 15.0% effective 1st August, 1987. This was meant to serve as a signal to the banks of the desired direction of interest rates changes.

As a means of encouraging the private sector, non-bank public were to invest in government securities,

the treasury bill rate was also raised from 10% to 14%, while comparable adjustments were made to treasury certificates. The minimum liquidity ratio for commercial banks was raised from 25% to 30%.

In order to reduce the ability of the commercial banks to grant credit for trading on the (S)FEM, the CBN required the commercial banks, on the 15th August 1986, to deposit in non-interest bearing deposit account at the CBN the naira counterpart of all outstanding external payments arrears. About ₦4.2 billion was lodged with the bank at the end of the exercise.

There had also been changes in interest rates over the years, and the banks and their customers were given the freedom to negotiate deposit and lending rates within the stipulated range, which might vary from bank to bank and according to the size and maturity of deposits or loan, as well as the forces of supply and demand for funds.

The 1989 monetary policy was meant to moderate restraint aimed at moderating inflation also, and reducing pressure on the balance of payments; stabilising the naira exchange rate; building up the country's depleted external reserves, and stimulating output and employment. In 1989, in line with the

policy of restraint, the ceiling on commercial and merchant banks loans and advances was lowered from 12.5 to 10%, while commercial banks' cash ratios were raised by one per-centage point. The Central Bank's Minimum Rediscount Rate was in addition, raised by 0.5 percentage point to 13.25 contrary to expectations. Monetary and credit aggregates maintained their sharp upward trend while inflation continued to accelerate throughout the first quarter of 1989.

There was also upward review of cash and liquidity ratio as from April 1989; the prohibition of foreign-guaranteed loans and the order to recall such loans outstanding and the increase in the capital adequacy ratios of banks.

We will not forget to mention also the wide-spread removal of the governments ministries and parastatals bank accounts from the commercial and merchant banks for the purpose of limiting their credit creating ability with the hope of moderating inflationary pressure in the Nigerian economy. Policies have actually been focussed on the banking sector since the inception of the SAP; and this is in consonance with the idea that the banking sector is the most regulated sector in any economy.

3.2.5 Deregulation Policy

Regulation refers to controls on the public and private sectors, while a process of deregulation has the basic aim of removing all the unnecessary controls which tend to inhibit economic performance in both the private and public sectors of the economy (Sanusi, 1988).

This deregulated state was the basis of the SAP in Nigeria. The market forces were greatly relied upon in the economic activities in the country, while complex administrative controls and other regulations were removed.

Regulations in Nigerian economy exist due to financial crises and other economic and political events. The deregulated economy also rely on the market forces of supply and demand to determine price in the various sectors of the economy.

One of the most frequently talked about policies that has been deregulated is the "interest rate". The interest rate is seen as a very potent policy variable in both theoretical and practical considerations. It plays a crucial role in determining the level of savings and that of investment.

The interest rate deregulation in Nigeria aims at removing all "real" and "perceived" forms of subsidies so as to maximise efficiency. The strategy for attaining this is through a tight money supply which is hoped to reduce aggregate demand and logically also reduce the rate of inflation. It is supposed that a reduction in the actual rate of inflation will lead to a lower "expected" rate since savers are assumed to include an inflation premium on the rations from their savings. The policy of deregulation (of interest rates), according to the government, was to determine the real worth of the economy.

It needs be noted that almost all the activities in the present SAP era are being governed by the deregulated procedure. This extends to the privatisation and commercialisation of public property, foreign exchange inflow/outflow and investment, prices of goods and to some extent services, among others, while the government still comes in to regulate some aspects of the economy where necessary.

In the final analysis, the pre-SAP policy measures and the SAP era policy measures are many and varied. A critical look at them reveals that they have not attained what they were formulated for.

This work hopes to incorporate the role each or some of the policies played in determining the level of the banks activities in the next chapter.

CHAPTER 4

EFFECTS OF STRUCTURAL ADJUSTMENT PROGRAMME POLICIES ON COMMERCIAL BANKS ACTIVITIES IN NIGERIA

In this chapter, the economic indicators of commercial banks activities will be obtained, computed and analysed. The analysis will show whether or not the commercial banks have fared better during SAP and subsequently, conclusion and policy recommendations will follow the analysis. The following indicators as they are displayed in one table or the other are obtained; compiled and analysed.

We will start from the commercial banks' total deposits.

TABLE 4.1: COMMERCIAL BANKS TOTAL DEPOSITS (₦ M)

YEAR	B A N K			
	FIRST BANK	UBA	UNION BANK	IBWA
1980	2011	1576.2	1492.1	n.a.
1981	2262	2407.2	2009.0	578.0
1982	2793	2548.2	2853.5	870.97
1983	3750	2939.9	3275.8	960.08
1984	4120	3114.5	3381.8	851.16
1985	4130	4319.6	2468.8	1115.06
1986	4410	3932.8	4000.2	1042
1987	5010	4766.7	4073.7	1633.20
1988	5646	5872.9	4876.5	1734
1989	5785	8159.3	5782.8	1739.15

SOURCES: Annual Reports and Accounts of the various banks of the various years

A simple observation of the above total deposits of four of the major commercial banks in Nigeria reveals that there are different levels of growth of total deposits in the various commercial banks. For more economic analysis of their situations, the marginal differences in the various years and their corresponding percentages values will be computed and analysed as follows:

Usually, what determines the level of deposits - be it fixed or saving deposits - is the level of the rate of interest. The higher the interest rate, the higher the rate of deposit and vice-versa.

Therefore, from the observation of the FIRST BANK data on deposits, it can be argued that the high increase in the margins of the deposit levels from 1980 to 1983 ending must be due to high interest rates on savings and time deposits within that period. The government must have increased the interest rates on saving and time deposits within the period due to the austerity measure being adopted in the country at that time in order to solve the economic problem of the nation.

There are remarkable differences in the case of UBA as regard this austerity period. There is a decline in the marginal deposit of UBA during this period: especially, in 1982. This situation must have

TABLE 4.2: TOTAL DEPOSITS, MARGINAL VALUES AND PERCENTAGE VALUES OF COMMERCIAL BANKS' DEPOSITS

YEAR	BANK											
	FIRST BANK			U B A			UNION BANK			I B W A		
	TOTAL DEPOSIT (1)	MARG. VALUE (2)	% OF 2:1 (3)	TOTAL DEPOSIT (1)	MARG. VALUE (2)	% OF 2:1 (3)	TOTAL DEPOSIT (1)	MARG. VALUE (2)	% OF 2:1 (3)	TOTAL DEPOSIT (1)	MARG. VALUE (2)	% OF 2:1 (3)
1980	2011	-	-	1576.2	-	-	1492.1	-	-	n.a.	-	-
1981	2262	251	12.5	2407.2	831	52.7	2009.0	516.9	34.6	578	-	-
1982	2793	531	23.5	2548.2	141	5.9	2853.5	844.4	42.0	870.97	292.97	50.7
1983	3750	957	34.3	2939.9	391.7	15.4	3275.8	422.3	14.8	960.08	89.11	10.2
1984	4120	370	9.9	3114.5	174.6	5.9	3381.8	106	3.2	851.16	-108.92	-11.4
1985	4130	10	0.2	4319.6	1205.1	38.7	2468.8	-913	-27.0	1115.06	263.9	31.0
1986	4410	280	0.7	3932.8	-386.8	-9.0	4000.2	1531.4	62.0	1042	-73.06	-6.6
1987	5010	600	13.6	4766.7	833.9	21.2	4073.7	73.5	1.8	1633.20	591.2	56.7
1988	5646	636	12.7	5872.9	1106.2	23.2	4876.5	802.8	19.7	1734	100.8	6.2
1989	5785	139	2.5	8159.3	2286.4	38.9	5782.8	906.3	18.6	1739.15	105.95	6.1

SOURCES: Annual Reports and Accounts of the various Banks of the various years with calculated values.

arisen due to some of UBA's customers withdrawing from depositing their money since they had to cope with the harsh economic conditions of that time. We know that the austerity measures also affected the level of income. In economic analysis, we know that when there is low income, the marginal propensity to save will be low while the marginal propensity to consume will be high. The depositors with UBA must have been much concerned with their consumption pattern during this period than their saving habit.

The marginal value of Union Bank has an increase up to 1982 but dropped in 1983 up to 1985. These phenomena must have been due to government change-over in 1983, and again, in 1985. Political instability as well brought about economic distortions, just as is being observed in these data. This drop in the margin of the total deposit also occurred in IBWA from 1982 to 1984. The economic phenomena responsible for these declines may not be all that different from the above.

Apart from this austerity measure period, 1984 and 1985 year period were characterised with high level retrenchment exercises and the adoption of a Fifteen-Month Economic Emergency; including also a change of the Nigerian currency. This has resulted in

the drastic fall of FIRST BANK's marginal value of the total deposit from a percentage of 34.3 in 1983 to 9.9 in 1984 to 0.2 in 1985. This decline existed majorly in 1984 with respect to UBA. The increase it (UBA) had in 1985 must be due to its being able to wangle itself through the economic crunch in order to raise higher deposits. The case of UNION BANK was not only found to be declining in value but it became negative in 1985. The interpretation here will mean that the economic conditions of the time have adversely affected the activities with regards to their deposits being more of fluctuation than stability during this 1984 to 1985 time period.

During the SAP years, the marginal values of total deposits of FIRST BANK must have increased from 1986 to 1988 due to the deregulation of the interest rates. This bank must have attracted more deposits by hikening its savings rates. The sharp fall in the marginal value of its deposits in 1989 must have been as a result of the removal of the federal and state government ministries' and parastatals' accounts from commercial banks. This is a situation of adverse effects on this bank.

As for UBA, the loss in deposits in 1986 must have been as a result of the impact of the SAP policies of free market enterprise. This bank must have had

the initial problem of readjusting to the new demands in the market structure. When it later had increases in its marginal values in 1987 and 1988, it is clear that it was then coping with the economic conditions of SAP. The case of the withdrawal of the governments bank accounts in 1989 did not have a declining effect on the total deposits and marginal deposit(s) with this bank. This must have been as a result of it being able to scout round for deposit(s) at that time. The experience of Union Bank in 1986 was that its marginal value was very high, and thereafter, a drastic fall in 1987 with subsequent increase in the 1988 and 1989 year periods. The initial decrease in the value of money in 1986 must have spurred Union Bank to scout round for more deposits, hence, its much marginal deposit in that year. With contractionary monetary policies in 1987, the bank must have been incapacitated in continuing with its deposit winning drive, hence the decline in its marginal deposit in 1987. The reflationary policy that enabled the banks to take some international financial transactions in 1988 must have boosted its marginal deposit in 1988. With the monetary policy of withdrawal of governments' accounts from commercial and merchant banks, one will expect that this would have reduced their deposit margin as it were with the

FIRST BANK. But its case was similar to that of UBA which is likely to be as a result of new approach to deposit winning. New incentives like "divide and share" relationship with investors must have been in use within this period; among others. The case of Union Bank is very similar to that of IBWA during the SAP years.

In any case, it can be observed from the computation made that the growth rates of deposits with these banks are more in the pre-SAP era than in the SAP era. There are cases, however, where in some particular year(s), the growth rates of deposit during SAP were very high; nevertheless, on the average, growth rate was more in the pre-SAP era than in the SAP period.

It needs be noted also that since the value of money in the SAP era was lower than as it were in the pre-SAP era, the worth of the deposits in the SAP era is far exceedingly lower than that of the pre-SAP period. It, therefore, follows that the government tendency to encourage economic growth and development through the commercial banks lending to priority sectors will not be attained since their deposits are affected both in total and real value terms. We do hope that the above analysis of the deposits with the commercial banks reveals that the SAP policies on

commercial banks have not actually met its objectives of bringing the economy into sound footing.

We will also observe and analyse the situation of the loans and advances of the commercial banks in Nigeria in the pre-SAP and during SAP eras as below:

TABLE 4.3: COMMERCIAL BANKS' LOANS & ADVANCES (₦ MILLION)

YEAR	B AN K			
	FIRST BANK	UBA	UNION BANK	IBWA
1980	1939.24	864.84	931.7	n.a.
1981	133.42	1161.3	1395.6	528.48
1982	1490.13	1519.4	1654.71	539.03
1983	1380	1619.7	1536.95	506.52
1984	1400	1553.3	1534.56	485.89
1985	1470	1409.1	1492.98	512.48
1986	1870	1471.4	1845.96	731
1987	2050	1798.6	1872.22	952.55
1988	2253	2008.1	2228.9	1052
1989	2403	3014.1	2380.2	1158

SOURCES: Annual Reports and Accounts of the various Banks of the various Years

It is observed from the above loans and advances of commercial banks that there was more of continuous increase all over the years, except in some few years when there were declines in the amount of loans and advances. The marginal and percentage values of the commercial banks' loans and advances can be computed,

tabulised and analysed as follows.

With the use of interest rate also, the higher the rate of interest, the lower the level of loans and advances; and vice-versa. While the rate of interest has a direct relationship with deposits, it, on the other hand, has inverse relationship with the level of loans and advances. Applying this to the marginal value of FIRST BANK loans and advances, it is observed that the tendency of the monetary authorities to reduce the inflationary trend by the use of interest rate in the early 1980s has brought about the decline in the level of loans and advances in 1981 and 1983. The increase in loans and advances of FIRST BANK in 1982 must be as a result of the austerity measures favouring the bank in this aspect. Also, the continuous increase in the marginal value of UBA's loans and advances up to 1983 could be as a result of the ability of the bank to cope with the austerity measures in the management of its lending facilities. The fall in Union Bank's marginal loans and advances in 1982 and 1983 must be as a result of the adverse effect of the austerity measures on this bank at the given period. This decline is as well observed in the case of IBWA which must also be due to the negative effect of the austerity measures on this bank.

TABLE 4.4: TOTAL LOANS AND ADVANCES, MARGINAL VALUES AND PERCENTAGE VALUES OF COMMERCIAL BANKS' LOANS AND ADVANCES

YEAR	BANK											
	FIRST BANK			U B A			UNION BANK			I B W A		
	TOT. LO & ADV. (1)	MARG. VAL (2)	% OF 2:1 (3)	TOT LO & ADV. (1)	MAR VAL (2)	% OF 2:1 (3)	TOT LO & ADV. (1)	MAR VAL (2)	% OF 2:1 (3)	TOT LO & ADV. (1)	MAR VAL (2)	% OF 2:1 (3)
1980	1939.24	-	-	864.84	-	-	931.7	-	-	n.a.	-	-
1981	133.42	-1c05.8	-93.1	1161.3	296.5	34.3	1395.6	463.9	49.8	528.48	-	-
1982	1490.13	1356.7	1016.9	1519.4	358.1	30.8	1654.71	259.1	15.6	539.03	10.6	2.0
1983	1380	- 110.1	- 7.4	1619.7	100.3	6.6	1536.95	-117.8	-7.1	506.52	-32.5	-6.0
1984	1400	20	1.5	1553.3	-66.4	-4.1	1534.56	-2.4	-0.2	485.89	-20.6	-4.1
1985	1470	70	5	140 91	-144.2	-9.3	1492.98	-41.6	-2.7	512.48	26.6	5.5
1986	1870	400	27.2	1471.4	62	4.4	1845.96	353.0	23.6	731	218.5	42.6
1987	2050	180	9.6	1798.6	327.2	22.2	1872.22	26.3	1.4	952.55	221.6	30.3
1988	2253	203	9.9	2008.1	209.5	11.7	2228.9	356.7	19.1	1052	99.5	10.4
1989	2403	150	6.7	3044.1	1036	51.6	2380.2	151.3	6.8	1158	106	10.1

SOURCES: Annual Reports and Accounts of the various Banks of the various years with calculated values.

The increase in the marginal value of the FIRST BANK's loans and advances in 1984 to 1986 could be due to the design of the government to boost agriculture and manufacturing (being described as the preferred sectors) by giving directives to the commercial banks to invest more and borrow more to these sectors. On the part of UBA, the loss in loans and advances in 1984 and 1985 must have been due to the effects of the change in the Nigerian currency which resulted in a huge sum of amount being lost during the period.

This situation is also evident in the case of Union Bank, and in the 1984 year of IBWA's transactions. The increase in the value in 1985 must be due to a quick recovery in coping with the economic trend at the time. However, with the deregulated economy during SAP, FIRST BANK experienced a fall in its marginal loans and advances in 1987. The deregulation policy allows various sectors including the commercial banks to determine how much they are willing to lend out and at what rate. The investors must have, therefore, been hampered from borrowing much due to the high interest rates on loans and advances at the time. The increase in 1988 can be attributable to the reflationary policy package where controls were still exercised on the commercial banks in their channels of loans distribution. The fall in the 1989 loans and advances

cannot be unconnected with the federal and state governments' withdrawal of their bank accounts from these banks. We know that this period also witnessed high increase in the lending rates, hence investors were discouraged from borrowing.

The UBA's experience was that it had increases in its marginal loans and advances during the SAP years, except in 1988. While the decline in 1988 must have been due to the bank's non-adherence to the lending policy of allocating more loans to the "high priority sectors" than "the other ranks", the increase in other years can be as a result of the bank being able to adjust to the prevailing economic conditions. The deregulated economy must have also adversely affected Union Bank in 1987, and the reflationary policy must have boosted its lending tendency in 1988, while the withdrawal of the governments' accounts from banks must have reduced its lending potentials in 1989 as are observed in the values in the table. The IBWA's situation is not far from the other banks experience. The increase in the marginal value of its loans and advances in the first two years of SAP shows a growing trend in coping with the policies targets of the time. While the decline in 1988 must have arisen from the reflationary package which the bank could not have adjusted to almost simultaneously, the increase in 1989

in spite of the governments' accounts withdrawal must be as a result of this bank still being a little lenient with its borrowing customers.

In the various banks, there is more of growth in the total loans and advances during the SAP era than in the pre-SAP era as the calculated values show in the tables. This, not withstanding, it can be argued that some potential investors have been eliminated from the market due to the high interest rates on loanable funds during the SAP era. The inability of these low income investors to buy at the factor market also made them to loose their competitiveness in the commodity market due to their average high cost of production. It, therefore, follows that it is the big-time investors that could invest because of their ability to borrow and pay back. The growth rate of these loans and advances, therefore, must not have properly accounted for the prevailing economic conditions with regards to the investment criteria and undertakings in Nigeria during the SAP than in the pre-SAP era.

Investment has not much been encouraged during the SAP era, hence resulting in low input and low productivity. Low productivity results in higher cost of commodity and lower standard of living. Invariably, the welfare of the people is not enhanced,

neither is the growth and development objective of SAP attained. We will now proceed to the capital adequacy of these banks.

The capital base of commercial banks include the various ways by which they raise their funds. Two major ways - fixed assets and shareholders' funds - were given in the overleaf data (Table 4.5, p. 123). Other components of the total assets are the returns of the commercial banks from investments - otherwise called dividends - earnings per share, paid up capital and reserves, among others. It is hoped that these items will be made mention of in one way or the other in the course of analysing this particular indicator.

Due to the nature of this indicator, the marginal and percentage values will not be computed. Analysis will, therefore, be majorly based on the absolute values of the data. Where necessary, reference can be made to its marginal and/or absolute value(s). The table shows that the FIRST BANK has had increase in its total assets except in 1989, all the years round. This was also applicable to its fixed assets, except also in 1989, where there was a fall from ₦293.87 million in the previous year to ₦204.52 million in the said year. These declines must have been due to the withdrawal of the governments' accounts from the commercial banks. The shareholders' funds of FIRST

TABLE 4.5: CAPITAL ADEQUACY OF THE COMMERCIAL BANKS (₦ MILLION)

YEAR	BANK											
	FIRST BANK			U B A			UNION BANK			I B W A		
	TOTAL ASSETS (1)	FIXED ASSETS (2)	S/HOLD FUNDS (3)	TOTAL ASSETS (1)	FIXED ASSETS (2)	S/HOLD FUNDS	TOTAL ASSETS (1)	FIXED ASSETS (2)	S/HOLD FUNDS	TOTAL ASSETS (1)	FIXED ASSETS (2)	S/HOLD FUNDS (3)
1980	2611	47.58	55579.94	1715.9	26.75	77.6	81649	22896	55753.	n.a.	n.a.	n.a.
1981	2642	61.91	142	2516.9	92.66	94.3	104918	30561	74357	n.a.	n.a.	n.a.
1982	3190	73.87	154	28.27	110214	143.2	3182.23	45.57	129.36	1283.24	13.72	56.34
1983	4135.34	89.53	104.36	3409.7	45.67	162.8	3767.01	52.23	151.82	1641.91	18.29	65.64
1984	4829.18	104.36	188.08	3566.0	56.20	184.6	4084.33	56.23	173.50	1614.70	23.96	73.83
1985	5053.00	1161.13	226.43	4802.9	61.76	209.1	4370.05	63.06	348.59	1803.52	36.7	112
1986	5995.76	141.78	311.25	4617.6	67.2	238.4	5298.55	73.39	299.72	2109.82	50.7	134
1987	6776.87	167.23	373.46	5656.7	85.6	285.9	5747.58	100.92	348.59	2635.59	73.46	170.84
1988	7072	293.87	435	7061.1	139.4	328.5	6335.8	124.6	412.8	2713.50	96.0	210.5
1989	8492	204.52	534	9205.4	n.a.	416.8	7986.1	170.4	533.9	2505.36	163.1	277

SOURCES: Annual Reports and Accounts of the various Banks of the various Years.

BANK were very high in 1980, possibly due to the incentives and expectations for them to have high returns. This value dropped in the following year and, subsequently, increased up to 1989, except in 1983. The drop in 1983 must have been as a result of uncertainty in business prospects in the Nigerian economy within that year due to the change over from the civilian government. The shareholders must have then held back their money than buying much shares in the commercial banking activities.

This bank's capital base must have generally increased during the SAP years due to its opportunities like the exploitation of the loopholes in the foreign exchange market for expanding its capital base.

The case of UBA reveals that there were losses of total assets in 1982 and 1986 respectively. These are the austerity measures and SAP year respectively. The loss in these total assets must have been due to the stringent policies being adopted at these two time periods. The values of the other years in the pre-SAP and SAP eras show that steady growth existed in the total assets. These signify that the UBA must have exploited avenues to boost its capital base. Among the known avenues include the participation of the banks in inter-bank foreign exchange market (IFEM)

where a lot of banks have enriched themselves during SAP. The fixed assets and the shareholders' funds were also on the increase in all these years. The fixed asset was observed to have been very high in 1982. This must have been due to some protective measures being adopted by UBA at the time in order to guide against losing its economic strength. The withdrawal of governments' funds from the commercial banks in 1989 did not affect UBA all that in its capital base. This must have been due to its boosting of its resource base through other economic activities.

As for Union Bank, its total assets were in the increase all the years round, except in 1982, probably due to the Economic Stabilisation Act stringent policies. The huge increase in its total assets in 1989 must have been as a result of the bank developing new incentives of increasing its capital base.

It was also in 1982 that there was loss of fixed assets and shareholders' funds; and only shareholders' funds in 1986. The withdrawal of the governments' funds from the commercial banks did not adversely affect this bank's capital base. The opportunities in the IFEM transactions and the new innovations into raising capital funds must have contributed to this situation of the bank.

IBWA experienced loss in its total assets in 1984 and 1989 respectively. This must have been due to the change in the Nigerian currency in 1984, and the withdrawal of governments' bank accounts from commercial banks in 1989 respectively. In general, there were increases in its capital base all the years round. This does not in any case suggest that the actual worth of these capital funds are exceedingly high. The value of money being lower in the SAP years has made this ascertion of high value to be far from it.

The next indicator to be discussed is the profit levels of the commercial banks. The table is going to show "profit before tax" and "profit after tax." Tax is, therefore, "profit before tax" less "profit after tax". This indicator will be discussed to show whether the amount of tax paid by the commercial banks at one time or the other was or was not encouraging for their business incentives and productivity. The reason why the government took some particular amount of tax in one year or the other may be inferred in the analysis. The table showing the commercial banks' profit levels will be shown as below (page 130).

For the purpose of using tax in our analysis, the following table (Table 4.7) will be constructed to bring out the amount of tax paid in each of the years. The percentage of the tax over the profit before tax will also be computed. This will enable us to know how

TABLE 4.6: COMMERCIAL BANKS' PROFIT (₦ MILLION) BEFORE AND AFTER TAX PROFITS)

YEAR	B A N K S							
	FIRST BANK		UBA		UNION BANK		IBWA	
	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER	BEFORE	AFTER
1980	31.01	17.97	41.4	20.0	35.12	20.79	n.a.	n.a.
1981	51	28	42.8	22.7	60.20	29.80	n.a.	n.a.
1982	44	25	52.4	26.6	64.97	32.62	28.44	14.69
1983	48.3	29.9	56.0	29.3	61.24	30.61	28.73	14.50
1984	49.25	29.14	56.3	31.5	57.08	28.75	30.29	15.39
1985	82.94	53.4	63.7	34.2	81.15	41.55	40.84	24
1986	145.85	86.63	81.9	42.1	103.78	53.85	62.30	37
1987	106.01	68.01	105.9	73.7	83. 51	56.16	87.94	51.66
1988	124	74	84	54.8	112.3	70.4	91	53
1989	163	106	101.2	64.8	152.4	94.9	123	84.45

SOURCES: Annual Reports and Accounts of the various Banks of the various Years.

TABLE 4.7: BEFORE AND AFTER TAX PROFITS, TAX AND PERCENTAGE TAX

YEAR	BANK															
	FIRST BANK				U B A				UNION BANK				I B W A			
	BEFORE (1)	TAX (2)	AFTER (3)	% OF 2:1	BEF (1)	TAX (2)	AFT (3)	% OF 2:1	BEF (1)	TAX (2)	AFT (3)	% OF 2:1	BEF (1)	TAX (2)	AFT (3)	% OF 2:1
1980	31.01	13.04	17.97	42.05	41.4	21.4	20.0	51.69	35.12	14.33	20.79	40.80	n.a.	n.a.	n.a.	n.a.
1981	51	23.	28.	45.10	42.8	20.1	22.7	46.96	60.20	30.40	29.80	50.50	n.a.	n.a.	n.a.	n.a.
1982	44	19	25	43.18	52.4	25.8	26.6	49.24	64.97	32.35	32.62	49.79	28.44	13.75	14.69	48.35
1983	48.3	18.45	29.85	38.20	56.0	26.7	29.3	47.68	61.24	30.63	30.61	50.02	28.73	14.23	14.50	49.53
1984	49.25	20.11	29.14	40.83	56.3	24.8	31.5	44.05	57.08	28.33	28.75	49.63	30.29	14.9	15.39	49.19
1985	82.94	29.54	53.4	35.62	63.7	29.5	34.2	46.31	81.15	39.6	41.55	48.80	40.84	16.84	24	41.23
1986	145.85	59.22	86.63	40.60	81.9	39.8	42.1	48.60	103.78	49.93	53.85	48.11	62.30	25.3	37	40.61
1987	106.01	38	68.01	35.85	105.9	32.2	73.7	30.41	83.51	27.35	56.16	32.75	87.94	36.28	51.66	41.76
1988	124	50	74	40.32	84.0	29.2	54.8	34.76	112.3	41.9	70.4	37.31	91	38	53	41.76
1989	163	57	106	34.97	101.2	36.4	64.8	35.97	152.4	57.5	94.9	37.73	123	38.55	84.45	31.34

SOURCE: Annual Reports and Accounts of the various Banks of the various years with calculated values.

much percent of profit goes for tax. This will subsequently lead us to evaluate the economic implications of such payments. Let us now observe the table (Table 4.7, p. 123) for these values.

There were different levels of profits in the "before" and "after" tax profits of the various banks. In general, the level of profit is observed to be on the increase all the years round, though there were some notable years in which there were declines.

It is observed from the table that the percentages of tax in each of the years are relatively high. It is true also that the absolute amount paid as tax to the government by the commercial banks is very high. For example, in 1981, the FIRST BANK paid ₦23 million as tax out of ₦51 million profit before tax. The bank was, therefore, left with ₦28 million as its profit after tax. This situation of high profit payment is also applicable to other years in the various banks.

The implication of this experience is that it limits the amount that the various banks can use to transact further business (like in the case of ploughing back profit). It also reduces how much the shareholders can receive as dividends. It leads to such problems of low amount being budgetted for lending to the investors, thus indirectly discouraging

much investment. There is also a possible situation where the assets of the banks can be reduced since they can only purchase few with their relative low profit after tax.

It needs be noted also that since the value of money is lower during the SAP period than in the pre-SAP era, the profit made during SAP is lower in value than that of the pre-SAP period. However, it seems that the opportunities the banks have to make more profit are encouraging them into putting in more effort to survive than folding up in the face of the harsh economic conditions in which they operate.

We will now proceed further to analyse the staff strength of the commercial banks.

TABLE 4.8: COMMERCIAL BANKS' STAFF POSITION (ABSOLUTE NUMBER)

YEAR	B A N K			
	FIRST BANK	UBA	UNION BANK	IBWA
1980	6966	3750	12651	n.a.
1981	8049	4419	15015	1912
1982	8881	4852	9007	2206
1983	9234	5770	9801	2279
1984	9355	6218	9826	2501
1985	9215	6620	10078	2546
1986	9811	6980	10735	2657
1987	10865	7644	11226	3029
1988	11048	7655	11337	n.a.
1989	11366	8033	11623	n.a.

SOURCES: Annual Reports and Accounts of the various Banks of the various Years.

There was increase in employment of the banks all the years round, except in 1985, where there was a decline from 9355 in the previous year to 9215 in the said year in FIRST BANK only. All the other banks maintained continuous increase in total number of workers employed. It is also known, though not specified in the table, that there is employment of more qualified personnel in the banks during SAP than in the pre-SAP era. This gives rise to more professional advice and handling of the commercial banks activities that will enhance better performance than in the pre-SAP era.

The total number of branches of the commercial banks will now be analysed as follows.(see the following table, Table 4.9).

TABLE 4.9: COMMERCIAL BANKS' TOTAL NUMBER OF BRANCHES (ABSOLUTE NUMBER)

YEAR	B A N K			
	FIRST BANK	UBA	UNION BANK	IBWA
1980	148	63	135	n.a.
1981	158	74	139	n.a.
1982	169	89	160	n.a.
1983	n.a.	103	178	n.a.
1984	n.a.	120	191	n.a.
1985	228	129	195	n.a.
1986	235	n.a.	201	76
1987	248	148	212	89
1988	262	164	225	92
1989	274	180	238	99

SOURCES: Annual Reports and Accounts of the various Banks of the various Years.

The data available indicate that the number of branches of the commercial banks have been on the increase all over the years. This must have been due to their having business opportunities which encourage them to increase their total number of branches so that they can accommodate more business undertakings which the former available number of branches could not take. This also enhances the employment of greater number of workers into the new branches, thereby lessening the growing problem of unemployment in the country.

We will now proceed to the commercial banks' sectoral allocation of loans and advances.

As was mentioned in the methodology, only FIRST BANK data will be used in the analysis due to the insufficient information in obtaining other commercial banks' data on this aspect. The 1982 to 1988 years period will be used in the analysis.

The method that will be applied here involves taking the percentage values of each of the amount allocated to each of the items in the respective years. The obtained values will be evaluated in relation to the government policies on sectoral allocation of funds. If the percentage values reflect what the government stipulated, then it can be deduced that they have adhered to the government policies within the time of consideration. If this

TABLE 4.10: COMMERCIAL BANKS' SECTORAL ALLOCATION OF LOANS AND ADVANCES (₦ MILLION)

YEAR	AGRICULTURE	MANUFACTURING	REAL ESTATE & CON.	EXPORTS, MINING & QUARRYING	IMPORTS & DOMESTIC TRADE	SERVICES, PUBLIC UTILITIES, TRANSPORT & COMMUNICATIONS, CREDIT/FIN. INSTITUTIONS	OTHERS
1982	137.81	469.44	329.50	37.87	263.98	126.23	184.80
1983	133.48	446.87	316.12	26.16	216.50	118.50	199.20
1984	126.74	441.95	340.48	23.05	237.10	141.68	201.20
1985	156.74	409.60	378.10	34.80	300.87	176.92	154.62
1986	160.42	643.70	439.34	122.74	400.46	192.22	87.61
1987	270.82	745.44	426.14	166.39	438.43	208.83	268.59
1988	421.55	862.72	416.29	97.83	467.77	213.68	335.02

SOURCE: First Bank Annual Reports and Accounts: 1983-1988.

is not the case, possible reasons will be adduced for the differences in values. In the analysis, it needs be noted that the sectors are categorised into "preferred sector" - otherwise called the high priority sectors - comprising agriculture and manufacturing; and "other ranks" - otherwise called less preferred sectors - comprising all other sectors. The above table is, therefore, grouped into these two categorisations in order to have the table below (Table 4.11, p. 135).

With a glance at the table, it can be observed that the percentages allocations to the preferred sectors were always far lower than those of the other ranks, except in 1988. This shows that these preferred sectors were not actually preferred. The 1988 situation must have been due to the reflationary package policies and the controls imposed on the commercial banks by the monetary authorities through penalties and other means in order for the government to attain its goals of developing the productive sectors. It can be concluded that the banks have not actually adhered to the stated objective of giving priority to the agricultural and manufacturing sectors in their loans distributions. This might be due to the fact

TABLE 4.11: ALLOCATIONS OF LOANS AND ADVANCES TO THE PREFERRED SECTORS AND OTHER RANKS RESPECTIVELY (₦ MILLION)

YEAR	PREFERRED SECTORS (1)	OTHER RANKS (2)	TOTAL (3)	% OF 1:3	% OF 2:3
1982	607.25	2226.65	2833.9	21.43	78.57
1983	580.35	3103.13	5683.48	10.21	89.79
1984	568.69	4046.64	4615.33	12.32	87.68
1985	566.34	5178.08	5744.42	9.86	90.14
1986	804.12	6420.45	7224.57	11.13	88.87
1987	1016.26	7928.83	8945.09	11.36	88.64
1988	1284.27	1530.59	2814.86	45.62	54.38

SOURCE: Computed from the data in Table 4.10.

that the commercial banks do not easily realise their profits from these sectors in time if they lend to them; especially that their pay-back period is always longer than that of commerce, services and others.

We will now proceed to the analysis of the commercial banks' participation in the foreign exchange market (FEM).

TABLE 4.12: SFEM ANALYSIS

CENTRAL BANK OF NIGERIA
S U M M A R Y OF BIDS FOR A U C T I O N
NO. 6 OF 30/10/86

AMOUNT FOR BID $75 m ($86m)

	BANK			
	FIRST BANK FOR AFRICA	UNITED BANK	UNION BANK	IBWA
CODE NO.	FBL	UBA	UBN	IBWA
Bid Rate ₦	4.4999	4.2509	4.2999	3.9865
Bid Amount (US $)	3.75m	3.75m	3.75m	2.25m
Cumulative Total	15.00	66.30	53.55	82.30
Marginal Rate	3.8525	3.8525	3.8525	3.8525
Effective Rate	3.8719	3.8719	3.8719	3.8719
Buying Rate	3.8525	3.8525	3.8525	3.8525
Selling Rate	3.8913	3.8913	3.8913	3.8913
Amount Bought	14.45m	14.45m	14.45m	8.67m
Amount Sold	14.59m	14.59m	14.59m	8.76m
Gain	0.14m	0.14m	0.14m	0.09m
No. of Successful Bids				38
No. Partially Successful (Federal Savings Bank)				1
No. Unsuccessful				-
No. Disqualified				-
Total No. of Bids				41

** $11m was injected after the bidding exercise.

SOURCE: Business Concord, Tuesday, November 4, 1988, with calculated values.

NOTE: Banks' bidding started from Bid No. 6 of October 1986 (see Business Concord, Tuesday, November 4, 1988). For Bids 1-5, see Business Concord, Tuesday, October 14, 1986, p. 10; and Tuesday, October 28, 1986, p. 13.

From the foregoing, the amount of foreign exchange both bought and sold by each of the four banks selected for analysis, and their gain (amount sold less amount bought) are obtained as stated below.

The amount bought was obtained by multiplying the Bid Amount of each of the banks with the buying rate, while the amount sold was obtained by multiplying the Bid Amount of each of the banks with the selling rate. The difference between the Amount Sold and the Amount Bought is the gain.

With this approach, FIRST BANK gained ₦140,000 as well as United Bank and Union Bank during their participation in this foreign exchange market. IBWA gained ₦90,000 at this same time also.

This is much gain considering how much they spent to obtain this gain, and the number of times they will make this gain in a month, quarter, half of a year and in a year. This must have, therefore, interested the banks in the foreign exchange market deals.

Other tables will be constructed and analysed as follows. The same approach above of computation and analysis, will also be applied to the following:

TABLE 4.13: SFEM ANALYSIS: CENTRAL BANK OF NIGERIA SUMMARY OF FOREIGN EXCHANGE SALES FOR AUCTION NO. 7 OF NOVEMBER 6, 1986
BID $75 m

	BANK			
	FIRST BANK	UNITED BANK FOR AFRICA	UNION BANK	IBWA
CODE	FBN	UBA	UBN	IBWA
Bid Rate ₦	3.9891	3.9999	3.9999	3.9997
Bid Amount (US $)	3.75m	3.75m	3.75m	2.25m
Cumulative Total	57.50	40.25	36.30	42.50
Marginal Rate	3.6181	3.6000	3.6000	3.6000
Effective Rate	3.6181	3.6181	3.6181	3.6181
Buying Rate	3.6000	3.6000	3.6000	3.6000
Selling Rate	3.6362	3.6362	3.6362	3.6362
Amount Bought	13.5m	13.5m	13.5m	8.1m
Amount Sold	13.64m	13.64m	13.64m	8.18m
Gain	0.14m	0.14m	0.14m	0.08m

No. of Successful Bids	30
No. Partially Successful	-
No. Unsuccessful	-
No. Disqualified	10
Total No. of Bids	-

**Value: $69.25

SOURCE: Business Concord, Tuesday, November 11, 1986, p. 17.

The calculated values as shown in the table above reveal that FIRST BANK gained ₦140,000 at the end of the foreign exchange transaction of this bidding session. It was the same amount that was

gained by UBA and Union Bank respectively. IBWA gained ₦80,000. The table showing the transactions in the next bidding session can be displayed as below.

TABLE 4.14: SFEM ANALYSIS: CENTRAL BANK OF NIGERIA SUMMARY OF BIDS FOR AUCTION NO. 8 OF NOVEMBER 13, 1986, AMOUNT FOR BID: US $75 M

	B A N K			
	FIRST BANK	UNITED BANK FOR AFRICA	UNION BANK	IBWA
CODE NO.	FBN	UBA	UBN	IBWA
Bid Rate ₦	3.4999	3.5000	3.4999	3.48998
Bid Amount (US $)	3.75m	3.75m	3.75m	3.75m
Cumulative Total	62.40	66.40	69.90	74.40
Marginal Rate	3.4993	3.4993	3.4993	3.4993
Effective Rate	3.5169	3.5169	3.5169	3.5169
Buying Rate	3.4993	3.4993	3.4993	3.4993
Selling Rate	3.5345	3.5345	3.5345	3.5345
Amount Bought	13.12m	13.12m	13.12m	7.87m
Amount Sold	13.25m	13.25m	13.25m	7.95m
Gain	0.13m	0.13m	0.13m	0.08m
No. of Successful Bids				36
No. Partially Successful				-
No. Unsuccessful				-
No. Disqualified				2
Total No. of Bids				-

SOURCE: Business Concord, Tuesday, November 18, 1986, p. 15.

From the table above, FBN, UBA and UBN gained N130,000 respectively at the Bid No. 8 of the foreign exchange transaction of the SAP. IBWA gained N80,000 at the same transaction.

The three transactions above of, 30/10/86, 6/11/86, and 13/11/86 are the initial samples taken in 1986 for the analysis of the commercial banks transaction in the foreign exchange deals of that year. We will now proceed to tabulate and analyse the data of the 1987 year period. The representative samples are of the months of June and December 1987. The notion of choosing these months is that since they are the middle and the end of the year respectively, they can represent both the first-half and the second-half of that year respectively.

gained by UBA and Union Bank respectively. IBWA gained ₦80,000. The table showing the transactions in the next bidding session can be displayed as below.

TABLE 4.14: SFEM ANALYSIS: CENTRAL BANK OF NIGERIA SUMMARY OF BIDS FOR AUCTION NO. 6 OF NOVEMBER 13, 1986, AMOUNT FOR BID: US $75 M

	BANK			
	FIRST BANK	UNITED BANK FOR AFRICA	UNION BANK	IBWA
CODE NO.	FBN	UBA	UBN	IBWA
Bid Rate ₦	3.4999	3.5000	3.4999	3.48998
Bid Amount (US $)	3.75m	3.75m	3.75m	3.75m
Cumulative Total	62.40	66.40	69.90	74.40
Marginal Rate	3.4993	3.4993	3.4993	3.4993
Effective Rate	3.5169	3.5169	3.5169	3.5169
Buying Rate	3.4893	3.4993	3.4993	3.4993
Selling Rate	3.5345	3.5345	3.5345	3.5345
Amount Bought	13.12m	13.12m	13.12m	7.87m
Amount Sold	13.25m	13.25m	13.25m	7.95m
Gain	0.13m	0.13m	0.13m	0.08m
No. of Successful Bids				36
No. Partially Successful				-
No. Unsuccessful				-
No. Disqualified				2
Total No. of Bids				-

SOURCE: Business Concord, Tuesday, November 18, 1986, p. 15.

TABLE 4.15: SFEM TABLE: CENTRAL BANK OF NIGERIA SUMMARY OF BIDS FOR AUCTION NO. 29 OF 4/6/87; AMOUNT FOR BID: US $100m

	BANK			
	FIRST BANK	UNITED BANK FOR AFRICA	UNION BANK	IBWA
CODE NO.	008	021	020	009
Bid Rate ₦	4.6099	4.3001	4.3105	4.5010
Bid Amount (US $)	5.0000m	5.0000m	5.0000m	3.0000 m
Cumulative Total (₦)	8.0000	129.0000	112.0000	11.0000
Marginal Rate	4.3201	4.3201	4.3201	4.3201
Effective Rate	4.3637	4.3637	4.3637	4.3637
Buying Rate	4.3419	4.3419	4.3419	4.3419
Selling Rate	4.3856	4.3856	4.3856	4.3856
Amount Bought	21.71m	21.71m	21.71m	13.03m
Amount Sold	21.93m	21.93m	21.93m	13.61m
Gain	0.22m	0.22m	0.22m	0.13m

No. of Successful Bids	32
No. Partially Successful	10
No. Unsuccessful	5
No. Disqualified	1
Total No. of Bids	48

SOURCE: Business Concord, Tuesday, June 9, 1987, p. 10.

The calculated values show that FBN, UBA and UBN gained ₦220,000 respectively in this particular bidding exercise. IBWA gained ₦130,000 in the same bidding. The values reveal that the amount gained by the banks in mid-1987 far exceeds the one gained at the end-December, 1986. We shall now proceed to the next table.

TABLE 4.16: SFEM TABLE: CENTRAL BANK OF NIGERIA SUMMARY OF BIDS FOR AUCTION NO. 30 OF 18/6/87, AMOUNT FOR BID US $70.00M

	BANK			
	FBN	UBA	UBN	IBWA
Code No.	-	-	-	-
Bid Rate ₦	4.0000	4.0000	4.4990	4.0110
Bid Amount (US $)	3.5m	3.5m	3.5m	2.1m
Cumulative Total ($m)	41.81m	47.41m	7.7m	29.91m
Marginal Rate	3.7007	3.7007	3.7007	3.7007
Effective Rate	3.7175	3.7175	3.7175	3.7175
Buying Rate	3.7188	3.7188	3.7188	3.7188
Selling Rate	3.7562	3.7562	3.7562	3.7562
Amount Bought	13.02m	13.02m	13.02m	7.81m
Amount Sold	13.15m	13.15m	13.15m	7.89m
Gain	0.13m	0.13m	0.13m	0.08m

No. of Successful Bids	30
No. Partially Successful	-
No. Unsuccessful	-
No. Disqualified	-
Total No. of Bids	30

SOURCE: Business Concord, June 23, 1987, p. 6.

From the table above, the amount gained in this particular transaction by FBN, UBA and UBN was ₦130,000 respectively. This shows that there was a drop in transaction, especially due to the reduction in Bid amount and Bid rate at this particular transaction. This drop in gain was also true of IBWA. It received ₦80,000 in this transaction, as

against ₦130,000 it received in the immediate previous transaction.

We will now proceed to analyse the December 1987 data. We will observe the variations in the gains to the banks alongside the analysis.

TABLE 4.17: FEM TABLE: CENTRAL BANK OF NIGERIA: SUMMARY OF BIDS FOR AUCTION NO. 42 OF 3/12/87: AMOUNT FOR BID: US $1000

	BANK			
	FBN	UBA	UBN	IBWA
Code No.	008	021	020	009
Bid Rate (₦)	4.1679	4.1506	4.1759	4.2105
Bid Amount (US Dollar)	5.0000m	5.0000m	5.0000m	3.0000m
Cumulative Total ($ m)	89.4600	99.2100	80.9600	23.9100
Marginal Rate	4.1497	4.1497	4.1497	4.1497
Effective Rate	4.1916	4.1916	4.1916	4.1916
Buying Rate	4.1707	4.1707	4.1707	4.1707
Selling Rate	4.2126	4.2126	4.2126	4.2126
Amount Bought	20.85m	20.85m	20.85m	12.51m
Amount Sold	21.06m	21.06m	21.06m	12.64m
Gain	0.21m	0.21m	0.21m	0.13m

No. of Successful Bids	40
No. Partially Successful	1
No. Unsuccessful	10
No. Disqualified	-
Total No. of Bids	-

SOURCE: Business Concord, Tuesday, December 8, 1987, p. 6.

At this time of transaction, there had already been the merging of the first-tier (government fixed rate) and the second-tier (market determined rate), hence the FEM TABLE as opposed to the former SFEM TABLE.

At this first Bid in December 1987, the gains to the commercial banks had increased far more than the June 18, 1987 experience. FIRST BANK, UBA and Union Bank now gained ₦210,000 respectively while IBWA now gained ₦130,000.

The last phase of transaction in 1987, will be shown as below.

TABLE 4.18: FEM TABLE: CENTRAL BANK OF NIGERIA: SUMMARY OF BIDS FOR AUCTION NO. 43 OF 17/12/87: AMOUNT OF BID: US $100 M

	BANK			
	FBN	UBA	UBN	IBWA
Code No.	008	021	020	009
Bid Rate (N)	4.1565	4.1496	4.1599	4.1596
Bid Amount (US Dollar)	5.0000m	5.0000m	5.0000m	3.0000m
Cumulative Total	40.5750	59.3250	32.5750	35.5750
Marginal Rate	4.0999	4.0999	4.0999	4.0999
Effective Rate	4.1413	4.1413	4.1413	4.1413
Buying Rate	4.1206	4.1206	4.1206	4.1206
Selling Rate	4.1620	4.1620	4.1620	4.1620
Amount Bought	20.60m	20.60m	20.60m	12.36m
Amount Sold	20.81m	20.81m	20.81m	12.49m
Gain	0.21m	0.21m	0.21m	0.13m

No. of Successful Bids	43
No. Partially Successful	-
No. Unsuccessful	7
No. Disqualified	-
Total No. of Bids	-

SOURCES: Business Concord, Tuesday, December 22, 1987, p. 6.

The end of the year gains to the banks were just as high as the bid before it in that the FBN, UBA and UBN gained ₦210,000 respectively, while IBWA gained ₦130,000. From the above, it is observed that there was a reduction in the foreign exchange transaction of the commercial banks most probably due to the government regulatory policy at that time.

We will now proceed to analyse the 1988 data series. June 1988 (where there were two bids) and November 1988 (with one bid available) are to be used in the analysis. It will be compared and contrasted with those of the previous years.

TABLE 4.19: FEM TABLE; CENTRAL BANK OF NIGERIA: SUMMARY OF BIDS FOR AUCTION OF 9/6/88

	BANK			
	FBN	UBA	UBN	IBWA
Code No.	008	021	020	009
Bid Rate (₦)	4.0447	4.0287	4.0267	4.0369
Demand ($)	6.0000m	6.0000m	4.0000m	3.6000m
Cumulative Total ($)	19.5000	112.5000	142.2000	51.0000
Received ($m)	6.0000	2.9350	n. a.	3.6000

SOURCE: Business Concord, Tuesday, June 14, 1988, p. 6.

Since the buying and selling rates are not available, it can be concluded that with the observation in the amount received by each of the banks, and also realising that the naira exchange

rate has gone up at this time, than previously, then much gains must have been made by the commercial banks.

We will now compute and analyse the second and last transactions of the month of June 1988.

TABLE 4.20: FEM TABLE: CENTRAL BANK OF NIGERIA: SUMMARY OF BIDS FOR AUCTION NO. 56 OF 23/6/88: AMOUNT FOR BID US$12M.

	BANK			
	FBN	UBA	UBN	IBWA
Code No.	008	021	020	009
Bid Rate (₦)	4.2899	4.3000	4.2901	4.2701
Bid Amount (US Dollar)	6.0000m	6.0000m	6.0000m	3.6000m
Cumulative Total	69.3000	32.7000	61.2000	101.7000
Marginal Rate	4.2701	4.2701	4.2701	4.2701
Effective Rate	4.3132	4.3132	4.3132	4.3132
Buying Rate	4.2917	4.2917	4.2917	4.2917
Selling Rate	4.3348	4.3348	4.3348	4.3348
Amount Bought	25.75m	25.75m	25.75m	15.45m
Amount Sold	26.01m	26.01m	26.01m	15.61m
Gain	0.26m	0.26m	0.26m	0.16m
No. of Successful Bids				34
No. Unsuccessful				9
Total No. of Bids				52

SOURCE: Business Concord, Tuesday, June 28, 1988, p. 11.

The calculated values in the table above reveal that there were much gains to the commercial banks in their foreign exchange transactions at the

end of 1988. At this period, FBN, UBA and UBN gained N260,000 respectively, while IBWA gained N160,000.

We will now proceed to analyse the single available November 1988 bids as the final transactions to be analysed in this section of foreign exchange transactions analyses.

TABLE 4.21: FEM TABLE: CENTRAL BANK OF NIGERIA: FEM BIDDING SESSION RESULT, BID NO. 66 OF NOVEMBER 10, 1988: AMOUNT ON SALE (MILLION) $100.0000 MILLION.

	B A N K S			
	FBN	UBA	UBN	IBWA
Code No.	008	021	n.a	009
Bid Rate ₦	4.9201	4.9196	4.9500	4.9500
Bid Amount (US $)	4.6000m	4.6000m	n.a	2.6000m
Cumulative Total	60.8500	70.7500	n.a	2.6000
Marginal Rate	4.9070	4.9070	4.9070	4.9070
Effective Rate	4.9594	4.9594	4.9594	4.9594
Buying Rate	4.9306	4.9306	4.9306	4.9306
Selling Rate	4.9842	4.9842	4.9842	4.9342
Amount Bought	22.68m	22.68m	-	12.82m
Amount Sold	22.93m	22.93m	-	12.96m
Gain	0.25m	0.25m	-	0.14m

No. of Successful Bids	53
No. Partially Successful	0
No. Unsuccessful	0
No. Disqualified	-
Total No. of Bids	-

SOURCE: Business Concord, Tuesday, Nov. 15, 1988, p. 14.

It needs be noted that the data of Union Bank were not available. This must have been due to either the bank did not participate in this very bidding session, or that it must have been disqualified from bidding during this particular session. The gains made by FIRST BANK and UBA dropped by ₦10,000 respectively, when compared with the last computed gain of 23/6/88. This must have been due to the decrease in the Bid Amount allocated to them as compared with that of the June 23, 1988. IBWA also had a decline in gain to the tune of ₦20,000, as compared with what it gained on June 23, 1988.

Having computed and analysed the data on the commercial banks participation in the foreign exchange market, some conclusions can be drawn from their transactions as follow. Largely, the banks gained very much from their involvement in the foreign exchange market. Their gain at a time was dependent on the "BID AMOUNT" that was available to them, and also on the difference between the selling and the buying rate. One will, therefore, expect that the banks will want to continue in this foreign exchange deals.

Having noted the above, we will proceed now to determine the share of the foreign exchange earnings to the gross earnings of the commercial banks. The

table below with the given and calculated data in it will be analysed to show whether or not the foreign exchange earnings have contributed much to the gross earnings of the commercial banks. The method of analysis will involve taking the percentage value of the foreign exchange earnings over the gross earnings at a time. If the calculated percentage value is low, it will be concluded that the banks can do without the foreign exchange transactions; but if otherwise, the opposite conclusion will be made.

TABLE 4.22: COMMERCIAL BANKS' FOREIGN EXCHANGE EARNINGS (₦'000) (1987-MARCH 1988)

BANKS	FOREIGN EXCHANGE EARNINGS (1)	GROSS EARNINGS (2)	% OF 1:2
First Bank	72,286	692,723	10.44
United Bank for Africa	72,286	569,172	12.70
Union Bank	104,332	611,276	17.07
IBWA	55,434	288,008	19.25

SOURCE: The Nigerian Economist, August 30-September 12, 1988, p. 29.

From the values above, it can be observed that the percentage which foreign exchange earnings contribute to the commercial banks gross earnings is relatively significant. One will, therefore, expect that they will desire the transactions to continue.

With all the foregoing analyses in Chapter 4, reasonable recommendations will be made in the next chapter. These recommendations will be for both the government, on the one hand, and the commercial banks, on the other hand. The recommendations to the government will suggest how the government should formulate policies on the commercial banks in Nigeria in order for it to attain its stated objectives. The commercial banks will, subsequently, be advised on how to handle their undertakings in the Nigerian economy in order to have a better yield in their economic activities within the Nigerian economy.

CHAPTER 5

SUMMARY AND RECOMMENDATIONS

5.1 SUMMARY OF THE STUDY

In this work, investigation was made into the effects of SAP on commercial banks' activities in Nigeria. The policies of SAP were expected to solve the existing economic problems in Nigeria before its introduction. These were the economic problems that existed in the early 1980s.

Controversies have arisen in the areas of commercial banking activities in Nigeria, the entire Nigerian economy, and the Third World countries at large, in the course of the adoption of SAP at these various levels. These controversies still stand unresolved today.

The broad types of economic theories under which SAP was couched were noted in this work. These are the Monetarist, Structuralist, and the Marxist or Underdevelopment Theories. These theories enabled us to know the fundemantal principles that are involved in the policy formulation under SAP. It was realised that many Third World countries are undergoing or have undergone or are yet to undergo

this same structural adjustment that is being commonly talked about in Nigeria today.

Since the study focussed mainly on the commercial banking sector, the monetary, external sector, as well as the foreign exchange policies, among others in Nigeria, since the early 80s, were stated. They were meant for analysing what effects they played in the commercial banks' activities within the period of analysis. The analysis involved comparing the pre-SAP period to the SAP era, and possible inferences drawn.

The data on commercial banks performance indicators were the information used for the analysis. The foreign exchange transactions of commercial banks during SAP were also obtained from secondary source and analysed accordingly.

We had the following findings in the course of this study. On the part of the SAP itself, there are some beneficiaries who will not want the programme to end but, rather continue (Ayagi, 1988). To others, it is a disaster that ever occurred to the human race (Tovo, 1989).

On the part of the commercial banks in Nigeria, the following findings and conclusions can be deduced from the analysis made on their performance

indicators. Though the various banks operate in the same economic conditions, what affects one bank's activities might differ from what affects the other bank's activities. For example, while there was a continuous increase in the marginal values of FIRST BANK's deposits in 1980 to 1983, there was both increasing and declining marginal values in UBA's total deposits at the same period.

While it was deduced, based on the total deposits analysis, that the Austerity Measures within the 1980 to 1983 period did not hamper the activities of the FIRST BANK, this was not the case with UBA within the given period of time. UBA did find it difficult to cope with the new policy framework during Austerity Measures, hence their position of total deposits. In any case, it was generally observed that the withdrawal of the government's, Ministries', and parastatals' accounts from the commercial banks adversely affected the total deposits, marginal values of the total deposits, and the growth rates of the commercial banks' total deposits in the 1989 year period. It is clear from the findings above, that the various commercial banks do not have the same experience within the context of certain policy framework. It is also true that they do have the same experience in some other respects. These two situations are dependent on their adjustment

capacities to the prevailing economic conditions at the time.

It was also observed from the analysis that growth rates of some of the commercial banks' performance indicators were lower (taking for example, their total deposits growth rates) during the SAP period than in the pre-SAP period. This indicates that SAP policies have not actually brought high growth and development in this aspect of commercial banking activities. This will necessarily result in low level contribution of the commercial banks to the growth and development objective of the entire Nigerian economy. We know that the government intended improving the economic growth and development levels during SAP than they were before SAP. Since the growth rates were still more in the pre-SAP era than in the SAP-era, it can be argued that the SAP policies have not eventually aided the realisation of the intended SAP objectives of higher Nigerian economic growth and development. It can, therefore, be concluded that the problems that SAP intended to solve still remain unsolved. They have even got worse now than they were in the pre-SAP era.

The SAP stringent measures against the banks have adversely affected some of the banks' capital base, while they have not altered those of some other banks. This can be as a result of some banks developing some new strategies to increase their capital base as opposed to the tendency of the government to limit their excessive liquid state, while other banks must not have discovered the way into the capital earning ventures. Or, again, the economic strength of these latter category of banks is incapable of taking them to such levels or to the adoption of such strategies.

The policies on loans and advances were also to some extent adhered to by the commercial banks; but the policy on lending more to the high priority sectors still remains a problem in that the banks do not see that policy as a way to realising their profit-making objective. The lending rate, on the other hand, has subsequently gone up over the years; and this has eliminated some potential investors who do not have the ability to borrow for investment undertakings. This situation exists in form of these investors' being unable to afford the interest rates on the capital amount they intend to borrow.

This has resulted in low level of productivity, higher prices of commodities, hence higher cost of living and lower standard of living during the SAP era than in the pre-SAP era. Also, though the interest rate on savings deposits has been on the increase over the years, the saving habit of Liberians still remains pertinent in that the inflation rate is higher than the saving rate. This lowers the value of the money saved. This must have, therefore, contributed to the low level of the growth of deposits during the SAP era than in the pre-SAP era.

On the part of foreign exchange transactions, the commercial banks have exploited it as an avenue of enriching themselves. The earnings they receive from it has got a significant relative contribution to their gross earnings. This has been encouraging them to persist in the continuation of the IFEM.

Their staff strength has also increased during the SAP period than in the pre-SAP period. The employment of highly skilled manpower is increasing in the banking sector. This is contributing enormously to their receiving expertise advice that enhances the managements decision making in their business activities, hence business prospects. The

employment undertaking has gone a long way to reduce the chronic problem of unemployment in Nigeria today.

There has also been an increase in the total number of branches of the various commercial banks. This will open more financial opportunities to the commercial banks, as well as enhance the dwellers in the areas where these new sets-up exist to increase their saving habit.

5.2 RECOMMENDATIONS

Based on the above findings, the following recommendations can be made. We do hope that these will go a long way to enhance resolving the pending problems that exist between the monetary authorities and the banks (commercial and merchant) in the Nigerian economy.

In these recommendations, it is recognised that the government intends maintaining a better economic outlook for Nigeria, while the banks desire to satisfy their motives (like profit-making) for commercial undertakings. As such, the policies that will enhance the government to fulfil its function,

and those that will encourage the banks to attain to their motives will be recommended.

1. The first recommendation goes to the government. We know that management is a strong entity that gives rise to the level of performance of an economy or an establishment. Since a lot of the economic depression in Nigeria has been p a r t l y blamed on mismanagement of the nation's resources, we strongly recommend that the individuals that pull the nation's governmental wheel should cultivate the spirit of right usage of the nation's resources.

2. A second recommendation for the government is that the already started diversification strategy in the Nigerian economy should be intensified. This is very important, because if every sector of the Nigerian economy is highly developed, there will be no need to formulate policies against one particular sector much more than the others in order to satisfy the broad objectives of the government. This means that when all the sectors are highly developed, every sector will have liberty to participate freely in its contribution to the national economy, and also in its desired economic activities.

The next series of recommendations are for the banks (and the commercial banks in particular).

3. Banks should invest in production activities, where they can realise their profits. In the course of running their production activities, there will be opportunities given to some individuals to serve in such production undertakings. This, invariably, will give rise to employment opportunities, and thus, reducing the problem of unemployment in Nigeria.

4. Another recommendation is that the banks should educate the rural people properly on the advantages of putting money into the banks. They should also show good "bankers-customers relationship" to them. This will enhance increase in the deposits with the commercial banks. It will also help the rural dwellers to gain by their earning interests on their deposits. This exercise will culminate in helping the Nigerian economy to move towards a monetised economy.

5. Closely related to this is that the management of banks should build more banks in the rural areas in order to exploit the idle money balances that are with these rural dwellers for

their business transactions. This will encourage investment by inducing potential investors to invest. This means that they can now easily go for borrowing from these banks since they now have more deposits. It will ultimately enhance further profit making by the banks.

6. They should also include "canvassing" as a method of realising more substantial deposits for their business transactions. It is clear from marketing method that the level of the power of persuasion of the sellers determine their level of sales. So, for the banks to win more customers, they should canvass, and convincingly tell their customers that their services are very useful to them.

7. On the issue of the foreign exchange deals, since the banks are already profiting from them, it is advisable that the transactions continue. In any case, the banks should lower their selling rates in order to accommodate their customers to conveniently buy from them. This does not mean that they should lower it to the level of break-even point nor making loss.

In the overall interest of the economy, we highly recommend to the government and the commercial banks to seriously consider the recommendations given in this study.

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