ENHANCING LONG-TERM SAVINGS CULTURE IN NIGERIA THROUGH THE NATIONAL SAVINGS CERTIFICATE

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INTRODUCTION

In Nigeria's economic history, the strides of the last five years, which have been internationally acclaimed, are unprecedented. The many reforms that have engendered the current success have largely included those in the financial sector, particularly, the positive policy shifts in the domestic money market as first steps towards a more robust and enduring facelift for the sector. Part of the expectations are that the improved enabling environment from the reforms would continue to make more investment funds readily available, as well as attract droves of foreign direct investment. The challenges that remain include the need to deliver on the remaining objectives, as well as build on and sustain the current achievements.

In this regard, an area of concern, which requires continued close consideration of the Nigerian policymakers is how to attain the level of long-term savings that would adequately service investment needs. More specifically, the type of investments that would drive the current economic reform agenda as enunciated in the National Economic Empowerment and Development Strategy (NEEDS) programme. But let it be known at the onset, that it is not for lack of good policies that past attempts by the monetary authorities have failed to correct the imbalance between the quantum and composition of available national savings and the demand for investment funds. Rather, many factors, including cultural and other social values have been major constraints. However, the recent proposal to introduce a National Savings Certificate could be seen as a welcome solution to this lingering problem.

Nonetheless, it is imperative that, within the current economic reform agenda, lending to long-term investments must attain a higher proportion of Banks' loan portfolios, if the on-going consolidation programme for banks and other similar reforms in the financial sector were to achieve the desired objectives. However, it would be inappropriate to ignore the concerns being expressed that small savers and investors might not be adequately catered for in the current consolidation arrangement, going forward. Similarly, the ongoing privatization programme can only be meaningful, equitable and supportive of the poverty reduction projects under the millennium development goals (the MDGs), if small investors are considered in the ownership arrangement for the privatized institutions. In addition, the drive for domestic long-term savings that will enhance long-term investment should be appropriately and timely undertaken.

It is within these perspectives that this paper will consider the operations of a National Savings Certificate as a panacea to the dearth of long-term savings for long-term investments, to justify the reforms and achieve accelerated economic growth. In this regard, the rest of this paper is divided into six sections. Section 1 considers the theoretical framework, while trend analysis of savings in Nigeria will be the focus of Section II. In order to appropriately focus modalities for the operation of the proposed National Savings Certificate and appraise its effectiveness, the features of the instrument will be x-rayed in Section III, using the lessons of experience of India and the United Kingdom. The challenges that will need to be tackled in addressing the problem of long-term investment will be highlighted in Section IV. The Policy Recommendations for operating the Nigerian scheme will be analysed in Section V, while the Conclusions in Section VI will draw largely from the analyses in Sections II and IV.

SECTION I
LITERATURE REVIEW-LONG-TERM SAVINGS IS AN INDISPENSABLE OIL TO THE ENGINE OF ECONOMIC GROWTH

a. What is saving and why save?
Saving means a surplus of production over consumption, which can be achieved in two ways: either by reducing consumption or by increasing production. The definition of savings as a reduction in consumption is aptly captured in the

popular parlance that a farmer who consumes the seedlings meant for the next planting season cannot expect to reap a bumper harvest the next time around. As such, in a real sense, the notion of saving has preceded modern man; entailing the logical division of available food over a specific period, in order to create a store of surplus for rainy days.

The motive for saving which has increasingly been influenced by religious and ethical teachings remain no longer logical when exposed to the cultural renaissance of rational, economic and societal development and when experiencing an economic expansion process. The logic of the new development trends affects the behaviour of the individual, and the consistency and security of traditional moral code are no longer valid. Saving decision has thus become a reaction of an individual's objectives, a desire of possessions in life. A saver possesses a variety of driving forces from all sides, which determine his behaviour. The saving process is in that context, an outcome of both the economic attitude, as well as his socio-cultural development. As a result, taken, a sustainable theoretical description of development of an absolute theory of the saving problem is, therefore, impossible.

b. Cultural influence on Savings - In old Greek literature, saving appears to be an ethical feeling and someone's duty towards oneself, friends and state. At the micro level, this saving behaviour fulfilled the need for security; at the macro level, people were encouraged to allow others to use the stored funds for a specific price (interest). Similarly, the appropriateness of storing and saving money was the focus of theological thought, as enunciated in most religious beliefs. Historical observation reveals that saving has always been a complicated process and saving motives have always remained under the influence of general standards in a society. The dogmatic history also shows a complete picture of the gradual and consistent building of motives and driving forces of saving, such that an idea is given of the respective historical situations and modifications in the ideology of the savers with the development of culture in different eras.

MANTEUFFEL (1900) distinguishes the saving motives from saving conditions. To him, economic behaviour and an expectation of profit count as saving motives, while the inborn instinct to save, upbringing and training to save from childhood constitute the saving conditions. In other words, motives represent the inner driving forces, while conditions represent the outer ones. MARSHALL (1905) also holds similar views and sees love in and affiliation with the family as a major inner drive which arouses a sense of development, as the expectation and progressiveness to come forward in life to ensure a better future to the family. The influence of culture is specially emphasized because he views the sense of saving as developing along with development of culture.

c. The Role of Savings in the Modern Economy - Over time, ethics and culture in savings have kept losing their significance with respect to society and economy, major attention is now diverted to economic factors. In the modern world, savings are as important to the corporate world and the general government, as they are to households, because savings provide independence and allow the saver to plan for the future, as well as secure investment for enhanced production and growth. In most economies, household savings constitute a substantial proportion of aggregate national savings and they play two key roles. First, they offer potential benefits to savers, such as security, if things go wrong and comfort in old age, as well as independence and opportunity throughout savers' lives. Secondly, household savings are an important source of capital to fund investment and growth in the economy.

d. The Savings Market - The savings market can be split into three broad segments-short and long-term saving markets. Short-term savings are intended to provide the saver with a readily accessible reserve of funds to cope with any household emergency. In that sense, for economic development considerations, real savings are long-term in nature, or at the least, medium-term in nature the money saved for a new car or a holiday would not be savings; that is short-term money designed to see the saver over a crisis or emergency. Savings are therefore designed to reflect the growth in the economy, preserve wealth against inflation and ensure that the saver can be independent. The need for ease of access to short-term savings means they are typically held in assets such as cash and deposit accounts. Long-term savings, in contrast, are often invested in assets that are relatively illiquid and relatively risky in that the saver may not get back the full value of whatever was invested, initially. These include savings in pension schemes, government bonds and stocks, and investment in endowment policies such as life insurance and mortgages. In between these sets of instruments are investments in savings that are somewhat of medium term tenors such as, corporate equities (company shares), savings with unit trusts and commercial papers.

The initial objective of long-term

savings is usually to enable the saver to accumulate a capital sum. The ultimate aim may be to use this capital sum to fund specific spending, such as paying off a mortgage for a house, or alternatively, to boost living standards by using the lump sum to provide an income, often by saving within a pension plan. Pension savings, either via a personal pension or via an occupational pension, are thus an important part of the long-term savings market.

e. Long-term Savings and Economic Growth - What relationship? - For rapid and meaningful economic development there is more to savings beyond maintaining an adequate level. It goes to the more important issue of the tenure of the savings; whether it is durable enough to accommodate the pattern of investment that will ensure stable employment of economic resources and withstand the usual vagaries of economic cycles. A simple illustration to drive this point home is to compare the tenure and returns on economic trees or cash crops with the tenure of and returns on common food crops. The rule of long-term savings and wealth creation are that, maturity of the savings demands time (waiting), but attracts compound interest, while the saver needs to understand growth and income and that nothing in life is risk-free.

f. Impact of savings on economic growth through the Multiplier - To put this in purely economic terms, a change in the amount of income or level of employment is, ceteris paribus, a function of the change in the amount or level of investment. This is the theoretical framework of the general principle for explaining the quantitative relationship between an increment of net investment and the associated incremental aggregate income, 1/s called the multiplier. In an equilibrium model where there are no lags in consumption or output, the Keynesian linear relationship indicates that the flow conditions of the product market equate planned investment and savings. In other words,

$Y = Z = C + I = C(Y) + I$; where
Y = National Income;
Z= National Expenditure;
C=consumption; and
I = Investment

This same identity makes Investment equal to Savings, i.e. $I = S$

The Linear Multiplier indicates that if the marginal propensity to save is a constant, s ($0<s<1$), then the equilibrium level of income Y is a multiple ($1/s > 1$) of autonomous expenditure; where
$Y = C + I$;
$C = C(Y)$ and $S = Y - C(Y)$ for the consumption and saving functions.
They are equivalent to the equality of planned investment and saving; $I = S$.
From these we obtain the equilibrium condition for income Y C (Y) = I.

In the linear consumption function, $C = C° + cY$, where the marginal propensity to consume is a constant c at all income levels ($0<s<1$);
therefore: $Y = C° - cY = I°$;

$$Y = \frac{C° + I°}{1 - c} = \frac{C° + I°}{s}$$

(where s = 1 c, 0 < s < 1)

The constant C° of the consumption function, i.e that part, which is autonomous and not dependent on income, simply serves as an addition to the given autonomous investment in determining Y. Hence, autonomous consumption expenditure C° can be added to autonomous investment expenditure I° to give total autonomous expenditure: $A = C° + I°$
In this model A is given, and the consumption and saving function can be rewritten thus: $C = cY$ and $S = sY$ where s = 1 c
The equilibrium level of income follows Y = A where $s = 1-c$ which produces the multiplier result that:

If the marginal propensity to save is a constant s ($0 < s < 1$), then the equilibrium level of income is a multiple ($1/s > 1$) of autonomous expenditure A, i.e. all forms of autonomous expenditure on consumption and investment get multiplied up into income.

g. Alternative Theory of Savings - A Study conducted by some economic theorists including Martin Kane Jensen of Brown University, tried to highlight the links theoretically between savings and growth and assess them empirically. The study was a follow-up to a certain *wealth evolution equation (WEE) theory in which the question, does savings cause growth (or the opposite)?*, was posed. The question is, a classical one dating back at least to the days of Keynes. This may be interpreted as evidence of causality running from the growth rate to the savings rate. However, the study submitted that it is far from clear how the savings side could enter in a conventional growth regression.

The study agrees that any growth model must begin by adopting a savings theory if it is to yield definite predictions as in the Solow model, which implies the inclusion of the savings rate as a right-hand side variable, and the correlation between income level and savings rate is found to be significantly positive. The Study posited that the savings rate may say much or say nothing about future prospects for economic growth. The easiest way to appreciate this is to note that the growth factor of a closed economy equals the savings-capital ratio. If the savings rate decreases what happens to the growth rate? The answer is clearly that this depends on the capital-output ratio. But the capital-output ratio is intimately tied to savings behaviour since capital is wealth and wealth is the stock which savings flows into. In this way wealth, savings, and income together determine the outcome.

Their submission is also rested on the fact that, most, if not all macroeconomic theories of savings are long-run theories, which are likely to be upset by short-run (temporary) changes in, for example, labour income. Decline in savings rate has received enormous attention, simply because basic book-keeping combined with the fact that the great majority of domestic investment is financed by domestic savings (Taylor 1996), suggests that without savings there cannot be growth. Decreases in savings rates need not lead to lower wealth accumulation. However, the Study submitted that it is the latter which ultimately matters for long-run growth.

Yet, the link between savings rates and growth performance is not as simple as one may be led to believe. Carroll and Weil (1994) directly address the question of Granger causality. They find that growth Granger-causes savings, which means that causality cannot run in one direction from savings to growth (but it does not mean that causality runs from growth to savings). Levine and Renelt (1992) single out a positive relationship between the investment share in GDP and the growth rate as by far the most robust finding of cross-country regressions.

Furthermore, the study examines the effect of capital taxes on economic growth, and submitted that there is no significant negative correlation (at -0.10) between capital taxes and growth of savings. This is because the savings rate, however, measured is not an accurate measure of thrift; and stands in no simple relationship to the rate of accumulation.

SECTION II
THE SAVINGS CULTURE IN NIGERIA: TREND ANALYSIS

The availability of long-term investible funds will, ceteris paribus, depend on the availability of long-term savings. In other words, the availability of long-term investment funds in an economy can only take a cue from the centre of concentration of the tenure of savings in the financial market, since it would be ill-advised to apply short-term funds to finance long-term investments. This error was the bane of the distress conditions of finance houses, insurance outfits and some deposit money banks in the early 90s in Nigeria. An economy that is awash with short-term savings, but low on the long-term tenor, may not expect accelerated investment that should catalyse real gr owth.

Dearth of Savings: A global phenomenon - The dearth of savings had always been of grave concern to developed countries, as it has always been to developing ones. For instance, Great Britain and US displayed average net savings rates well below 10% since the beginning of the eighties. However, countries such as France, Germany, Sweden and Denmark have saved between 15 and 20% of GDP in the same period, while Norway and Japan are above 25% on average. The savings ratio defined as household savings as a percentage of gross household disposable income in the UK remained below 8.9% average, and there are particular concerns about the flow of savings into pension funds.

In Nigeria, the seriousness of the problem of low long-term savings may not have been greatly felt because of some peculiar environmental and cultural reasons. For most parts, the average Nigerian investor operates at the short-end of the business coupled with the fact that the enterprise is small, or at best medium-scale in size. Consequently, the money market has equally developed along the lines of the priority needs of the borrowers, while the economy is the worst for it. For lack of other avenues, the small and medium-scale Nigerian entrepreneur starts a business by borrowing from friends or relations, or taking credit at impossible interest rates from local thrift and saving societies, or the traditional daily saving arrangements, called by different names in different cultures.

Nonetheless, this is not to allude that the monetary authorities have done little to address the problem of savings, as many policy reforms had been introduced in the past, especially in the money market. Many factors, including failure to diversify the country's economic base, as well as cultural hindrances and lack of adequate exposure to modern business techniques have contributed substantially to the ineffectiveness of past reforms. On the other hand, vast sums of deposits have been lying idle for many years, especially public-owned insurance and mortgage institutions, begging for utilization.

Analysis of Savings Trend in Nigeria

In Tables 1 & 2, out of annual average savings of N197.2 billion for the ten year period, 1992-2001, long-term savings accounted for barely 10%, while short-term savings was about 56%, although medium-term saving did not perform poorly at 34%. However, the trend was not even in all the years, as the bulk of the figures were concentrated in the last four years, especially for long-tem savings which was as low as 0.4% and 0.3% for 1992 and 1993, respectively.

Total savings as a percentage of Gross Domestic Product (GDP) was very low at annual average of about 8% (the ratio was worse between 1995 and 1997), but trended upward as a percentage of Foreign Direct Investment (FDI) from 179% to 574%. The reason for the latter, was more for the declining rate of FDI inflow during the period than because the rate of savings was falling (see Table 3).

In terms of credit to the economy, the banking sector has progressively been lending higher proportion of total credit to the private sector, about 22% in 1993 to close to 98% in 2001, and as a ratio of GDP, the increase to the sector has been substantial such that it doubled from 8% in 1992 to about 16% in 2001 (see Table 4). However, the maturity structure of loans as revealed in Table 5 supports the earlier submission about the short-tenor of the investment business done by banks in Nigeria. Credits on call accounted for over 52% of total, while other short-term loans of up to one year accounted for 31%, with the balance of 17% for loans and credits of maturity of 3years and above.

Interest rate trends for deposits and loans and advances - Anything that hampers the smooth working of the savings market will have implications for the cost of capital to industry and commerce. It is therefore little surprise that the cost of capital in Nigeria has always been high and on the upward trend. In Tables 6 and 7, movement in the weighted average interest rates for deposits of up to 1year tenor and regular savings in the commercial banks (of between 9 and 13%) lagged behind the Central Bank's Treasury Bills rates of between 12% and 17% between 1998 and 2003. The implication of this state of affairs is that the deposit money banks could still be in business without much sweat of taking the usual risks that attend long-term investment by merely exploiting the premium available in the TB rates and the pittance, which they paid on short-term deposits.

In contrast, the weighted average lending rates were as high as 36% and 30%, respectively in 1993 and 1992, as against the deposit rates of about 24% and 21%, indicating a gap of 12 and 9 percentage points, respectively, or premia of 33% and 30% for those years. It should be noted, however, that those were the only years that deposit rates went as high, and those years witnessed the emergence of upfront interest payments of as high as 60% paid for deposits in finance houses. This could not be sustained, and it led to the crash of that segment of the financial sector and the distress of some banks.

SECTION III
OPERATING A NATIONAL SAVINGS CERTIFICATE SCHEME TO PROMOTE LONG-TERM INVESTMENT: LESSONS OF EXPERIENCE OF SOME COUNTRIES

It is widely acknowledged that lack of consumer confidence in parts of the financial services industry, has been deterring many households from saving as much as they might otherwise choose to. This deep-seated distrust of the financial services industry has manifested more in the banking sector, resulting in global bank failures in recent times, with dire and significant adverse long-term consequences, not just for savers and financial services industry, but also for the wider economy. More than that, in the other segments of the industry, repeated mistakes, misunderstandings, and misrepresentations in recent years about the risk attached to various savings products have severely damaged consumer confidence in the long-term savings industry. Coupled with that, is the failure by some firms to package their products appropriately, offer excellent service by treating their customers properly. Many of the factors that are eroding public trust in banks and long-term savings generally are similar to those that are undermining confidence of Nigerian workers in the recently introduced pension savings scheme for the Nigerian Civil Service.

Under this circumstance, the intervention of government would be required naturally to restore confidence and bridge the savings gap, much in the same fashion of government traditional intervention in similar economic disequilibrium conditions. Globally, the intervention has come by way of the introduction of various savings instruments to mobilize the much needed long-term savings for accelerated investment and economic growth. Nonetheless, the most common savings instrument employed by governments through public institutions in recent times, is the National Savings Certificate Scheme.

A case study of two countries, India and the United Kingdom will be the focus of this paper, to serve as lessons of experience for recommending appropriate logistics and policies in adopting the Nigerian version of the National Savings Certificate.

India

The National Savings Certificates (NSC) are issued by the Department of Post, Government of India, and are available at all post office counters in the country. The scheme is aimed at combining the growth in savings with reductions in tax liability. The duration of the National Savings Certificate is 6 years. The following are the other features of the Certificate:

- The Certificate could be purchased at a Post Office in the prescribed form either in person or through an authorized agent of the Small Savings Schemes.

- Certificate could be held individually, jointly, or on behalf of a minor. The Certificate could be purchased through an authorized agent of the Small Savings Schemes.

- The National Savings Certificate is issued in denominations of Rs100, Rs500, Rs1,000, and Rs10,000, and could be paid for in cash, cheque, or by surrendering a matured old certificate.

- There is no limit to the amount to be purchased.

- The Certificate will be issued immediately on purchase, or a provisional receipt will be given, which could be exchanged later.

- Certificates of lower denominations could be exchanged for a certificate of higher denomination of the same aggregate face value or vice versa, provided that certificates of different dates are not combined in such exchange. The date of the certificate issued in exchange will be the same as that of the original certificate surrendered and not the date on which the exchange is made.

- A Certificate may be transferred from a post office at which it is registered, to any other post office. The Certificate is transferable with the previous consent in writing of an officer of the post office, from a deceased holder to his heir, to a court of law or any other person under the orders of the court.

- Transfer is possible only after a period of at least one year from the date of the certificate, and only if transferee is eligible to purchase certificates. If a certificate is encashed within a period of one year from the date of the certificate only the face value of the certificate is payable.

- If a certificate is encashed after expiry of one year but before the expiry of three years from the date of certificate, the encashment will be at a discount, i.e. at an amount equivalent to the face value of the certificate together with simple interest. The difference between the simple interest and the interest accruing will be deemed to be the discount.

- Application for transfer will be made on a prescribed form by the transferer and the transferee; and transfer can be permitted only by the post-master.

- Transfer could be allowed as security to the government, central bank, any government corporation, or local authority.

- Interest on the Savings Certificates is liable to tax under the Income Tax Act, on the basis of the annual accrual, but no tax will be deducted at the time of payment of discharge value.

United Kingdom

National Savings Certificates are a United Kingdom Government security issued under the National Loans Act 1968. Savings Certificates are on sale all year round, meaning that National Savings & Investment (the institution charged with operating the savings scheme), always has fixed rate offers available to savers and investors. Currently, over £17 billion is invested in National Savings & Investment Savings Certificates. There are two types of Savings Certificates available Index-linked Savings Certificates and Fixed Interest Savings Certificates.

1. Index-linked Savings Certificate - This Certificate increases in value each year in line with inflation, as measured by the Retail Prices Index (RPI). Extra interest is also added on top at fixed rates meaning that savings are guaranteed to grow ahead of the rate of inflation, whatever happens. The investment has tax-free returns, including assured security choice of investment terms, because it is backed by HM Treasury, so any money invested in index-linked Savings Certificates is 100% secure. Index-linked Savings Certificates are sold in Issues, each of which has its own number. Whenever there are new guaranteed rates on offer, a new issue is released, and several issues are released every year for both 3-year and 5-year terms. New issues don't affect any existing index-linked Savings Certificate.

2. Fixed Interest Certificate or Reinvestment Certificate - This offers fixed rates of interest so that customers know at the start how much interest they will receive. They are tax-free and are available in 2-year and 5-year tenors. The Certificate is purchased from the proceeds of encashed National Savings Certificates or Ulster Savings Certificate of any issue or Yearly Plan Certificates.

Who may buy the Certificate? - Individuals, or jointly with one or more other individuals, and a person may buy on someone else's behalf. Trustees and Receivers can buy on behalf of mentally disordered persons, while registered friendly societies or any other body of persons approved by the Director are also eligible. However, children under 7 years of age cannot buy, but the Certificate could be held on a child's behalf, or jointly for two or more children.

How to Apply - Application could be by the Internet, post, telephone, or in person at any post office which carries out National Savings & Investment business, and in all cases, application to purchase is subject to acceptance by the Director. If accepted, the date of purchase is the date the application and payment, or authority to pay, are received.

Regularity of Sales - Certificates of more than one term may be on sale at any one time, therefore, the purchaser is expected to specify choice of term when applying to purchase. A Certificate of investment that is issued will show the amount and date of purchase.

Purchase and Holding Limit - The minimum for each purchase is £100, except for reinvestment certificates where there is no limit. The maximum purchase is fixed at £15,000 (of purchase price) of that issue, but this is also not applicable to reinvestment where there is no maximum, nor do Reinvestment Certificates count in applying the limit to other holdings of the same issue. For Certificates held in the joint names of two or more persons the total value of the Certificates will be counted against each of the joint holders when reckoning the value of Certificates held by them for this purpose, and each Trust is treated separately.

Encashment and Reinvestment - At the end of the term, the purchaser can continue holding the investment for another term of the same length; reinvest in an index-linked Savings Certificate for a different term; reinvest in a Fixed Savings Certificate, or cash in the investment. No action is required for roll-overs for another term of the same length, but the purchaser can communicate his desire by telephone. However, to avoid fraudulent claims, customers wishing to repay part or all of their maturing Savings Certificates will need to give their consent in writing.

Certificates can be cashed in by completing the form on the back of the certificate of investment and sending it to NS&I. Payment will be made by direct credit to a bank account (including a National Savings Bank Investment Account) or any account nominated. Part of the current value of a Certificate may be cashed in or reinvested. The value repaid or reinvested will be made up of part of the purchase price of the Certificate together with any interest that part has earned. A replacement certificate of investment, showing the original date of purchase and the balance of the purchase price remaining, will be issued.

Retention after the fixed rate term - After the original term, a Certificate may be eligible to earn interest for a further term of the same length. The U.K. Government Treasury will decide whether this will apply and, if so, on what terms as to interest. The Director will write to the holder, at the last recorded address for the holding, shortly before the end of each term to tell them of the Treasury's decision. If such interest does apply it will be applied automatically and will be guaranteed for the whole of the further term but, the holder will remain free to cash in the Certificate at any time including for reinvestment into another issue or another NS&I product.

Interest and Tax relief - A Certificate earns interest at rates fixed for a specific period of time, which will not be for less than one year, starting on the date of the purchase. The rates of interest are graduated each year, because of the compound rate. Each period of time is called a "term", and each term will have its own "issues" of Certificates issued in sequence and different interest rates apply to each issue within each term. Each term that is available and the interest rate that apply to each issue will be published in the London, Edinburgh and Belfast Gazettes.

Interest will be compounded annually on the anniversary date and all interest will be free of U.K. Income Tax and Capital Gains Tax. Savings Certificates cashed in within the first year of investing don't earn any index-linking or extra interest so, it is best to keep the investment for at least a year.

Recently introduced Savings scheme - In October, 2004, National Savings & Investment introduced a new savings scheme to allow customers to set up standing orders for Premium Bond purchases from £50 upwards, with no limit on how much can be invested each month providing the customer does not exceed the maximum holding of £30,000. It became available to buy online from January 2005.

National Savings and Investment is always looking for more convenient ways for customers to save. It has introduced a new telephone service, which makes it easier than ever for customers to reinvest in Savings Certificate, thereby removing the need to fill out lengthy forms.

SECTION IV
CHALLENGES IN THE NIGERIAN ENVIRONMENT FOR APPLYING THE NATIONAL SAVINGS CERTIFICATE SCHEME

Individual savers ought to be best

placed to decide how much and in what form they should be saving. To ensure that they are in a position to make such decisions, it is essential that savers can be confident both that they will be treated fairly by the long-term savings industry and that they will be given clear, readily accessible and factual information on savings related issues. In addition, like a rational economic man, the long-term saver would naturally consider the safety of his fund, expect an attractive return on investment, transparency of the investment managers, and fair treatment and excellent service delivery, in that order of priority. Indeed, these are the main areas of challenge for mobilizing the much-needed savings for investment and economic growth in Nigeria, but which will be addressed in a National Savings Certificate scheme. Each of these problems will be put under searchlight in the rest of this section.

Unsafe Haven for Savings - Long-term savings, in the form of bank fixed deposits, pension funds, insurance and mortgage endowments and other forms of savings constitute a fundamental part of the financial security of the Nigerian population. It is important both for savers as individuals and for the economy as a whole that the level of savings and the industry that manages them should be in a healthy state. There is no scope for complacency when it comes to public trust in the solidity and solvency of savings institutions. In this wise, savings institutions would be well advised to take responsibility for tackling the problems confronting them, especially in the area of rebuilding public confidence. It is little surprise that the newly introduced pension scheme in the civil service is meeting with silent protest from potential contributors for the same reason.

Unattractive Returns on Savings - One of the main priorities of the financial industry should be to ensure competitive returns to the saver. However, in Nigeria, the spread between the prime lending rate and deposit rate is quite substantial. While the deposit rate is very low and sometimes declining, the lending rate is on the high spectrum and keeps rising. Although, on balance, Nigeria's nominal interest rate regime could be adjudged competitive for investment when compared with what obtains internationally, the problem is that the real interest rate is negative, if the rate of inflation is taken into account. Naturally, a rational saver would rather save in a more competitive and positive interest rate-bearing instrument. In that context, it would be incontrovertible to conclude that the average Nigerian saves more out of necessity than because of the consideration of attractive returns. This is irrespective of the financial instrument in consideration, whether bank deposits, pension funds, insurance or mortgage endowment, or any other form of long-term saving. This could also explain the low inflow of portfolio investment and Nigeria's inability to internationalize its capital market.

Lack of transparency of Investment Managers - An important litmus test for investment managers should be to ask the following questions:

- how transparently or appropriately has the packaging of investment revealed the necessary information to the saver and supervisory agency on the returns and risks inherent in the savings product, especially for insurance and mortgage endowments?
- what is the extent of hidden insider abuse in the operations that may adversely impact on the business.
- what proportion of the total returns is accounted for by staff and management emoluments?

Poor service delivery - As a result of the make-up of the financial industry, unavailability of relevant consumer protection agencies, (until most recently), coupled with lack of consumer education on their rights, the Nigerian financial industry has turned into oligopolies of a sort, where they determine both the supply and the price of their products. For instance, for the fact that the bulk of deposit liabilities of deposit money banks is sourced from the public sector, some banks before the recent reforms, were in the habit of bluffing the patronage of individual small savers by demanding impossible amounts as minimum deposits for opening new accounts. Furthermore, with the exception of a few banks, customers of the banking industry spend hours for most transactions that should under normal conditions require just a few minutes. In other areas of the financial industry, the same condition obtains - genuine claims are denied or not promptly attended to, while high risk financial products are sold to the unwary customer.

SECTION V
NATIONAL SAVING CERTIFICATE SCHEME IN NIGERIA: THE JOURNEY SO FAR AND RECOMMENDED MODALITIES FOR ITS OPERATION

(i) The Journey So far in Nigeria: To frontally tackle the challenges highlighted above, and foster a culture of saving as a national priority towards addressing the macroeconomic conditions and development issues within the economy, it was imperative to introduce a new financial instrument. To this end, the Federal Government of Nigeria set up a steering committee to consider the introduction of a national savings certificate scheme. In 2003 an approval was granted for the issuance of the National Savings Certificate (NSC) to promote savings culture in Nigeria and provide access to funds for industrialist, manufacturers, businessmen and other sundry users of cheap funds. The principal target of the instrument is the general public, particularly low and medium income group.

A National Savings Board was constituted by the Hon. Minister of Finance, comprising the Ministry of Finance, Central Bank of Nigeria, Debt Management Office and the Securities and Exchange Commission, with the Minister of Finance as the Chairperson of the Board. The proposals of the Board have been incorporated in the Central Bank of Nigeria's (CBN) Monetary, Credit, Foreign Trade and Exchange Policy Guideline for the fiscal year 2004/ 2005 circular No.37 of 2nd January, 2004..

The NSC is a long-term interest bearing instruments to be issued by the Central Bank of Nigeria on behalf of the Federal Government of Nigeria. The introduction of NSC is intended to broaden and offer alternative investment options to the investing public, with a view to facilitating savings and investment growth. Given that the interest rates on the coupon is at a rate substantially above the interest rates paid by banks on savings account deposits, it is expected that the NSC will provide low income savers a more attractive investment option.

Objectives of the NSC

- Mobilisation of long-term savings which the government could use to finance the rehabilitation of its ageing infrastructure.
- To provide long-term financial resources, which the FGN could use to refinance or repay its short-term obligations.
- To enhance the development of a domestic debt market, which will encourage long-term investment in the productive real sector.
- Mobilisation of long-term savings which can be applied for on-lending to small scale industries, through participating DFIs or deposit money banks.

(ii) Lessons of Experience in the Adoption of Modalities for Operating the NSC: It cannot be controverted that the introduction of the National Savings Certificate in Nigeria will adequately serve two major purposes: harness the vast idle liquidity in the informal sector, outside the banking system to complement liquidity management; and serve as a stop-gap for a sustainable process of long-term savings mobilization in the financial system. Without necessarily repeating the features of the country experiences of the UK and India analyzed in Section III, and with no prejudice to what the current NSC Board may have designed, the application of the NSC programme in Nigeria should take the following character:

1. A National Savings Certificate scheme implemented along the lines of the UK arrangement would encourage and assure savers of the security of their investments. The Index-linked Savings Certificate and the Fixed Interest or Reinvestment Certificate introduced in the UK are quite attractive and will help savers hedge against inflation, in addition to assuring security of investment.

2. There are some similarities between the implementation modalities in the UK and India which Nigeria could emulate. These are in the areas of easy accessible to institutions charged with the sales of the NSC, qualification to purchase, low denominations of the certificate exchange, ease of transfer, and the fact that the certificate could serve as security for credit.

3. In terms of limit of purchase, it is recommended that an admixture of the UK guideline, which places a limit, and the Indian rule which does not have a limit, be adopted. This is because caution should be applied in avoiding the latter set of purchases exploiting the good reforms to advantage and crowding out individual small savers. In this regard, purchases by individuals should not have a limit, while those by banks and other corporate organizations should be limited.

4. The programme should be made an ongoing concern and different tenors should be introduced as is the case in the UK.

5. The encashment and reinvestment rules in the UK are quite attractive and could be adopted.

6. The discounting rule to discourage encashment of the savings certificate before one year will help to sustain objectives of the savings scheme, of effectively mobilizing medium to long-term savings.

7. There is need to review tax regimes in promoting savings. The first step in this regard is to make returns on the National Savings Certificate introduced to be largely tax-free. For instance,

with respect to the taxation of returns, an admixture of the UK and India guidelines will be appropriate to encourage retention of the certificate to maturity. In this wise, Certificates discharged after one year, but before maturity should be taxed at the income tax rate on the basis of the annual accrual (the India rule), but the returns on the Certificate should be tax-free if discharged at the end of its tenor. (the UK rule).

SECTION VI
CONCLUSION

The need to fashion out a new instrument that would not only be attractive to the traditional investing public but would also attract the attention of the informal sector who are in control of the bulk of the over N500billion of currency in circulation has now not only become imperative but has also assumed an unprecedented urgency in the light of the anticipated success of this present Government economic reform agenda.

The introduction of the National Savings Certificate in Nigeria is expected to serve three major purposes; namely, harness the idle funds in the informal sector/outside the banking system to complement liquidity management; serve as a sustainable process of long-term savings mobilization; and inculcate savings culture, particularly the low income earners and the un-banked. It is, therefore, of great regret that the scheme is yet to take off after the policy pronouncement and the inauguration of the Board of the National savings certificate in 2003.

The National Savings Certificate, when implemented, offers a number of prospects that will justify its establishment. The CBN and the economy at large have benefits to derive from the product. The realities on ground demonstrate the need to implement the scheme. It is, therefore, not advisable to abandon the scheme. Fostering a culture of saving is a national priority and there is need for a national savings scheme, to raise public consciousness in saving, for a high level of domestic saving is necessary to sustain economic growth in the long run.

Beyond the usefulness of the National Savings Certificate for mobilizing long-term savings, the other segments of the financial system will still be expected to play their roles to complement public sector efforts. In this vein, the outstanding challenges in the financial sector cannot be ignored and will, therefore, need to be addressed frontally in the following areas:

The problem of natural suspicions and fear towards product providers in the banking, pension, mortgage and insurance industries could be effectively tackled if consumers receive clearer and more succinct product information to avoid misunderstanding and mitigate incidences of litigations. A simple risk indicator by investment products providers would help savers with their investment decisions.

Greater public knowledge of the roles of the respective regulatory authorities in the financial industry in protecting their interests would help restore confidence. A publicity campaign should be launched to educate the public in this regard.

From the expositions in the previous sections, it has been clearly highlighted that the current low level of consumer confidence in long-term savings largely reflects weak regulatory framework and industry practices. It is therefore recommended that all the major trade bodies in the long-term savings industry should have clear codes of practice and the Central Bank should be at the forefront in this regard to establish such a code.

On the issue of poor service delivery, the main challenge here is for the players in the market to re-orientate their corporate ideals to conform to the objective of playing the traditional roles of funding investment, away from the most recent unprofessional operational focus of cutting corners and benefiting mainly from the short-end of the market. This was the bane of the distress conditions in the 1990s of banks, finance houses, and some insurance companies, and it remained one of the main issues that informed the current ongoing reforms in the financial industry in Nigeria. The banking sector, for instance, could bluff investments in the real sector because of the lucrative transactions in the foreign exchange market.

A closer linkage between the investment returns for customers and executive remuneration may be beneficial in ensuring greater professional conduct. In this sense, management fees charged by providers should be linked to the investment performance of products in order to align interests of savers and the industry more closely. Full and easily understood disclosure of fees and commissions to savers is vital for an efficient market. In the same vein, regulated prices in the financial services industry should be set after clear and transparent analysis.

The possibility of granting access to a proportion of pension savings during periods of unemployment or sickness should be examined to encourage more investments in that segment of the industry..

Attracting long-term savings should entail incentives that simplify the process of documentations while investing in financial instruments. We can borrow a leaf from the UK's National Savings & Investment initiative of introducing a telephone service, which makes it easier for customers to reinvest in Savings Certificate, thereby removing the need to fill out lengthy forms. This becomes even more pertinent when it is considered that lengthy process of documentation in the formal sector is the bane of the flourishing informal markets in Nigeria. The simplicity of the traditional Esusu informal savings scheme cannot be matched in this regard.

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TABLE 1

SAVINGS IN NIGERIA (FROM 1992-2001)

(=N= Millions)

	Short Term Savings (Savings Account)						Medium Term Savings (Time Deposit Account)					Long Term Savings			
Year	Private Sector	Domiciliary Account	State Govt	Local Govt	FGN	Total	Private Sector	State Govt	Local Govt	FGN	Total	Debenture Bond	Notes & Deposit Certificate	Total	Grand Total
1992	26,033.40	-	16.30	21.40	160.70	26,231.80	13,333.30	2,007.90	371.90	488.90	16,202.00	171.80	-	171.80	42,605.60
1993	36,834.20	-	142.90	77.70	23.60	37,078.40	22,890.30	419.80	165.10	342.30	23,817.50	186.30	-	186.30	61,082.20
1994	49,295.30	1,698.20	162.20	143.60	309.80	51,609.10	25,114.00	639.60	135.90	327.40	26,216.90	285.30	2,638.60	2,923.90	80,749.90
1995	61,250.90	7,392.30	734.60	149.50	551.60	70,078.90	28,993.20	821.10	151.10	675.80	30,641.20	778.00	3,873.40	4,651.40	105,371.50
1996	68,471.10	5,679.10	248.90	56.90	531.60	74,987.60	43,278.30	612.50	109.00	2,044.00	46,043.80	486.30	4,646.50	5,132.80	126,164.20
1997	83,862.40	5,507.60	154.30	82.80	1,164.80	90,771.90	50,781.00	1,126.90	168.30	3,844.90	55,921.10	825.30	9,684.50	10,509.80	157,202.80
1998	100,889.50	9,414.70	359.80	124.20	335.10	111,123.30	58,679.20	2,471.50	112.50	6,028.40	67,291.60	475.70	5,855.60	6,331.30	184,746.20
1999	127,811.90	35,067.90	261.10	293.40	160.20	163,594.50	107,299.00	2,507.70	958.40	2,313.60	113,078.70	370.00	10,904.50	11,274.50	287,947.70
2000	163,963.90	39,072.90	391.10	269.20	6,122.90	209,820.00	145,871.20	7,493.80	1,041.00	18,021.00	172,427.00	290.00	12,132.50	12,422.50	394,669.50
2001	216,258.10	47,198.40	195.70	55.60	1,067.40	264,775.20	230,774.00	3,683.90	995.80	5,229.10	240,682.80	25,609.60	214.70	25,824.30	531,282.30
AVERAGE	93,467.07	15,103.10	266.69	127.43	1,042.77	1,100,070.70	72,701.35	2,178.47	420.90	3,931.54	79,232.26	2,947.83	4,995.03	79,428.60	197,182.19

Soucrce: Central Bank of Nigeria Statistical Bulletin, Volume 14, December 2003

TABLE 2

DISTRIBUTION OF EACH TERM SAVINGS AS PERCENTAGE OF TOTAL SAVINGS IN NIGERIA

YEAR	SHORT TERM	MEDIUM TERM	LONG TERM
1992	61.57%	38.03%	0.40%
1993	60.70%	38.99%	0.30%
1994	63.91%	32.47%	3.62%
1995	66.51%	29.08%	4.41%
1996	59.44%	36.50%	4.07%
1997	57.74%	35.57%	6.69%
1998	60.15%	36.42%	3.43%
1999	56.81%	39.27%	3.92%
2000	53.16%	43.69%	3.15%
2001	49.84%	45.30%	4.86%
AVERAGE	59.00%	37.53%	3.49%

Soucrce: Central Bank of Nigeria Statistical Bulletin, Volume 14, December 2003

Table 3

PERCENTAGE RATIO OF TOTAL SAVINGS TO GROSS DOMESTIC PRODUCT (GDP) AND FOREIGN DIRECT INVESTMENT

YEAR	TOTAL SAVINGS (=N=MILLIONS)	GDP (=N=MILLION)	FOREIGN DIRECT INVESTMENT (=N=MILLION)	TOTAL SAVINGS AS A % OF GDP	TOTAL SAVINGS AS A % OF FOREIGN DIRECT INVESTMENT
1992	42,605.60	532,613.80	13,150.00	8.00	324.00
1993	61,082.20	683,869.80	34,176.00	8.93	178.73
1994	80,749.90	899,863.20	36,375.00	8.97	221.99
1995	105,371.50	1,933,211.60	51,662.00	5.45	203.96
1996	126,164.20	2,702,719.10	54,128.00	4.67	233.08
1997	157,202.80	2,801,972.60	56,532.00	5.61	278.08
1998	184,746.20	2,708,430.90	70,457.00	6.82	262.21
1999	287,947.70	3,194,023.60	73,555.00	9.02	391.47
2000	394,669.50	4,537,640.00	74,992.00	8.70	526.28
2001	531,282.30	5,178,150.00	78,848.00	10.26	673.81
Average	197,182.19	2,517,249.46	54,387.50	7.83	362.55

Soucrce: Central Bank of Nigeria Statistical Bulletin, Volume 14, December 2003

TABLE 4

PERCENTAGE RATIO OF BANKING SYSTEM CREDIT(BSC) TO GROSS DOMESTIC PRODUCT(GDP) & TOTAL CREDIT IN THE ECONOMY (=N= MILLIONS)

YEAR	BSC TO THE PRIVATE SECTOR	GROSS DOMESTIC PRODUCT	TOTAL CREDIT IN THE ECONOMY	BSC AS % OF GDP	BSC AS % OF TOTAL CREDIT IN THE ECONOMY
1992	43,298	532,614	138,270	8.13	31.31
1993	52,150	683,870	241,609	7.63	21.58
1994	117,669	899,863	411,679	13.08	28.58
1995	175,788	1,933,212	445,204	9.09	39.48
1996	216,781	2,702,719	332,302	8.02	65.24
1997	272,024	2,801,973	321,317	9.71	84.66
1998	336,886	2,708,431	485,690	12.44	69.36
1999	452,411	3,194,024	632,010	14.16	71.58
2000	587,486	4,537,640	667,622	12.95	88.00
2001	827,123	5,178,150	848,993	15.97	97.42

Soucrce: Central Bank of Nigeria Statistical Bulletin, Volume 14, December 2003

Table 5
MATURITY STRUCTURE OF COMMECIAL BANKS' LOANS AND ADVANCES
(=N= MILLIONS)

			Maturing												
Year	On Call	%	Within 6 months	%	Between 6-12 months	%	within 12 months	%	Between 1-3 years	%	Between 3-5 years	%	After 5 years	%	Total
1980	3,246.0	50.95	822.70	12.91	727.0	11.41	197.7	3.10	663.2	10.41	408.1	6.41	306.1	4.80	6,370.8
1981	4,369.5	50.85	911.70	10.61	1,066.6	12.41	352.7	4.10	731.1	8.51	645.1	7.51	516.1	6.01	8,592.8
1982	5,157.1	50.20	1,540.90	15.00	996.5	9.70	390.4	3.80	852.7	8.30	749.9	7.30	585.6	5.70	10,273.1
1983	5,126.4	46.20	2,052.80	18.50	1,020.8	9.20	832.2	7.50	898.8	8.10	943.2	8.50	221.9	2.00	11,096.1
1984	5,448.3	47.50	1,885.00	16.43	1,091.9	9.52	678.2	5.91	954.0	8.32	781.6	6.81	632.2	5.51	11,471.2
1985	6,142.1	50.55	2,189.30	18.02	1,204.1	9.91	437.9	3.60	960.8	7.91	608.1	5.00	608.1	5.00	12,150.4
1986	8,026.9	49.42	2,976.90	18.33	1,574.2	9.69	732.5	4.51	1,153.4	7.10	1,013.1	6.24	763.7	4.70	16,240.7
1987	8,677.9	49.45	2,506.90	14.29	2,068.7	11.79	929.2	5.29	1,490.2	8.49	1,034.3	5.89	841.5	4.80	17,548.7
1988	10,421.3	51.32	3,222.90	15.87	2,376.8	11.70	853.2	4.20	1,564.2	7.70	1,076.7	5.30	792.3	3.90	20,307.4
1989	10,710.8	29.92	2,979.90	8.32	2,354.7	6.58	750.2	2.10	16,562.9	46.27	1,604.5	4.48	833.5	2.33	35,796.5
1990	12,370.9	49.58	4,772.00	19.13	3,060.3	12.27	259.4	1.04	1,841.9	7.38	1,322.7	5.30	1,322.7	5.30	24,949.9
1991	15,989.5	50.30	6,130.40	19.28	3,634.0	11.43	410.8	1.29	2,401.6	7.55	1,674.8	5.27	1,548.4	4.87	31,789.5
1992	22,739.0	54.13	7,670.90	18.26	3,975.6	9.46	336.6	0.80	2,839.3	6.76	1,993.0	4.74	2,453.8	5.84	42,008.2
1993	28,799.0	50.35	11,817.80	20.66	5,635.1	9.85	1,276.3	2.23	3,500.0	6.12	3,117.5	5.45	3,048.2	5.33	57,193.9
1994	46,673.1	47.71	17,957.20	18.35	8,975.6	9.17	8,970.6	9.17	6,282.9	6.42	4,487.8	4.59	4,487.8	4.59	97,835.0
1995	71,439.7	49.06	27,476.80	18.87	13,738.4	9.43	9,616.9	6.60	9,616.9	6.60	6,869.2	4.72	6,869.2	4.72	145,627.1
1996	85,978.0	52.03	33,030.00	19.99	16,515.0	9.99	1,651.8	1.00	11,560.5	7.00	8,257.5	5.00	8,257.5	5.00	165,250.3

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TABLE 6

YEAR	Central Bank			
	Minimum Rediscount Rates	Treasury Bills Rate	Treasury Certificate	
			One Year Maturity	Two Years Maturity
1992	17.50	21.00	22.00	23.00
1993	26.00	26.90	27.40	27.80
1994	13.50	12.50	13.00	13.00
1995	13.50	12.50	13.00	13.50
1996	13.50	12.25	-	-
1997	13.50	12.00	-	-
1998	14.31	12.95	-	-
1999	18.00	17.00	-	-
2000	13.50	12.00	-	-
2001	14.31	12.95	-	-
2002	19.00	21.38	-	-
2003	15.75	15.02	-	-
Average	16.03	15.70	18.85	19.33

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TABLE 7
WEIGHTED AVERAGE INTEREST RATE (PERCENT)

Year	Commercial Banks Deposit Rates				
	3 Months	3 - 6 Months	6 - 12 Months	Over 12 Months	Savings
1992	20.80	22.30	22.10	20.50	16.10
1993	23.60	23.26	23.99	28.02	16.66
1994	15.00	15.00	15.00	15.00	13.50
1995	13.62	13.65	13.96	14.27	12.61
1996	12.94	13.21	13.43	13.55	11.69
1997	7.04	7.49	7.46	7.43	4.80
1998	10.20	10.50	9.98	10.09	5.49
1999	12.68	12.75	12.59	14.30	5.33
2000	10.60	10.27	10.67	10.44	5.29
2001	10.20	10.50	9.98	10.09	5.49
2002	16.25	17.20	16.66	15.89	5.09
2003	13.82	12.24	12.04	11.15	4.15
Average	13.90	14.03	13.99	14.23	8.85

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TABLE 8
WEIGHTED AVERAGE INTEREST RATE (PERCENT)

Year	Commercial Banks Lending Rates			
	Prime 1	Produce Advance 2	Maximum	Federal Savings Bank 3
1992	29.80	30.80	31.20	16.10
1993	36.09	39.06	18.32	-
1994	21.00	-	21.00	-
1995	20.18	-	20.79	-
1996	19.74	-	20.86	-
1997	13.54	-	23.32	-
1998	18.29	-	21.34	-
1999	21.32	-	27.19	-
2000	17.98	-	21.55	-
2001	18.29	-	21.34	-
2002	24.40	-	29.95	-
2003	20.49	-	22.47	-
Average	21.76	34.93	23.28	16.10

Soucrce: Central Bank of Nigeria Statistical Bulletin, Volume 14, December 2003