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Foreign Exchange Policy and Management

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FOREIGN EXCHANGE POLICY AND MANAGEMENT.*

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INTRODUCTION

The need for foreign currency policy and management arises only within the framework of countries engaged in international trade in contrast to a closed economy, whose scope does not transcend its intra-country trade transactions. This need is underscored by the economic theory of comparative advantage, theroy of comparative cost as well as international resource endowment differentials and imbalance. The interdependence of countries in terms of trade has grown so much that, perhaps, "no country can lay absolute claim on self-sufficiency in its resource requirements or lay absolute claim on a perfectly balanced supply of resource"[1]. By extension, since resources are limited and scarce, the need for policy formulation and management of the resources becomes inevitable.

Foreign currency, otherwise known as foreign exchange, is one of the scarce resources particularly in a developing economy. Unless the policy framework and management of this scarce resource is properly articulated in terms of its revenue generation and expenditure, or inflow and outflow, a country runs the risk of balance of trade or balance of payment problems., Moreover, in order that a country may optimise the advantages of international trade, it becomes imperative for that country to institute appropriate foreign currency policy and management.

Since it appears that foreign exchange policy is part of the foreign exchange management itself, it is intended to address first in this paper the foreign currency management tools before discussing the policies adopted in various countries. Accordingly, Part 1 of this paper highlights the foreign currency management tools.
Part II discusses the policies in external economies. Part III deals in details with the foreign currency policy in Nigeria while Part IV gives the conclusion.

*** This paper was also presented at a two-day workshop on "Treeasury Management" organised by the Institute of Chartered Accountants of Nigeria, Victoria Island, February 26&27, 1991.**

(1) Dwivedi D.N. - *Macro Economic Theory*: Vikas Publishing House, PVT. Ltd., Delhi. Page 583.

PART I
FOREIGN CURRENCY MANAGEMENT TOOLS

The main instruments employed in the management of foreign exchange (forex) resources are exchange control, portfolio diversification, administrative measures and exchange rate policy.

(i) **Exchange Control**:-

Broadly defined, exchange control is a mechanism by which a country seeks to conserve, mobilise, centralise and rationalise its foreign exchange resources for the settlement of international transactions in accordance with the priority of the country. Transactions identified as being of high priority are favoured for the purpose of disbursements while those of low priority are either discouraged or denied foreign exchange facilities. Exchange control is restrictive, selective and might be stringent.

The main source of authority for the administration of foreign exchange transactions in Nigeria is the Exchange Control Act, 1962. Under the provisions of the Act, authority for the grant of approvals in respect of foreign exchange transactions is vested in the Minister of Finance. However, most of the functions of the private sector transactions were delegated to the Central Bank which in turn delegated approving authority for most transactions to the Authorised Dealers. The position was that while the Federal Ministry of Finance retained approving authority for certain transactions, the Central Bank and the Authorised Dealers were also responsible for giving approval for other transactions. The exchange control in Nigeria was a regime of absolute control, control of interest rates, control of exchange rates and control of wages.

(ii) **Administrative Control**:-

When quantitative import restrictions through import licensing arrangement failed in Nigeria it became necessary to apply administrative control. This was done in 1982 and 1983 when the Central Bank used the requirement of Form "M" registration as a supplementary instrument of import control.

Another type of administrative control is the monitoring by the Central Bank of the utilisation of import Licences. This was to ensure that the prescribed values on the licences were not exceeded and that the items imported were in keeping with the underlying import licences.

Since a vital supporting document for each import transaction was the Clean Report of Findings, issued by the relevant Inspection Agent, the comprehensive Import supervision scheme (CISS) was also a form of administrative control. The main objective of the comprehensive Import supervision scheme was to ensure that the country received value for her expenditure.

(iii) **Diversification Policy**:-

The object of diversification policy in the management of foreign exchange resources is to have an optimal portfolio selection of assets of different currencies and securities in terms of maturities and yields in order to meet the needs of liquidity, profitability and security.

There was a phenomenal increase in our external reserves in 1974 arising from the tremendous increase in the price of crude petroleum. This development led to the setting up by the Central Bank of an Investment Management Committee in December, 1974 to deal with matters relating to the investment of the Bank's foreign exchange resources. Largely, as a result of the work of this Committee, the aims of portfolio policy was substantially realised by the end of 1976, by which time the number of convertible currencies in which the Bank's external assets were held increased to nine as against four at the end of 1974. The number of convertible currencies had increased to an remained at about fifteen (15) as at December, 1990. They included Gold, Special Drawing Rights (SDR) U.S. Dollar, Pound Sterling, Deutsche Mark and French Franc, some of them are Belgian Franc, Dutch Guilder, Canadian Dollar, Swiss Franc, Japanese Yen and Indian Rupee. Others are Italian Lira, Norwegian Krone and Austrian Schillings.

The subsequent orientation of diversification policy under the prevailing cash flow constraints tended to shift emphasis on liquidity and security criteria rather than profitability. Moreover, our holdings of external reserves strongly reflect the relative value of our currencies rather than the volume of trade with Nigeria's trading partners.

(iv) **Exchange Rate Policy**:-

Like many other countries, the main objective of the exchange rate policy in Nigeria is to have a realistic exchange rate which would remove the existing distortions and disequilibrium in the external sector of the economy as well as ease our persistent balance of payments problems. What has probably contributed to our problems in the external sector of the economy is the overvaluation of our currency. This fact has also made this country to be more import-dependent; and less self-reliant in a non-export driven economy.

In the past, different exchange rate policies have been used depending on the economic situation in the country from time to time and sometimes in response to the changing exchange rate policies in the World. These policies included parity with the pound Sterling, the gold content approach, the Dollar Peg, pegging against a basket of currencies, the import-weighted basket approach and the crawling peg, all of which were adopted under a fixed exchange rate regime. However, under the present deregulated economy, Nigeria has adopted a floating exchange rate policy with the inception of the Second-Tier Foreign Exchange Market (SFEM) in September, 1986. Accordingly, the exchange rate of the Naira vis-a-vis other foreign currencies has from that time beem market determined.

PART II
Foreign Currency Policies in External Economies:-

This part of the paper has been essentially included to discuss foreign currency policies in external economies in contra-distinction to our own domestic economy. For this purpose, the external economies has been subdivided into two:

(i) developed economies and;

(ii) developing economies.

In order to maintain a balance, this part will focus policies in two selected developed countries and two selected developing countries.

Policies in two developed economies:

(a) **United States of America (U.S.A.)**:
Imports and exports of the American Dollar are free. However, amounts over US$10,000 are subject to declaration. The US Dollar is independently floating. The currency is fully convertible. There are no restrictions on foreign payments except that remittances to and from Cambodia, Cuba, North Korea, Vietnam and Libya are prohibited unless licensed by the Treasury

Department, Office of Foerign Assets Control [2]. Certain remittances to South Africa are restricted. Cash transactions of more than US$10,000 [or the equivalent in foreign currency] must be reported to the Internal Revenue Service.

Individuals who are leaving or entering the country with more than US$10,000 in domestic or foreign currency, travellers cheques, money orders or bearer-form negotiable securities must declare these to the US Customs Service at the port of exit or entry.

(b) **France**:

France participates in the exchange rate and intervention mechanism (ERM) of the European Monetary System (EMS). Foreign exchange controls were abolished on December 29, 1989. All cross-frontier transactions as well as all transactions between residents and non-residents are free. Banks, corporations and private persons must, however, report to the Banque de France all capital movements in connection with these operations. These statistical reports are used exclusively to compile information for the balance of payments.

The imports and exports of means of payment are unlimited. However, travellers (residents and non-residents) must report the imports or exports of cash, securities or cheques and valuables to the Customs, if the amount is FF50,000 or more. Cash, securities or cheques and valuables that have been imported or exported through the post by residents or by non-residents staying in France must be reported to the Custom Authorities if the amount exceeds FF10,000 [3].

Possession of financial assets is free although certain residents (natural persons, associations, non-commercial businesses) must supply information at the time of filling their income tax statement, on any opened, maintained or closed bank account abroad.

Policies in two developing economies:

(a) **Venezuela**:

Imports and exports of the Venezuelan currency (Bolivar) are free. After the venezuelan exchange rate system had been modified on October 20, 1988, the preferential rate of Bs7.50 to 1 USDollar for essential imports was abolished at the end of November, 1989. The multiple exchange rate system which had been in force since February 1983 was scrapped with effect from March 13, 1989. The floating free market rate now applies to all foreign exchange transactions. The control on the remittance of profit to foreign investors have been abolished. All foreign investments in Venezuela must be registered. Proceeds from the export of goods from the private sector need not be surrendered to the Central Bank. The Central Bank intervenes in the free market to stabilize the rate of the

(2) *UBS Foreign Quotations 1990/91*: Published by the Union Bank of Switzerland, Zurich, 1990: page 91

(3) Ibid: page 31.

Bolivar, which was Bs47.43 to 1 US$ as at June 15, 1990[4]

(b) **Zambia**:

Imports and exports of the local currency amounting to Kwacha10.00 only are allowed. In the official market the Kwacha has been tied to the Special Drawing Rights (SDR) since November 9, 1988. On July 1, 1989, the Kwacha was devalued by 32.75% from K13.41150 to K19.94290 = SDRI. At the end of December 1989, the Kwacha/SDR parity was K24.44988 = SDRI[5].

On February 19, 1990, a dual exchange market, consisting of the official exchange rate (OFR) and the market exchange rate (MER) was introduced. The objectives of the new exchange rate system were to promote the growth of non-traditional exports, attract private foreign investments in Zambia, encourage donor balance of payments support and to reduce the amount of unauthorised dealings in forex[6]. In line with these objectives the Kwacha/SDR parity stood at K38.56885 = SDRI.

The market exchange rate, which was introduced on February 19, 1990 was fixed at K40.00 = US$1. The rate of the Kwacha against other foreign currencies was being determined from the relationship of the Kwacha versus the US Dollar. Market exchange rate on June 15, 1990 was K40.20 = US$1. The market rate was being used for most transactions.

A committee made up of government, business organisation and Central Bank representatives (the so - called Foreign Exchange Management Committee - FEMAC) met once a fortnight to allocate forex and to issue import licences. Essential imports received absolute priority. Such allocations were made at the official exchange rate. The facility also existed for importers to apply to a second window for allocations of forex at the market exchange rate. As at 1990, allocations at the second window were restricted to a range of spare parts for agricultural equipment and transportation vehicles as well as the importation of various chemicals. In addition the market exchange rate was applied to foreign exchange receipts from tourism, proceeds from the export of non - traditional goods, foreign exchange receipts of foreign embassies as well as foreign private investment in Zambia. One hundred percent of the foreign currency proceeds from exports of goods and services must be surrendered to the Central Bank. However, in order to cover their foreign currency liabilities, exporters had automatic access to 50% of their export earnings.

PART III
Foreign Currency Policy in Nigeria:

Having discussed the foreign currency policies in external economies comprising two selected developed and two developing countries, particularly USA, France and Venezuela and Zambia respectively, this part of the paper is devoted to deal exclusively in details with the Nigerian case.

PRE - SFEM POLICY:-

During the Pre-SFEM period, the Central Bank of Nigeria was the sole custodian of foreign exchange. All receipts of foreign exchange meant for this country were channelled through the CBN and all

(4) Ibid. page 93

(5) Ibid. page 97

(6) Forex is an acronym for foreign exchange.

remittances of foreign exchange were made by the CBN on behalf of Authorised Dealers who carried out the instructions of their customers in respect of foreign exchange transactions.

The Exchange Control Act 1962 vested in the Monetary Authorities the power to approve all applications for foreign exchange in respect of all import transactions and invisible trade transactions. Thus, while the Federal Ministry of Finance approved applications in respect of certain invisible trade transactions including repatriation of capital, profits and dividends, the CBN approved foreign exchange applications in respect of import transactions and certain invisible transactions. The invisible transactions include educational expenses, conferences, seminar, business travels, basic travel allowances, medical etc.

The determination of exchange rates was an exclusive preserve of the CBN Pre - SFEM, when exchange rates were solely managed and administered by the bankers' bank. Exchange rates were then determined daily by the CBN in relation to the performance of the U.S. Dollar and Pound Sterling in the world foreign exchange market.

As mentioned earlier in this paper, different exchange rate policies have been used in the past depending on the economic situation in the country from time to time and sometimes in response to the changing exchange rate policies in the world.

For example, the country's exchange rate maintained parity with the Pound Sterling until the devaluation of the Pound in 1967. The country before 1971 adopted the Gold Content approach under which the value of the Nigerian currency was derived from its gold content vis-a-vis the Gold contents of the Pound Sterling and the US Dollar. After December, 1971 the value of our currency was pegged against a basket of currencies in a fixed exchange rate regime. The country also adopted an import- weighted basket approach in 1978 when the value of the Naira was derived from the relative import trade weights of seven basket currencies. In 1984, the country's exchange rate was determined through the value of the Pound Sterling and the US Dollar which served as two intervention currencies. In 1985, however, the exchange rate was determined through the value of the US Dollar which was then used as a sole currency of intervention. From 1984 - 1986, the exchange rate policy was precisely that of a crawling peg.

PRESENT FOREIGN EXCHANGE POLICY AND THE GUIDELINES:

(i) **Present Policy**:-

After the oil boom in the 1970s, the country's official foreign exchange reserves which stood at about US$10 billion at the end of December, 1980 became repidly depleted to a low level of about US$3.81 billion at the end of 1981. Since 1982, the Nigerian economy experienced varying degrees of decline in external reserves when compared to end of Demember, 1981 figure which, itself, recorded a staggering shortfall. For example, the external reserves as at December, 1982 amounted to US$1.5 billion. The exchange rate as at that time was N0.6702 to 1 US Dollar. The external reserves as at December, 1983 totalled US$1.2 billion and the exchange rate was N0.7486 to 1 US Dollar. Also the external reserves figure as at December, 1984 was US$1.4 billion while the exchange rate as at that time was N0.8083 to 1 US Dollar. The reserves of US$1.6 billion as at the end of 1985 did not show any appreciable improvement still, when compared to 1981 figure. As at December, 1985, however, the exchange rate was N1.0 to 1 US Dollar. It would thus be seen that the exchange rates during the period 1982 - 1985 did not actually reflect the precipitous downturn in the economy even though there was a gradual depreciation of the Naira during the period. Under this situation, the ailing economy could not support our relatively strong currency.

It was the realisation that our currency was too strong in an ailing economy that led to the search for a realistic exchange rate. The Government in its 1986 budget formulated a number of policy measures which included, among others, the introduction of the Second - Tier Foreign Exchange Market (SFEM) as a core component of the Structural Adjustment Programme (1986 - 1988). The SFEM which was essentially aimed at correcting the over- valuation of the Naira has, among others, the main objective of achieving:-

(i) a realistic exchange rate for the Naira through the interplay of market forces as well as;

(ii) the deregulation and liberalisation of exchange and trade controls.

The Second - Tier Foreign Exchange Market [SFEM] started with the first bidding session [auction] on 26/9/86 in the CBN. On that date, the exchange rate in the First - Tier Foreign Exchange Market, which was being administratively determined, was N1.5691 to 1 US Dollar while the rate in SFEM was N4.6174 thus showing a depreciation of 66% when the latter was compared with the former. The First - Tier Foreign Exchange Market was terminated and a Unified Foreign Exchange Market [FEM] was evolved on 2/7/87 under a floating exchange rate system with an exchange rate of N3.7375 to 1 US Dollar.

In accordance with the Second - Tier Foreign Exchange Market Decree, 1986, SFEM started with two market arrangements: the Auction and the Interbank market. The auction is the arrangement under which bidding sessions are held periodically in the Central Bank with the Authorised Dealers to evolve a market determined exchange rate. Operation in the interbank market, however, implies dealings between the Authorised Dealers on one hand, and dealings between the authorised dealers and the members of the public on the other hand. The Interbank market segment was an integral part of the broader Foreign Exchange Market.

During the first three months of the operation of SFEM, the Interbank market was dormant because of the regulation of interbank rates otherwise known as autonomous rates. It was therefore recognised that the supply of the much needed funds to the market was largely a function of the exchange rates. Consequently as from 14/1/87 the interbank market rate was deregulated. Under this dispensation, the interbank market was allowed to operate free from the rates which emerged at the bidding sessions subject to a maximum spread of 1% between each bank's buying and selling rates.

It was later observed that there was a widespread abuse of the deregulation of the market in the banking system. The Authorised Dealers kept the autonomous rates constantly high reflecting faster depreciation of the Naira in the interbank market than in the official FEM market. For example the autonomous rates during the period January - August, 1988 ranged from N4.3611 TO N6.5773 while the rates in FEM were in the range of N4.1749 to N4.5830. The autonomous rate during that period showed a premium of between 4.5% and 43.5% over the FEM rates [see Appendix 1]. As a result of this undesirable development, steps were taken at the end of 1988 to abolish autonomous rates.

In a continuous search for a realistic exchange rate, various pricing methods have been used since the inception of SFEM. During the first and second bidding sessions on 26/9/86 and 20/10/86, the CBN used the simple average of the successful bid rates in selling forex to the Authorised Dealers. However, Marginal rate was used as a cut - off point to determine successful bidders. This method was criticised on the ground that the much needed realistic exchange rate might be elusive. As from the 3rd bidding session on 9/10/86, there was a change to the sole use of marginal rate, not only to determine successful bidders but also to debit the account of Authorised Dealers on the sale of forex made to them. The use of the Marginal rate continued until 19/3/87 when the exchange rate had depreciated from N3.9195 to N4.0203 per 1 US Dollar.

As a result of the persistent depreciation of the Naira, the Dutch Auction was introduced with effect from 2/4/87. Under the system, the marginal rate continued to be used to determine the successful bids but the successful banks were debited at their various bid rates plus 1% exchange equalisation levy. The Dutch Auction system remained in force till the end of 1988 when there was an observed wide differential of about 55% between the FEM rates and the autonomous market rate, a situation which caused enough concern to necessitate a review.

Consequently, on January 9, 1989 a modified Foreign Exchange Market [FEM] was introduced and there was a fusion of the auction rate and the autonomous rate. As from that date a unified exchange rate became applicable in the banking system and the fortnightly bidding session under the Dutch Auction System was replaced by a daily session. The exchange rate as at January 9, 1989, the first daily auction in 1989, was N6.8700 to 1 US Dollar from the closing rate of N5.3530 in December, 1988.

The daily auction system was in use throughout 1989 when there was a relative stability of the exchange rate from N6.8700 to N7.6500 in December, 1989. The system continued in 1990 with an opening rate of N7.7500 in January, 1990, which gradually depreciated to N8.3932 on 13/12/90 [See Appendix 2]. On 14/12/90, the CBN reintroduced the Dutch Auction system, and the use of the marginal rate, under which the Authorised Dealers were obliged to bid for their customers and no longer for themselves. With the reintroduction of the Dutch Auction system which returned the auction to a more competitive forex market, the exchange rate depreciated to an effective rate of N8.4697 on 14/12/90 from N8.3932 on 13/12/90.

Given the need for a pre - market thorough preparation and collation of customers' bids in Lagos and from branches outside Lagos, the frequency of the Dutch Auction market was reduced to once a week with effect from 14th January, 1991. The Dutch Auction which started with an exchange rate of N8.4697 on 14/12/90 had a closing rate of N9.0001 as at 31/12/90. The year, 1991 opened with an exchange rate of N9.0439, a depreciation of 0.48% when compared with the closing rate.

The exchange rate policy, the pricing methodology and the mechanics for the operation of the foreign exchange market do not, per se, constitute the foreign currency policy but have to be complemented by well articulated guidelines for the dealers, operators and traders in the market. It is for this reason that the current relevant guidelines are being focused in the subsequent paragraphs.

The Guidelines:-

Guidelines are issued to inform, to educate and to aid the Authorised Dealers as well as members of the public in the efficient operation of the market. Guidelines are also issued to streamline procedures and to clarify misconceptions and ambiguity. Apart from the original guidelines that were issued at the inception of SFEM, many circulars have been issued subsequently to the Authorised Dealers. The guidelines which form part of the foreign exchange policy in Nigeria, are being reviewed from time to time in line with the prevailing circumstances and operation of the market. Highlighted below are some major guidelines[7].

(i) All corporate bodies which earn and retain foreign exchange and which own ships, aircraft, etc. shall meet the cost of servicing, repairing and/or maintenance of such vessels from their earnings subject to satisfactory documentation.

(ii) Declaration of Form TM of foreign currency imports of US$5,000 [Five thousand dollars] or its equivalent and above is required only for statistical purposes.

(iii) Permissible limits for technical service charges, management fees and royalties shall range from 1.0 per cent to a maximum of 5.0 per cent. The approval of the Federal Ministry of Finance and Economic Development

(7) *Foreign Trade and Exchange Policy Measures for 1991* : Circular Ref. TED/AD/1/91 to All Authorised Dealers issued by Central Bank of Nigeria on 3/1/91.

will continue to serve as documentary evidence for the purpose of purchasing foreign exchange to cover such transactions. A maximum of 20.0 per cent is allowed as consultancy fees and is limited to projects of very high technology for which indigenous expertise is not available. Service agreements for such high technology joint ventures should include a schedule for the training of Nigerian personnel for take - over.

(iv) All foreign visitors to Nigeria shall pay their hotel and incidental expenses in foreign currency. However, where there is documentary evidence that adequate amount of foreign currency has been exchanged into local currency through licensed banks and/or bureaux de change on arrival in the country, local currency shall be accepted in settlement of hotel bills by foreign visitors to Nigeria. All hotels that lodge foreign visitors shall open and operate ordinary foreign currency Domiciliary Accounts with any bank into which their foreign currency receipts shall be paid.

(v) Charges for services rendered by non - resident experts in respect of the design, installation and commissioning of projects shall continue to be treated as an integral part of the total cost of such projects. They shall be subject to verification by the National Office of Industrial Property [NOIP] and the prescribed procedures for Form "M" and the CISS shall apply. No direct or separate remittance on Form 'A' will be allowed in respect of such service charges.

(vi) All new imports of machinery and other capital equipment valued at more than US$1.0 million shall be on the basis of deferred payment arrangements with down-payment of a maximum of 15.0 per cent of the invoice value. Payment of the remaining portion will be spread over a period not less than six months in keeping with instalmental payment procedure.

(vii) The validity of approved Form 'M' and the relative letters of credit shall not be extended more than once. The initial life of an approved form 'M' shall be 180 days. However, in the case of machinery, plant and equipment made to specifications, the initial validity period shall be one year subject to extension for a maximum period of six months on application to and approval by Central Bank. Consequently, an approved Form 'M' has a maximum life span of one and half years [540 days] in the case of machinery, plant and equipment and one year [360 days] in the case of other imports.

(viii) The requirement that exporters open Domiciliary Accounts marked "Export Proceeds", into which all non-oil export proceeds are fully credited shall continue. Such export proceeds should be repatriated and credited to the "Export Proceeds" Domiciliary Accounts not later than 90 days from the date of shipment of goods. Exporters are allowed to use their export proceeds for eligible transactions, subject to the prescribed documentation and procedures for FEM transactions. Exporters are also free to sell in FEM part or all of the export proceeds deposited in their "Export Proceeds" Domiciliary Accounts at prevailing rates to the receiving bank only, retain the proceeds in the account, or transfer them to their other "Export Proceeds" Domiciliary Accounts with other banks for the purpose of consolidating their holdings to meet payment obligations on eligible transactions.

(ix) **Tenor of Bills of Exchange**
The tenor of all bills of exchange except those in respect of imports of plant and machinery with deferred payments arrangements shall continue to be for a

period of not more than 180 days from the date of shipment [that is, bill of lading date] and payment of interest shall be limited only to the tenor of the bill. If bills of exchange remain unpaid after their tenor date, no accrued interest shall be allowed beyond the tenor date.

(x) **Oil Bunkering**
Foreign exhange proceeds of oil bunkering shall continue to be surrendered 100.00 per cent to the Central Bank of Nigeria by the oil bunkerers in return for the naira equivalent. The oil companies are also required to render monthly returns to the Trade and Exchange Department of the Central Bank and the Ministry of Petroleum Resources on their bunkering operations. All oil bunkering transactions shall be registered on Form NCD3(B). The receiving banks in such transactions shall pass over to the Central Bank 100.00 percent of the foreign exchange proceeds, while crediting the oil bunkering company's account with the naira equivalent at the time proceeds are received.

(xi) **Educational Remittance for Undergraduate and Postgraduate Studies**:
All applications for educational remittance are eligible transactions in the FEM for both undergraduate and post - graduate studies in Overseas institutions of higher learning. Approvals would be on the basis of satisfactory documentation as prescribed by the Central Bank.

(xii) All Government Parastatals, earning foreign exchange, shall surrender 75% of such receipts to the Central Bank of Nigeria. Such parastatals shall provide monthly returns of all their foreign exchange receipts to the Central Bank of Nigeria and the Federal Ministry of Finance and Economic Development. All disbursements from the remaining 25% shall be only with the prior approval of the Federal Ministry of Finance and Economic Development.

(xiii) **Submission of Registered/Approved Forms 'M' to Pre-Shipment Inspection Agents Liaison Offices**
All Importers and Authorised Dealers are reminded that approved Forms 'M' must be submitted to the Pre - Shipment Inspection Agents Liaison Offices within 30 days of registration. Registered/approved Forms 'M' not so submitted to the Liaison Offices of Pre - shipment Inspection Agents shall neither be accepted for execution in the FEM nor be eligible for revalidation.

(xiv) The maximum limit of Expatriate Home Remittance [PHR] is 75 percent of salary net of tax.

(xv) Personal Travel Allowance [PTA] hitherto known as Basic Travel Allowance [BTA] is a maximum of US$500.00 [Five hundred dollars] per annum per person of the age of 16 years and above. Foreign nationals will continue to be entitled to PTA within their 75 percent PHR limit. Nigerian children born abroad with foreign passports, and who are above the age of 16 years are also entitled to PTA provided their status as Nigerian is confirmed and that they are bona - fide students.

(xvi) Business Trip Allowance [BTA] is a maximum of US$5,000 [Five thousand dollars] per annum per company. These allowances are to be granted on a Calendar year basis, that is, January to December. Sale of foreign exchange for personal travel allowance or business trip allowance shall be based on the usual international air - ticket in respect of the beneficiary in each case. However, all categories of international air tickets qualify for purchase of PTA and BTA whether they are students' rebate excursion or nominal value/staff rebate tickets provided the application/beneficiary is 16 years old and above and the application otherwise satisfies the documentation requirements.

(xvii) **Importation/Exportation of the Naira**
The importation and exportation of the naira remain prohibited. However, the amount which residents of Nigeria are allowed to carry on them for settlement of local transport expenses immediately on their return to Nigeria is increased to a maximum of ₦100.00 [One hundred naira].

(xviii) In furtherance of the policy on liberalisation of Foreign Exchange regulations on the one hand and the need to enhance proceeds from non-oil export trade on the other, guidelines on the receipt and mode of payment for exports are hereby reviewed. With effect from 1st January, 1991, exporters shall again have the option to export on the basis of either confirmed and irrevocable letters of credit or bills for collection or open account or any other internationally-accepted payment mode. However, whatever the mode of payment adopted, efforts should be made to repatriate the relevant proceeds with 90 days from the date of shipment of the consignment.

(xix) Import duty payable on all registered Forms 'M' for transactions on bills for collection and open accounts whether or not they are valid for foreign exchange shall be calculated on the basis of the prevailing exchange rate in the FEM on the date of registration of the Form 'M'. However, where a revalidation of the Form 'M' is sought and obtained after the expiration of initial validity period as previously stipulated, import duty payable shall be calculated on the basis of the exchange rate prevailing on the date of the revalidation. For transactions executed on letters of credit terms, the applicable exchange rate shall be the prevailing rate(s) at which the importer purchased the foreign exchange. Where the foreign exchange for one Form 'M' is purchased at different rates, the weighted average of the rates shall be the applicable rate for the computation of the import duty payable. For revalidated Form 'M' the applicable rate shall be the prevailing rate on the date of the revalidation of the Form 'M' and its relative letters of credit.

(xx) The comprehensive Import Supervision Scheme [CISS] shall continue to operate for all import transactions. With effect from January 1, 1991, only goods valued below US$1,000.00 shall be exempted from pre-shipment import inspection.

(xxi) The level of foreign participation in joint ventures is increased to a minimum of $250,000 or N2.0 million with effect from January, 1991.

(xxii) The administrative requirement of remitting dividends to foreign investors instalmentally is removed with effect from January, 1991. Henceforth, companies that are in a position to remit dividends at once shall be allowed to do so subject to the necessary documentation requirements.

(xxiii) Borrowing of money for the purpose of repatriating funds from Nigeria is not allowed. Henceforth, debt-equity ratios shall be strictly enforced for all foreign investors in Nigeria.

(xxiv) **Inspection of Containerised Imports**:
Government has continued to lose revenue through evasion of import duty on containerised imports. In order to forestall this, all containerised imports, irrespective of the value and sources of financing, shall be subject to current Import regulations including pre-shipment inspection with effect from January 1991.

(xxv) **Capital Importation**:
Funds in respect of direct capital investment in Nigeria shall be imported through commercial and merchant banks who are to make applications to the CBN for certificate of capital importation.

Such application shall be accompanied by:-

(a) a certificate of capital importation issued by the banker addressed to Director of Foreign Operations;

(b) tested cable received from the banker's overseas correspondent advising payment;

(c) documentary evidence of disbursement of payment to the local beneficiary and

(d) Purpose of the capital import.

PART IV

CONCLUSION:

Part I of this paper has addressed briefly the foreign currency management tools in Nigeria. Part II has discussed the foreign currency policies in external economies, highlighting the policies in two selected developed economies of USA and France as well as two developing economies of Venezuela and Zambia. Part III of the paper, however, dealt in details with the foreign exchange policy in Nigeria. That part has aptly addressed the Pre-SFEM policy which was a period when the forex market was controlled by the monetary authorities: the Federal Ministry of Finance and the Central Bank. It was a period of absolute control: control of interest rate, control of exchange rate, control of commodity prices, import licensing, export licensing and control of wages. The Pre-SFEM period was transformed in 1986 to an institutionalised FEM period with a deregulation of the economy, liberalisation of trade and an adoption of market approach in determining prices of all goods including the exchange rates. Part III of the paper also dealt extensively with policy-related guidelines for the handling of foreign trade and foreign exchange.

Finally, it is pertinent to note the distinction between the currencies of the selected developed economies which are fully convertible and those of developing economies including Nigeria, which are not convertible [8]. For a country to achieve convertibility of its currency, there are pre-requisites. These include the use of appropriate exchange rate, absence of trade control and exchange restrictions, adequate reserves of foreign exchange, gold, Special Drawing Rights (SDR), or in aggregate terms, the external reserves. The country should also have comfortable reserves with the International Monetary Fund (IMF), possess a highly competitive market and free economy. Nigeria should work towards the attainment of this desirable economic goal in the long run.

(8) Convertibility of a currency may be defined as the capability of that currency to convert to, exchange with, transfer to, purchase with, acquire with or be disposed for, other foreign currencies.

APPENDIX 1

COMPARISON OF THE AUTONOMOUS RATES WITH FEM RATES - JANUARY TO AUGUST, 1988.

PERIOD	AUTONOMOUS RATES (Naira Per 1 US. Dollar)	FEM RATES (Naira Per 1 US. Dollar)
JANUARY	4.3611	4.1749
FEBRUARY	4.8250	4.2611
MARCH	4.3470	4.3152
APRIL	5.8900	4.2023
MAY	6.4943	4.1103
JUNE	6.6660	4.1913

APPENDIX 2

MONTHLY AVERAGE 1986 – 1989 ₦/US DOLLAR EXCHANGE RATE

	(1986)	(1987)	(1988)	(1989)
JANUARY		3.6471	4.1749	7.0389
FEBRUARY		3.7014	4.2611	7.3828
MARCH		3.9213	4.2663	7.5871
APRIL		3.9054	4.2023	7.5808
MAY		4.1617	4.1093	7.5051
JUNE		4.0506	4.1916	7.3477
JULY		3.8081	4.6087	7.1388
AUGUST		4.0809	4.5830	7.2593
SEPTEMBER	4.6174	4.2073	4.7167	7.3429
OCTOBER	4.1203	4.2761	4.7748	7.3934
NOVEMBER	3.5311	4.2890	5.1479	7.5037
DECEMBER	3.1828	4.1665	5.3530	7.6221

Source:- Foreign Operations Department

MONTHLY AVERAGE RATE 1990
₦/US DOLLAR

JANUARY	–	7.8621
FEBRUARY	–	7.9009
MARCH	–	7.9388
APRIL	–	7.9400
MAY	–	7.9400
JUNE	–	7.9424
JULY	–	7.9523
AUGUST	–	7.9623
SEPTEMBER	–	7.9743
OCTOBER	–	8.0089
NOVEMBER	–	8.3200
DECEMBER	–	8.7071

₦/US $ EXCHANGE RATE
JANUARY, 1991.

3rd	9.0439
8th	9.0914
10th	9.1729
16th	9.2311
23rd	9.3386
30th	9.3947

₦/US DOLLAR EXCHANGE RATE
DECEMBER 1 - 31, 1990

DATE	
3	8.6500
4	8.6500
5	8.6500
6	8.6500
7	8.6500
10	8.6500
11	8.6500
12	8.4075
13	8.3932
14	8.4697
17	8.6595
18	8.7854
19	8.8232
20	8.8403
21	8.9002
24	8.9292
27	8.9686
31	9.0001

Source: Foreign Operations Department
Central Bank of Nigeria,
Lagos.