THE RELEVANCE OF EXCHANGE CONTROL IN NIGERIA'S BALANCE OF PAYMENTS ADJUSTMENT PROCESS

INTRODUCTION:

Exchange control is one of the direct measures applied to regulate the purchase and sale of foreign currencies. As a balance of payments adjustment policy, exchange control serves three inter-related objectives, namely to adjust the demand for foreign currencies to their supply, to maximise the use of available foreign exchange by ensuring that essential imports of goods and services are given priority over other items and to ensure a rapid build-up of the country's external reserves and thereby promote an orderly adjustment in the balance of payments.

The control takes many different forms including exchange licence or blocked exchange, bilateral trade agreements, rationing of foreign exchange, exchange auction, state trading and multiple exchange rates. Depending on the severity of the imbalance, a combination of the various forms of exchange control systems can be applied to deal with the payments problem.

The objective of this paper is to evaluate the usefulness of exchange control in correcting Nigeria's Balance of Payments deficits during the period 1967-1981. The paper consists of four parts. In part one, a general review of the legal frame work and exchange control practices in the period is undertaken. Part two offers an appraisal of exchange control as a policy for balance of paments adjustment in Nigeria. In part three exchange control is compared with other balance of payments policies to determine whether or not the country can dispense with the control regulations. The summary and main conclusions of the paper are contained in part four.

PART ONE

Exchange Control Practices in Nigeria:

The current exchange control regulations in Nigeria derive from the Exchange Control Act, 1962, as subsequently amended on various dates. Arguing the need for exchange control in the country in 1962 the Federal minister of Finance conceded that the federal government had at its disposal, an array of fiscal and monetary policy instruments to contain any balance of payments pressure that might arise. He went further to say that it was not possible to rule out entirely "a situation arising when all other measures have proved inadequate and government is left with no alternative but to resort to physical controls.[1]"

Likening exchange control to a fire extinguisher which is used only in an emergency, the Minister went further to say that "the new exchange control bill will ensure that if, against all the odds, a major balance of payments crisis should arise, the Federal government is fully prepared to meet it.[2]"

In consequence, the exchange control act, 1962 was conceived largely as a stand-by measure only to be activated when other measures – fiscal and monetary – to deal with an emergent payments imbalance proved ineffective.

Salient features of the 1962 Act:

The exchange control act, 1962, forbade foreign exchange transactions by Nigerian residents without the approval of the authorities. Specifically, it directed that all payments requiring foreign exchange have to be approved by the authorities. Similarly all foreign exchange receipts by residents are to be surrendered to the exchange control authorities.

Under the Act, the overall responsibility for the administration of exchange control was vested in the Minister of Finance who subsequently delegated this to the Central Bank of Nigeria. The Minister has also designated all the commercial and merchant banks as authorized dealers through which applications for foreign exchange are to be channelled. Similarly, a number of leading hotels throughout the country have been appointed authorised buyers of foreign currency from foreign visitors into Nigeria. They are also required to sell such foreign currencies to either the Central Bank of Nigeria or the other authorised banking institutions. Also, the Post Office is authorised to approve foreign exchange for transactions not exceeding ₦50.00.

Approval for foreign exchange is granted by any of the approving authorities namely: the Federal Ministry of Finance, the Central Bank of Nigeria and the authorised dealers. Similarly, all foreign currencies received by Nigerians are required to be surrendered to the Central Bank through the authorised dealers. In particular, export proceeds are to be repatriated within six months[3] of sale of the produce.

The Act was therefore all-embracing in the powers it conferred in regulating transactions in foreign exchange. However, up to mid 1967 the act was applied liberally. The authorities, up to that period, relied mainly ou fiscal and monetary policy measures to deal with the problems arising from the country's external sector. Apart from this, it was also difficult to effectively control the movements of funds out of the country since the bulk of the foreign exchange transfers were to the 'scheduled territories' which did not require formal approval.

Exchange Control Practices 1967-81

The period 1967-81 witnessed the active use of exchange control as an instrument of balance of payments adjustmeut. The entire period can be subdivided into two: period of stringent controls and the period of relaxed exchange control regulations. The stringency or otherwise of the control measures was, dependent on the seriousness of the imbalances on the external payments situation. Thus, the measures became mere 'stop-go' devices, assuming relative stringency when the balance of payments was in severe deficits and becoming relatively liberal during periods of balance of payments surpluses.

Era of strict exchange control: (1967-1971 and April 1977-1980)

Tight foreign exchange control measures were applied during the periods: 1967-1971 and April 1977 and March 1980.

[1] Okotie – Eboh F. S. "Mobilisation budget 1962" *in the six budget speeches, 1958-63*
Lagos federal Ministry of Finance, p. 145.

[2] Ibid p. 145.

[3] Reduced to three months in 1969.

These periods were characterised by severe pressures on the balance of payments leading to a rapid draw-down of the country's external reserves. In particular, the activation of the exchange control act (1962) in the second half of 1967 was directly related to the worsening economic situation in the country brought about by the political crisis that culminated in the civil war. The external assets declined from ₦169.1 million at the end of 1966 to ₦125.2 million in June 1967.

When monetary and fiscal policy measures proved ineffective in arresting the drain on the external reserves, direct controls on the use of foreign exchange became imperative. Such strict controls remained in force throughout the civil war period.[4]

A number of salient features characterised the 1967-1971 period.

i. The pegging of external reserves level at the end-1967 level of ₦67 million.
ii. Allocation of foreign exchange was on a priority basis. For this purpose, imports were classified into essential and non-essential commodities/services.
iii. Accumulation of short term liabilities in the form of approved applications for which foreign exchange was not allocated.
iv. Introduction of 90 and 180-day system of payments for imports.
v. the imposition of specific import licence on about 274 commodities.
vi. Introduction of foreign exchange budgeting (1971) in an attempt to relate aggregate foreign exchange expenditure to earnings.

Another phase of strict application of exchange control measures occurred between April 1977 and March 1980. The balance of payments had deteriorated sharply in 1976 resulting in a deficit of ₦339.9 million as against surpluses of ₦157.5 million and ₦3,102.2 million in 1975 and 1974, respectively. Thus, it became necessary to re-iutroduce tight exchange control measures.

Apart from the reduction in the total amount of foreign exchange that could be approved for some specific transactions, some other measures were adopted to make exchange control more effective. These included the Exchange Control (anti-sabotage) decree of 1977, the comprehensive import supervision scheme which became operational from January 1 1979, prohibition of thirteen import items and the expansion in the number of import items placed under licence.

The exchange control anti-sabotage decree established a number of tribunals to try foreign exchange offenders. Under the comprehensive import supervision scheme, all imports, save those valued under ₦20,000 (C&F), were subject to pre-shipment inspection[5] in order to ascertain not only the quality but also the quantity and prices of imported goods. A foreign company – the Societe Generale de Surveillance S.A. (SGS) was appointed to carry out the inspection.

The tightening of the exchange control regulations in the later part of 1981 reflected the considerable worsening of the balance of payments during the year as a result of a short fall in foreign exchange earnings and the surge in imports. Consequently, allowances for basic and business travels were reduced effective December 1981 from their respective levels of ₦1,000 and ₦6,000 a year for each adult to ₦800 and ₦3,000 respectively. Moreover, children under sixteen years ceased to enjoy the basic travel allowance facility. The package also included those measures which were to become effective in 1982, namely the reimposition of pre-shipment inspection for raw materials, spare parts, books and fish, and the reduction in repatriable consultancy fees from 30 per cent to 20 per cent.

Era of liberal exchange control regulations:

A relaxation of exchange control regulations occurred between April 1972 – March 1977 and April 1980 – November 1981. A necessary but insufficient reason for relaxation of exchange control measures was a noticeable improvement in the balance of payments either in the sense of a turn around from a deficit to a surplus position or an increase in the surplus. In this context, Nigeria's total external assets of about ₦303 million at the end of 1971 represented an increase of ₦126 million or 71.2 per cent above the level in the preceding year. Another evidence of improvement was that the end of 1971 level of external reserves could finance about three months' import bills at the prevailing monthly rate of importation, compared with just over two months' import bills in 1970.

However, there was also overwhelming evidence that the exchange control regulations had become too cumbersome to implement and it became necessary to streamline the measures. Consequently, restrictions on payments for various invisible items were relaxed in April 1972 while the outstanding backlog of foreign exchange approvals was completely liquidated during the year.

Nigeria's external reserves increased substantially in 1973 and 1974, due mainly to the substantial increases in the price of crude petroleum. The level of the reserves rose sharply from ₦270.6 million at the end of 1972 to ₦438.6 million and ₦3,040 million at the end of 1973 and 1974, respectively. It rose further to ₦3,702.6 million at the end of 1975. A balance of payments surplus of ₦3,102 million was recorded in 1974. Although the surplus declined to ₦157.5 million in 1975, the level of external reserves of ₦3,702.6 million was comfortable, prompting a further liberalisation of the exchange control regulations.

In consequence, there was a progressive relaxation of the exchange control measures relating to payments for goods and services. By 1975, Nigeria has returned to the normal international commercial practice of paying for imports at sight of shipping documents and allowing for prepayments on the basis of letters of credit.

However, liberalisation of the control measures was also aimed at curbing rampant abuse and malpractices in respect of foreign exchange transactions. Such malpractices included over-invoicing of import bills, smuggling of currencies and goods across the borders, false documentation of import bills and making claims for services not rendered aud goods not imported. The expectation was that as exchange control measures became more liberal, such malpractices would at least be minimised.

Thus, periods of strict and relaxed exchange control measures have tended to alternate during the review period. Following the strict rationing of foreign exchange

[4]See the appendix for a chronology of the exchange control measures applied during the period 1967-1981.

[5] The authorised dealers are empowered to exempt goods valued below ₦10,000 (C&F) while the Central Bank on its own exempted goods valued under ₦20,000 (C&F).

between June 1967 andf March 1972, the control measures were progressively dismantled from April 1972 to March 1977 to complete a cycle. Another cycle that started in April 1977 was rather short-lived terminating towards the end of 1981. From the foregoing the pertinent question that arises is whether exchange control has been effective in terms of measured results.

PART TWO

Appraisal of Exchange Control Practices in Nigeria:

In appraising exchange control as a relevant balance of payments policy instrument in Nigeria, it is important to note that there is no time in which exchange control has been the only instrument for dealing with balance of payments problems in the country. Fiscal and monetary policies have usually complemented existing control measures to deal with balance of payments disequilibrium. Thus, it is difficult to isolate the singular effects of exchange control under such circumstances. However, a number of meaningful inferences can be made based on the developments that took place during the review period.

Table 1 is a summary statement of Nigeria's balance of payments during the period 1960-1981. It shows that during the period, balance of payments deficits were recorded in twelve years, i.e. from 1960 through 1964 and again in 1966-67 as well as in 1972, 1976-78 and in 1981. During the intervening years, surpluses were recorded.

An examination of the appendix, showing the chronology of foreign exchange control regulations, reveals that the years during which balance of payments deficits were recorded also coincided with the years of liberal exchange control regulations except in 1967. The corollary is that when stringent exchange control measures were in place, balance of payments surpluses were also recorded. This naturally leads to the inference that when exchange control regulations were strictly enforced, there was a corresponding improvement in the balance of payments.

However, this last statement calls for some qualifications. First, the snrpluses recorded during 1968 through 1971 were largely technical in nature. The surpluses were achieved through the deferred payments caused by the dangerously low level of foreign exchange resources that made it difficult for immediate release of foreign exchange. The result was a backlog of about ₦430 million at the beginning of the 1971/72 fiscal year. Thus, accumulation of backlog served to shore up the external reserves.

Secondly, the balance of payments surpluses recorded in 1973 and 1974 as indicated above, were due largely to the multiple increases in the price of crude petroleum exports which enhanced foreign exchange receipts during the period. The balance of payments position also improved substantially in 1979 and 1980, partly as a result of the improvement in the oil sector.

It is obvious therefore that other attenuating factors played a significant role during these periods when the balance of payments was in surplus.

On the other hand, the impact of exchange control was decisive during the war years 1967-1970. Without the stringent exchange control measures, it would have been difficult to prosecute the war without resorting to large scale external borrowing. Moreover, the measures did avert the drain on the country's external reserves which was precipitated by the outbreak of hostilities.

To some extent, therefore, strict application of exchange control did contribute to correcting the balance of payments deficit in Nigeria during the review period. In particular, the tightening of the exchange control measures reduced the average monthly import bill in 1967 and 1968 to ₦37.3 million and ₦32.1 million, respectively from ₦42.7 million in 1966. Table 4 also shows that the rate of increase in foreign exchange outflow was reduced from 25.1 per cent in 1976 to 20 per cent and 8.5 per cent in 1977 and 1978, respectively. In fact, the absolute level of outflow declined by 3.4 per cent from ₦8,990.9 million in 1978 to ₦8,664.0 million in 1979. The upsurge in the level of foreign exchange outflow by 36.3 per cent to ₦11,805.2 million in 1980 was not unconnected with the massive liberalisation of exchange control measures during that year. As a result, disbursement on merchandise imports alone increased by over 37 per cent. The balance of payments position was however comfortable in 1980 mainly because of the increased receipts from the oil sector. When this did not happen in 1981, a record balance of payments deficit was recorded.

The compulsory import supervision scheme that was introduced in 1979 has also achieved some beneficial results as shown in table 6. What emerges from the table is that during the three years (1979-1981) direct foreign exchange savings due to the pre-shipment inspection of imports amounted to ₦67.1 million, ₦176.8 million and ₦313.9 million in 1979, 1980 and 1981, respectively.[6]

As for invisible transactions in the balance of payments, available data also show that the level of outflow on travels, contract charges and management fees declined in 1967 through 1969 and again in 1978 through 1979, i.e. during period of stringent control measures. The declines produced an overall reduction in the level of deficits in the services account during the reference periods.

Overall, therefore, exchange control has played some role in correcting the imbalance in Nigeria's external payments.

The deterrent effect of the regulations, although not qnantifiable, was indeed real. It became more noticeable when ever the exchange control measures were relaxed with a consequent acceleration in the rate of outflow of foreign exchange. However, the benefits of exchange control have not been without costs to the Nigerian economy as will be highlighted in the following section.

Social costs of exchange control

By its very nature, exchange control merely suppresses the excess demand for foreign exchange; it does not succeed in completely eliminating it. To the extent that the control is less than absolute, the excess demand is channelled to some other outlets. Various devices are worked out to circumvent the regulations and, in doing so, reduce their effectiveness.

The Nigerian experience has not been different from this general picture. The costs to the Nigerian economy of maintaining a regime of exchange control will be discussed under three main heads: the various malpractices leading to the evasions of the restrictions, the bottlenecks created by the restrictions and the social costs in terms of corruption.

Malpractices and evasions:

The enforcement of exchange control regulations has,

[6]The SGS noted in its report for 1980 that total savings for 1979 and 1980 could be put at over ₦1.2 billion.

over the years, led to a series of malpractices through which the perpetrators succeeded in obtaining foreign exchange thereby beating the regulations. The malpractices include overloading of invoices in order to have access to foreign exchange in excess of the actual cost of imports; smuggling of currencies and commodities across the borders and dealing in foreign exchange in the black market. Apart from ensuring that foreign exchange is obtained in excess of entitlements, over-invoicing also has an adverse effect on the domestic price level. By raising the price of imports, it contributes to the inflationary spiral in the economy. During the period 1975-1977 when the malpractice was very pronounced the inflation rate was running at an average of about 23 per cent.

Smuggling in all its various forms is also linked to the institution of exchange control. For instance, there is the prevalence of smuggling of the Nigerian currency out of the country for conversion in the black markets of Western Europe and North America. The proceeds of such deals are used to purchase goods, whose importation is either banned or restricted, and cleverly smuggled into the country. The costs involved in this are measured not only in terms of the frustration of the regulations but also in terms of the loss in government revenue when goods are brought into the country through unofficial channels. Such practices also have a demoralising effect on domestic manufacturing plants.

Similarly, through false declarations, many Nigerian residents returning from abroad have not been surrendering the foreign exchange brought with them into the country. This observation also applies to the hotels that are authorised to buy foreign exchange from their non-resident customers. The undeclared and/or retained part of foreign exchange brought into the country provides an unmitigated source of supply of foreign currency to the black market.

Bottlenecks

The administration of exchange control regulations has had the incidental effect of creating bottlenecks in the production network. Although attempts have always been made to ensure that raw materials and other essential imports are more favourably treated, serious bottlenecks have been reported where manufacturing plants are not able to produce to full capacity because of the difficulty in remitting payments for their imports of raw materials or spare-parts. These bottlenecks usually result in the short supply of a number of consumer products in the economy, a factor that also encourages smuggling of goods into the country.

Corruption

There are frequent allegations that exchange control has led to corrupt practices involving officers that are supposed to administer and enforce the exchange control regulations. There are allegations of applicants for foreign exchange who in their bid to get their applications through on time usually influence exchange control officers with bribes of money and other forms of gratifications.

Apart from undermining the social fabric of the Nigerian society, corruption, as it relates to exchange control regulations also reduces the overall effectiveness of the regulations as applications that would have been otherwise rejected usually get approval for foreign exchange cover.

From the foregoing, it may be concluded that exchange control is a costly balance of payments policy tool. In this connection, it should be emphasised that the malpractices highlighted above occurred both during periods of stringent exchange control regulations and when the stance of policy was liberal.

This naturally leads to two main questions of whether other policy instruments would be more relevant in the Nigerian situation and whether in fact exchange control can be dispensed with under the circumstances. These two issues will be treated separatively in what follows:

PART THREE

Exchange Control vs Other Balance of Payments Policies:

As already indicated, exchange control represents only one of the policy measures available to the authorities for correcting a country's external payments imbalances. Other policy measures include monetary and fiscal policies and devaluation. In solving a payments imbalance, what is required is a proper mix of the policies.

In the Nigerian context, exchange control has usually been applied in combination with fiscal and monetary policies. In 1973, Nigeria also devalued the naira, following the lead of the United States of America. Monetary policy can be considered a weak instrument for solving balance of payments problems in a country like Nigeria where the monetary base has not been fully developed. For instance, with a relatively underdeveloped capital market, changes in interest rate may not significantly influence capital movement. In any case reversible short term capital flows have been found to be highly destabilising in the industrialised countries where they are a common occurrence. As for fiscal measures, the tax base is also very narrow in Nigeria such that increases in tax rates affect only a small proportion of the population. Similarly high customs duties have not provided a sufficient deterrent to the high rate of importation.

Like exchange control, devaluation is an expenditure switching policy; but its effectiveness depends crucially on whether the demand for imports abroad and at home is sufficiently elastic. The rule, known as the "Marshall-Lerner condition" implies that under certain conditions devaluation will improve balance of payments if the sum of the two elasticities of home and foreign demand is equal to or exceeds unity.

The case against devaluation in developing countries of which Nigeria is one is based on the premise that the "Marshall-Lerner" condition does not hold. For instance, the prices of Nigeria's export commodities are determined not locally but in the world market. In this way, the country is not able to influence the price in such a way as to derive maximum foreign exchange earnings. On the import side, the demand for imported goods in Nigeria is relatively price inelastic. Under those circumstances, devaluation will not lead to higher foreign exchange earnings neither will it result in appreciable reduction in the level of imports. The only benefit that may accrue from devaluation then is in terms of the higher local currency equivalent of foreign exchange earnings from exports. This, it is argued, may stimulate the production of export products. But it does not follow that the increased production will in turn result in higher foreign exchange earnings, especially if foreign demand for Nigeria's exports remains largely unchanged.

It should be recalled that when Nigeria devalued in 1973, exchange control also remained in force although in a liberal form, yet the observed gains were marginal. . .

On a more general note, Professor Kaldor has claimed that the experience with devaluation in many developing countries "was to set in train a new inflationary wave which largely nullified the impact of the devaluation on price relationships within a period of 12 to 18 months.[7] Also, recalling that Nigeria's balance of payments problem has been largely structural in nature, the resident economist of the World Bank in Nigeria has argued that: "a devaluation on its own, however, would not bring about the desired structural change of the economy, and it could not play the central role in the diversification process.[8]

From the foregoing, it is clear that devaluation on its own will not only fail to achieve the desired adjustment in Nigeria's balance of payments, it may also produce some incidental effects detrimental to the Nigerian economy. Also fiscal and monetary policies, alone are largely incapable of effecting the necessary adjustment.

It is against this background that one considers the issue of whether or not exchange control regulations should be dismantled.

Any case for dismantling exchange control regulations?

The case against exchange control is based largely on the observed bottlenecks in production, foreign exchange malpractices and the social costs which result from the restrictions. Thus dispensing with exchange control regulations can be expected to create an atmosphere where importers and other users of foreign exchange will be able to transfer funds out of the country without any encumbrance. Since there will, therefore, not be any restrictions, quantitative or otherwise, on the outflow of foreign exchange, it can also be assumed that foreign exchange malpractices as well as the corrupt tendencies that have their origin in the restrictions over the use of foreign exchange may be minimised.

However, the removal of exchange control regulations presupposes that the level of the country's foreigu exchange inflow is sufficiently high at all times that it can meet the various demand on the use of foreign exchange. But this is not so. The demand for foreign exchange has increased significantly in the past five years. The monthly average rate of outflow which stood at ₦690.1 million in 1977 increased to ₦1,213.9 million in 1981, an increase of 75.9 per cent. During the same period, the monthly rate of foreign exchange inflow increased from ₦643.7 million in 1977 to ₦1,187.9 million in 1980 and declined to ₦964.5 million in 1981.

In this connection, it should be recalled that as crude petroleum has become the country's largest foreign exchange earner, the rate of accretion to the external reserve holdings of the country hinges crucially on developments in the oil sector. As noted earlier the level of the reserves increased in 1974 and again in 1979 through 1980 following favourable developments in the World oil market. However, during periods of slack demand for oil the external reserves correspondingly declined. During those periods, the singular effects of exchange control has been to exercise a sufficiently restraining influence that has served to prevent the situation from worsening.

[7]Kaldor, N. "The role of devaluation in the adjustment of balance of payments deficits" UNDP/UNCTAD INT/81/046. April 1982 p.3

[8]The World Bank: "Alternative choices for Managing Nigeria's balance of payments: Some suggestions for the future" paper presented at the seminar on Balance of Payments Policies and strategies for Nigeria, 4-5 March 1982 P.14.

In the Nigerian context, the efficacy of the other balance of payments policies, including fiscal/monetary and devaluation, is very much in doubt. In any case, they do not possess the potential restraining influence that belongs to exchange control. There is no doubt that by throwing the door wide open, the demand for foreign exchange will swamp the available resources. In the circumstances, the country will be forced to borrow extensively externally to meet its foreign exchange obligations.

The thrust of the foregoing analysis therefore is that the country cannot at the present stage of its development dispense entirely with exchange control regulations. What needs be done is to adapt exchange control to the changing circumstances of the economy, reinforcing the measures as developments in the balance of payments dictate and plugging all the loopholes, administrative and otherwise to make exchange control more effective as a balance of payments policy tool. In particular, the implementation and administration of exchange control should be sufficiently overhauled in other to minimise the incidental adverse effects. Of course, monetary and fiscal measures should continue to be used in conjunction with exchange control.

PART FOUR

Summary and conclusions

Exchange control has been recognised as one of the instruments for adjusting payments imbalances. It is different from the other policy tools in that it is applied directly to regulate the use of foreign exchange. However, exchange control does not entirely eliminate the excess demand for foreign exchange, it merely suppresses it. To that extent, exchange control leads to a number of malpractices which tend to make it less effective.

The Exchange Control Act of 1962 on which current regulations are based was introduced merely as a standby measure to be used when all other measures have failed. However, since 1967, exchange control has been applied in varying degrees of severity and relative ease depending on the magnitude of external financial pressures. In essence, the use of foreign exchange control has been in the nature of "short-term crisis management," tightening the measures during the period of severe pressure on the balance of payments and relaxing them when the balance of payments position was relatively comfortable.

The analysis also highlights the various fraudulent practices that foreign exchange users have devised in their attempt to circumvent exchange control regulations. After discussing the efficacy of the other policy options, it concludes that even with all its short-comings, Nigeria cannot at this stage of her development dispense entirely with exchange control regulations. A more positive reaction is to reduce the areas of the regulations prone to abuse by adapting exchange control to the changing circumstances of the Nigerian economy.

This paper, therefore, ends with a number of suggestions as itemised below:

1. Exchange control should cease to be applied in a 'stop-go' manner. In this regard, there should be an element of consistency in the application of policy. In other words,

policy should not be made to turn gear abruptly following developments – adverse or favourable – in the balance of payments. On the contrary, policy measures can be phased out over a period of time in order to avoid the recurrent practice of having to take "panic" measures in the wake of worsening balance of payments only to relax them immediately developments in the balance of payments become more favourable.

2. A more positive measure should be adopted with regard to monitoring the repatriation of non-oil export proceeds. To ensure that exporters comply with the regulations, fines should be imposed on defaulters payable for every day in excess of the statutory three months they are required to repatriate their export proceeds.

3. Similarly, the requirement that unused foreign exchange be surrendered to the authorised dealers by Nigerian travellers should be more strictly enforced. Evidence of compliance with the regulations could be a criterion for deciding on subsequent foreign exchange entitlements.

4. The foreign exchange budget should be reviewed periodically during the fiscal year in order to take account of changing economic conditions. Such review exercises should involve all approving authorities. Morever, the budget should be adhered to as much as possible so that they are not reduced to mere window dressings.

5. There is need for more coordination of efforts between the foreign exchange approving authorities on the one hand and the import licensing authorities on the other. For instance, the issuing of import licences should not be done without due consideration of the foreign exchange constraint as clearly manifested by the foreign exchange budget for the relevant fiscal year. In this regard, periodic consultative meetings are called for, between import licensing authorities and foreign exchange approving authorities to afford them the opportunity of reviewing developments in the entire system.

6. Foreign exchange offenders should be severely dealt with. The experience with the defunct anti-Sabotage decree of 1977 proves that when the deterrent measures are strictly enforced, the incidence of malpractices is correspondingly reduced.

7. Instead of the present single rate of exchange, the country can adopt a multiple exchange rate. This will make for the application of different rates of exchange for international transactions, depending on the priority accorded them. This can also be reinforced by exchange auctions whereby foreign exchange users bid for the available foreign exchange. The major shortcoming of this is that only the highest bidders, in other words, those who can afford to quote the higher rates (of exchange) will benefit from foreign exchange allocations.

8. Since exchange control offers at best only a temporary relief from balance of payments problems, it should continue to be reinforced by an appropriate mix of monetary cum fiscal and income policies for the purpose of readjusting the whole structure of the country's economy to achieve a long-term solution to payments imbalances.

9. During periods of serious balance of payments problems, nothing short of outright prohibition of selected import items can be effective in reducing the rate of importation. When such a measure becomes necessary, care should be taken not to let loose immediately the situation improves. There should be a gradual transition from a period of stringency to a period of ease and vice versa as the balance of payments trends may warrant.

O. K. Anifowose,
Asst. Director of Research,
Balance of Payments Office.

Table 1

NIGERIA'S BALANCE OF PAYMENTS: SUMMARY STATEMENT

(₦ million)

Category	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
1. Balance of Trade	+173.0	+285.0	+477.5	+1166.9	+4439.3	+1487.1	1293.5	+1553.9	−741.7	+2967.4	+4084.5	−703.5
2. Services Account Balance	−268.0	−516.2	−785.9	−1078.8	−1314.7	−1367.7	−1455.0	−2082.7	−1474.4	−1724.4	−2176.3	−2948.4
3. Unrequited Transfers	+45.0	+1.8	−14.3	−35.4	−62.1	−76.8	−97.8	−118.7	−170.6	−233.5	−315.2	−346.5
4. Current Account Balance (1+2+3)	−50.0	−229.4	−322.7	+52.7	+3062.5	+42.6	−259.3	−647.5	−2386.9	+1009.5	+1593.0	−3998.4
5. Capital Account Balance	+49.2	+293.4	+269.2	+144.8	−5.9	+141.1	−50.6	+150.4	+1111.9	+813.2	+774.6	+929.5
6. Balancing Item	+47.4	+53.4	+3.7	−23.1	+45.6	−26.2	−30.0	−30.1	+18.6	+46.2	+35.0	+48.1
7. Overall Balance	+46.6	+117.4	+49.8	+174.4	+3102.2	+157.5	−339.9	−527.2	−1293.6	+1868.9	+2402.6	−3020.8
8. Monetary Movement[1]	−46.6	−117.4	−49.8	−174.4	−3102.2	−157.5	+339.9	+527.2	+1293.6	−1868.9	−2402.6	+3020.8

[1] Minus sign (−) indicates increase in assets/decrease in liabilities
Plus sign (+) indicates decrease in assets/increase in liabilities

Source: CBN Annual Report, various years

Table 2

FOREIGN EXCHANGE BUDGET AND ACTUAL DISBURSEMENT OF FOREIGN EXCHANGE: 1971-1981

(₦ million)

Year	A Budget	B Disbursement	C Difference Between A&B
1971/72	995.9	940.9	+55.0
1972/73	1,330.5	1,147.1	+183.4
1973/74	1,305.5	1,536.6	−231.1
1974/75	2,720.3	1,925.7	+794.4
1975/76	6,480.4	5,231.2	+1,249.2
1976/77	5,540.6	5,742.6	−202.0
1977/78	7,381.3	7,810.0	−428.7
1978/79	6,445.9	8,379.8	−1,933.9
1979/80	6,446.4	7,432.2	−985.8
1980[1]	6,369.6	8,680.0	−2,310.4
1981	12,500.0	15,311.5	−2,811.5

Source: Central Bank of Nigeria
[1] April-December 1980.

Table 3

FOREIGN EXCHANGE DISBURSEMENTS AND RECEIPTS (1975-1981)
(₦ million)

ITEMS	1975	% of Receipts	1976	% of Receipts	1977	% of Receipts	1978	% of Receipts	1979	% of Receipts	1980	% of Receipts	1981[1]	% of Receipts
Disbursements	4,524.6	82.3	5,477.6	83.2	6,072.9	78.4	8,383.3	110.2	6,979.9	66.7	9,474.6	66.5	13,395.9	115.7
Private Sector Imports	3,369.9	61.4	4,263.5	64.8	4,056.5	52.4	5,937.0	78.0	5,083.9	48.6	7,711.6	54.1	11,073.3	95.6
Public Sector Imports	136.5	2.4	132.7	2.0	876.9	11.3	1,404.4	18.5	769.4	7.3	324.3	2.3	579.4	5.0
Total Imports	*3,506.4*	*63.8*	*4,396.2*	*66.8*	*4,933.4*	*63.7*	*7,341.4*	*96.5*	*5,853.3*	*55.9*	*8,035.9*	*56.4*	*11,652.7*	*100.6*
Invisible Trade	*826.6*	*15.0*	*1,014.7*	*15.4*	*1,088.3*	*14.0*	*1,009.8*	*13.3*	*1,060.5*	*10.1*	*1,340.8*	*9.4*	*1,706.1*	*14.7*
Capital Transfers	*184.5*	*3.4*	*55.6*	*0.8*	*41.1*	*0.5*	*21.2*	*0.3*	*56.1*	*0.5*	*87.0*	*0.6*	*26.5*	*0.2*
Special Account	*7.2*	*0.1*	*11.1*	*0.2*	*10.9*	*0.1*	*10.9*	*0.1*	*10.0*	*0.1*	*10.9*	*0.1*	*10.6*	*0.1*
Receipts	*5,491.3*		*6,580.6*		*7,742.9*		*7,607.3*		*10,458.1*		*14,255.2*		*11,574.2*	

Source: As in Table 2
[1] Provisional

Table 4

TOTAL FOREIGN EXCHANGE RECEIPTS AND DISBURSEMENTS: 1970-1981
(₦ million)

CATEGORY	PERIOD											
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Inflow	644.0	1,038.4	1,196.4	2,236.4	5,312.6	5,491.3	6,580.6	7,742.9	7,607.3	10,458.1	14,255.2	11,574.2
Outflow	592.8	913.6	1,234.2	1,468.3	2,185.5	5,517.3	6,901.2	8,281.1	8,990.9	8,664.0	11,805.2	14,567.3
Net	+51.2	+913.6	−37.8	+768.1	3,127.1	−26.0	−320.6	−538.2	−1,383.6	+1,794.1	+2,450.0	−2,993.1
Total External Assets	*180.36	302.70	270.26	409.07	3,478.66	3,696.43	3,481.62	3,034.0	1,350.4	3,250.8	5,648.2	2,703.1

Source: As in Table 2

ANALYSIS OF PRE-SHIPMENT INSPECTION SCHEME
(₦ million)

	1979	1980	1981
1. Total FOB value of FORM M.	12,882.5	14,389.1	16,388.5
2. Total value exempt from Inspection	2,908.7	4,559.8	5,140.7
3. Total value subject to Inspection	9,973.8	9,829.3	11,247.8
4. Total values of Forms M inspected and certified	N.A.	5,095.2	6,520.4
5. Total savings of which	67.1	176.8	313.9
price reductions corrected	(N.A.)	(160.4)	(284.0)
discrepancies repatriable	(N.A.)	(1.9)	(2.3)
foreign exchange	(N.A.)	(14.5)	(27.6)
6. S. G. S. Earnings	16.5	35.9	47.5
Net Savings (5-6)	50.6	140.9	266.4

Source: S.G.S. Annual Reports, 1980 and 1981
N.A. = Not available.

APPENDIX

SUMMARY OF EXCHANGE CONTROL REGULATIONS IN FORCE (1967-1981)

1967

1. The distinction between sterling and non-sterling area was removed.
2. The basic travel allowance for residents was reduced from ₦500 a year to ₦200 per person (₦100 per child). The basic travel allowance became applicable to travel to sterling area countries which previously was unrestricted.
3. Application by authorised dealers for foreign exchange and for all transactions outside Nigeria had to be supported by relevant information including the names of the beneficiaries.
4. The pound sterling, Japanese Yen and Spanish peseta were added to the list of specified currencies and residents' holdings of these currencies had to be sold to authorised dealers.

1968

1. Importation and exportation of Nigerian currency notes and coins were prohibited.
2. Payments and receipts from sterling and non-sterling area became subject to the same regulations that applied to non-sterling areas.
3. Payments for imports in advance to receipts of goods required the prior approval of the Central Bank.
4. Authorised dealers were empowered to approve applications for payments to residents of scheduled territory currencies.
5. Payments outside scheduled territories made to an external account in the U.K. or in Nigeria currency credited to an external account with a bank in Nigeria.
6. Applications for goods received after nine months were dealt with by the Central Bank.
7. Personal remittances by foreign nationals residing in Nigeria were limited to 50 per cent of their gross taxable income in Nigeria.
8. Authorized dealers were required to surrender all export proceeds. Applications for imports were to be supported by certified bills of entry invoices.
9. Transfers in respect of dividends, profits and capital transfers were suspended as well as management fees, royalties, technical charges and commission.
10. Transfers in respect of director's fees were no longer permitted where the amount involved exceeded ₦2,000 p.a.
11. Foreign nationals having property in Nigeria were prohibited from transferring rent income or other realized values of property which were developed or bought with little or no imported capital.
12. Foreign nationals could however transfer up to a maximum of 50 per cent of their gross taxable income during the year to meet family expenses, assurance premia payments and savings if income was less than ₦10,000. Where income exceeded ₦10,000 the allowance was calculated net of income tax.
13. Cash gifts to charitable organisations were reduced from ₦500 to ₦100 per person per year.
14. All shipping companies were required to give at least one month's notice of their foreign exchange requirements.
15. The requirement that foreign exchange receipts from non-oil exports should be surrendered to the Central Bank was extended to cover all sources.

1969

1. The Government waived the requirement for import licences for cements, salt, tyres and tubes.
2. The Central bank imposed a ceiling on bank credit for imports.
3. All foreign exchange expenditures were financed from current receipts.
4. Payments for buying commission (up to 4 per cent) technical fees and other commissions which were suspended in 1968 were allowed in 1969.
5. Payments in respect of contribution to pension and provident fund were allowed.
6. Ban on repatriation of profits and dividends was partially lifted.
7. Funds realised over and above initial capital brought into the country by gambling and pools promotion could no longer be repatriated.

1970

1. Most of other exchange control measures in operation in 1969 remained in force in 1970.

1971

1. A 90-day and 180-day mandatory system of deferred payments for imports introduced.

   Under the new payments system, foreign exchange was to be released to pay for capital goods costing less than ₦50,000, essential consumer goods and raw materials, at the expiration of ninety days from the date of their arrival at a Nigeria Port. For other non-capital goods costing ₦50,000 and above were to be financed under various export credit schemes set out in a Government schedule as follows:—

   5 per cent against document or signing of contract; 15 per cent on delivery; 80 per cent in not less than one year for amounts up to ₦100,000; in not less than two years for amounts between ₦100,000 and ₦200,000 in not less than three years for amounts between ₦200,000-₦1,000.000 – ₦2 million and in not less than seven years for amounts over ₦2 million.
2. Reduction of the basic travel allowance for travel outside Africa from ₦200 to ₦150 p.a.
3. Reduction in home remittances from 50 to 25 per cent of gross annual income subject to a maximum of ₦6,000.
4. All forms of personal allowances were not to exceed 50 per cent of gross annual income. On leaving Nigeria cumulative savings can be repatriated.
5. Payments of only 40 per cent of dividends and profits due to non-residents as at 31st December, 1970.

1972 Relaxation of Exchange Control

1. Restoration of more remittances for expatriates to 50 per cent of their gross taxable annual salary subject to a maximum of ₦9,000 as against ₦7,000 formerly.
2. Basic travel allowance restored to a maximum of ₦200 per adult and ₦70 per child.
3. For travel within Africa, basic travel allowance was fixed at ₦50 and a maximum of ₦200 depending on the mode of transportation.
4. Permission was granted for remittance in full of all arrears of profits/dividends for the period through December 1970.

1973

1. Abolition of 180-day payment systems of external trade credits.
2. All imports excepting certain categories of capital goods would be paid for either at sight or on presentation of shipping documents or 90 days after date of shipments or where transit time exceeds 90 days, upon arrival.
3. No repatriation allowed for sale of real estate developed from capital generated locally except on final emigration of the owner.
4. In the case of Schedule 1 of Nigerian Enterprises Promotion Decree (NEPD) or where the vendor was leaving Nigeria finally, he was allowed:
   (a) Up to ₦10,000 on approval,
   (b) Over 10,000 – under ₦150,000 – the spread will be six monthly instalments of ₦30,000.
   (c) over ₦150,000, the rate of repatriation will be negotiable.
   (d) where the vendor was leaving Nigeria finally he was given special consideration on humanitarian grounds.
5. In the case of Schedule 11 Enterprises, the vendor has to re-invest at least 50 per cent of the proceeds of sale and the balance repatriated as in 'c' above.

1974

1. Payments for imports except plant and machinery is made at sight i.e. against shipping documents (attested invoice, bills of lading and customs bill of entry evidencing receipt of goods) or on credit terms as may be arranged between the supplier and the importer.
2. Further liberalisation of profits and dividends remittances.
3. Foreign exchange allocation for imports valued ₦20,000 and below immediately the relevant documents are submitted to the Central Bank.
4. Basic travel allowance raised from ₦200.00 to ₦400.00 per annum per adult for all private journeys and holidays; where a regional validity passport is involved the travel allowance is ₦200.00 per adult. In all cases, children will be allowed half rate of adults.

1975

1. Full restoration of normal international commercial practice in payment for imports where by:
   (a) payment for imports at shipment;
   (b) prepayments on the basis of letters of credits; and
   (c) permission granted to Commercial Banks to keep working balances abroad to ensure prompt payment.
2. Basic travel allowance increased from ₦400 to ₦1,000.

3. Central Bank branches in the States empowered to approve foreign exchange for State governments and their Statutory Corporations and agency functionaries in respect of official travels only.
4. Daily business travel allowance of ₦40 for a maximum of 30 days increased to ₦80.
5. A sum of ₦20 in naira notes and coins allowed travellers to and from Nigeria.
6. Re-introduction of the sale of international postal/money orders for payments for magazines, membership subscriptions etc by the Post Office up to a sum of ₦50.
7. The ceiling of ₦2,000 as maximum fee payable to non-resident director of a Nigerian Company was lifted and could now be whatever reasonable fees such non-resident directors earn from their membership of the boards of Nigerian Companies.
8. Repatriation of proceeds arising from the sale of alien participation in indigenised businesses could not be at once.

1976

1. The return to normal international commercial practice during the previous year was slightly modified thus;
   (a) Payments for imports against shipping documents allowed only after the submission of a certificate of clearance to the Nigerian Ports Authority/Airports Authority;
   (b) prepayment on the basis of letters of credit only in local currency to be released in foreign currrency certificate of clearance.
2. The amount in naira notes and coins permitted a traveller to and from Nigeria raised from ₦25.00 to ₦50.00.
3. Approval for business trips limited to 15 days at a time and subject to a maximum of 60 days in a year.

1977

1. Reduction from 60.0 to 50.0 per cent of consultancy and technical fees remittable by foreign consulting companies;
2. Reduction from 5.0 to 3.0 per cent of gross profit remittable as foreign management fees during the first five years of the establishment of a Nigerian enterprise.
3. Cessation of remittance of fees to Nigerian students abroad who could not produce the Student Advisory Committee authorisation or certificate from relevant Nigerian embassy.
4. Reduction of basic travel and pilgrimage allowance from ₦1,000.00 to ₦500.00 per adult, and from ₦500.00 to ₦250.00 per child under the age of sixteen years.
5. Reduction of business trips from 15 to 14 days maximum per trip.
6. Re-introduction of certificate of value of imports.
7. Establishment of the foreign Exchange Anti-sabotage tribunals.

1978

1. Maximum remittable cash gifts reduced from ₦500.00 to ₦150.00 for individuals, and from ₦1,000.00 to ₦500.00 for charitable organisations.

1979

1. The comprehensive Import Supervision Scheme (CISS) which came into effect on January 1, 1979. The scheme involves a preshipment check on the prices volume and quality of imported goods worth over ₦20,000. Specifically, the Scheme was introduced to forestall a number of malpractices including:

i. overloading of invoices for the purpose of transferring foreign exchange abroad;
ii. under-invoicing of imports in order to pay less import duties;
iii. importation of obsolete plant and machinery at the prices of new ones;
iv. importation of decayed or rotten food items and expired drugs;
v. falsification of documents generally;
vi. foreign exchange claims for goods not imported or services not rendered.
vii. over-pricing of Federal Government projects with a view to keeping the gains abroad in foreign exchange, etc.

1980

1. A maximum of 2 per cent of profit before tax as against 3 per cent of net profit after tax previously allowed, was approved as technical assistance fee. For new companies, a lump sum in lieu of the 2 per cent of profit before tax for the first three years would be considered by the Government.
2. The maximum amount payable as off-shore cost of consultancy fees remained unchanged at 30 per cent of total project cost but Governmnent would consider special cases of higher percentages on their individual merits.
3. In order to bring the practice in line with international standard, royalties are now to be related to the volume of sales instead of to profit. In general, a maximum of 1 per cent on sales value is to apply except for books and musical records which will be treated on a case by case basis and in relation to international practices.
4. The rate of home remittance for female expatriate workers married to Nigerians was raised to equalise with that of other expatriate workers in Nigeria which currently stands at 50 per cent of net salary.
5. To speed up the repatriation of the accumulated proceeds of sales of shares resulting from the 1977 Indigenisation Act, all outstanding balances were to be repatriated within a period of two years with effect from 1st April, 1980.
6. Basic travel allowance for overseas trips was increased to ₦1,000 for adults and ₦500 for children under the age of twelve years as against the rates fixed in October 1977, namely; ₦500 and ₦250, for adult and children under the age of sixteen years, respectively. Similarly, foreign exchange allowances for business travel was increased from ₦80 to ₦100 per day up to maximum of 60 days per year subject to a maximum of 21 days per trip.
7. The existing restrictions on the air-freighting of materials and supplies was modified to facilitate the delivery of urgently required items such as spare parts. Under the change, a number of such terms to be specified in a list jointly prepared by the Ministry of Finance and Commerce, would be allowed to be Air-freighted.
8. In order to minimize the inevitable delays arising from the preshipment inspection of imports introduced in 1979, industrial raw materials and spare parts covered by the Approved User Scheme were exempted from such inspection.

1981

1. No major changes in exchange control measures until towards the end of the year.

i. To facilitate processing of applications for foreign exchange for public officers travelling abroad on official duties, Central Bank branches were authorised to approve such applications without reference to the head office in Lagos.
ii. Late in the year following pressure on the external reserves, basic travel allowance was reduced from ₦1,000 per person a year to ₦800 while business travel allowance was cut from ₦6,000 a year to ₦3,000. Moreover, children under 16 years old were not entitled to basic travel allowance.

2. The expansion of the list of import items subject to compulsory advance deposits to include cement. However, such deposit was limited to 50 per cent for cement as against 100 per cent for other affected commodities. The measure was expected to reduce the volume of imports and hence the demand for foreign exchange.
3. Restrictions on remittances abroad in respect of fees for management and technical services. Such remittances were limited to 3 per cent of net profit rather than 3 per cent of gross profit hitherto allowed.
4. The lowering of consultancy fees remittable abroad to foreign association from 50 per cent to 30 per cent of total consultancy expenses.
5. The removal of the foreign exchange cover for fishing companies engaged in catching and landing fish in Nigeria using Nigerian-owned and registered vessels. An amount not exceeding 60 per cent of the value of fish and shrimps landed by foreign vessels chartered by Nigerian companies could be remitted as charter fees.
6. The introduction of a ceiling of ₦4,000 per annum on fees payable to a non-resident director of a Nigerian Company. There had been no such ceiling since 1975 when companies were allowed to fix reasonable salaries for their non-resident directors.
7. Repatriation of proceeds from the sale of shares under the Nigerian Enterprises Promotion Decree was controlled such that;
   i. amount not exceeding ₦300,000 shall, on approval, be transferred immediately; and
   ii. the excess over ₦300,000 shall be transferred at the rate of ₦3,000.00 every six months.

8. Other measures included the placing of restriction on materials and supplies Air-freighted into the country and the disallowing of foreign exchange allocations in respect of elementary and high school (G.C.E. 'O' level) students abroad, except under specified circumstances where approval may be granted by the Federal Ministry of Finance.

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