Economic History of Developing Regions

ISSN: 2078-0389 (Print) 2078-0397 (Online) Journal homepage: www.tandfonline.com/journals/rehd20

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To cite this article: Abel Ezeoha, Emmanuel Onah & Chibuike Uche (2025) The United Kingdom, the Sterling Area operations, and reserve management in Nigeria: The politics of the Sterling Guarantee Agreement (1931–1979), Economic History of Developing Regions, 40:3, 202-228, DOI: 10.1080/20780389.2025.2495614

To link to this article: https://doi.org/10.1080/20780389.2025.2495614

Published online: 02 Jun 2025.

ECONOMIC HISTORY OF DEVELOPING REGIONS
2025, VOL. 40, NO. 3, 202–228
https://doi.org/10.1080/20780389.2025.2495614

ECONOMIC HISTORY SOCIETY OF SOUTHERN AFRICA
Routledge Taylor & Francis Group
UNISA university of south africa PRESS

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The United Kingdom, the Sterling Area operations, and reserve management in Nigeria: The politics of the Sterling Guarantee Agreement (1931–1979)

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ABSTRACT
From a historical perspective and using a country-specific case analysis, this paper examines the claim that, under a bilateral or multilateral arrangement, a country's monetary system unwittingly causes frustrations in the monetary management of other countries. It explores the dynamics of Nigeria's relationship with the UK throughout the Sterling Area regime and documents the diplomatic reactions of Nigeria to the variations in the role of the sterling as a reserve currency. The paper shows that attempts by Nigeria to optimize the benefits of her membership were scuttled by mutual suspicion, a lack of requisite central banking capacity, and fiscal recklessness. On the one hand, Nigeria benefited from the Sterling Area operations by gaining easier and cheaper access to British capital markets. On the other hand, despite the efforts of the Nigerian government to adjust to the changing sterling realities, the country's internal capacity constraints and sub-optimal choices ended up undermining her reserve management system, while also serving as a significant source of frustration to the British monetary authority.

ARTICLE HISTORY
Received 11 September 2024
Accepted 14 April 2025

KEYWORDS
Nigeria; Britain; Sterling Area; Sterling Guarantee Agreement (SGA); reserve management

1. Introduction

This paper explores the intertwined nature of international monetary operations. From a historical perspective and using a country-specific case analysis, the paper examines how a country's monetary system could unwittingly influence the monetary management choices of other countries. The available literature along this line documents how money management practices in the former British colonies were shaped largely by two policy thrusts of the British – namely, the operations of the Sterling Area system (1931 to 1974) and the Sterling Guarantee Agreement (SGA) (1968 to 1974). The Sterling Area was originally an informal monetary union involving 'countries integrated through

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British-controlled banks, and currency systems' (Pressnell 1978, 68). It later served as a multilateral monetary arrangement comprising Commonwealth countries (except Canada) and some non-Commonwealth countries such as Iraq, Iceland, Jordan, Burma, and the Irish Republic. The Area members had at least two things in common: they were countries with strong historical links with the UK and/or had the UK as a major export market (Mushin 2012).

The Sterling Area arrangement resulted from the economic crisis of 1929–33 that led to many countries abandoning the gold standard and relying on the British pound to guarantee the values of their currencies (Mushin 2012). Operationally, members of the Area were allowed to conduct their external trade in sterling, hold the main body of their external financial reserves in sterling, look to London as the main source of external capital (Gaitskell 1952; Schenk 2010), and be able to draw upon the Sterling Area dollar pool in meeting deficits arising with the dollar area (Wright 1954). By serving as an international trade and payment facilitator, as in the case of other monetary arrangements in Africa like the Communauté Financière Africaine (CFA) franc Zone (Taylor 2019; Wilson 2021), therefore, the Sterling Area brought about a significant reduction in transaction costs of doing business between the colonies and the British.

The SGA, which was designed in the aftermath of the 1967 sterling devaluation, was targeted at preventing rapid divestment from sterling assets and waging against the collapse of the Sterling Area (Naef 2022; Schenk 2010; Strange 1971). Under the scheme, the UK agreed to safeguard the value of official sterling holdings of participating countries on the condition that such countries maintained a negotiated minimum sterling proportion (MSP) of reserve assets. Therefore, the SGA was designed to provide stability in sterling; in the event of depreciation in the sterling's exchange value, members were compensated for the consequent losses. The 1967 devaluation was outstanding because it resulted in most Area members increasing the momentum of diversifying their reserves away from the sterling (Eichengreen and Flandreau 2009; Schenk 2008).

The scope and significance of the Sterling Area operations in the former British colonies have been no doubt studied from diverse perspectives. One side of the debate is that the role of the member countries, especially the peripheries, was passive as they did not have the required institutional and technical structures in place to fully exploit the bilateral monetary arrangement (Hopkins 1970; Schenk 1997). Nigeria, for instance, was one of the Area members without a central banking structure and a capital market in place until 1958 and 1961, respectively. The monetary management structure in place, the West African Currency Board (WACB), was itself owned by the British government and was based in London. Another side focused on the dynamism associated with how the British government deployed the Sterling Area operations as a strategy for asserting and sustaining its influence in the global economic and monetary space (Nyamunda 2017; Schenk 2020). A more recent set of studies interrogated why some countries pulled out from the scheme earlier and the incentives that led to some members sustaining their memberships until the official end of the arrangement in June 1972 (Avaro 2024; De Bromhead et al. 2023a; Schenk 2020). The empirical work of De Bromhead et al. (2023a, 415) delved into how 'international transactional factors, the effects of British geopolitical retrenchment, Commonwealth cultural ties, and distributional issues', and 'domestic political and historical factors interacted to play a key role in sterling's international unravelling'.

By focusing on the case of Nigeria, an Area-member country that stayed in the arrangement even beyond its official end in 1972, our study contributes significantly to this latter debate. It does this by employing historical and archival materials from Nigerian and British sources to document and analyse the role of domestic economic and political factors and the transition from colonial status to independence on the Sterling Area operations in the African context. Nigeria recorded a large number of such transitional events, which included the military coup that disrupted civil governance, the 1967–70 Civil War between the Nigerian government and the separatist Biafran government, the change from a regional to a federal system of governments, and the discovery of oil and its consequent role as the main source of the country's foreign exchange earnings.

As was the case in the rest of the former British colonies, the operation of the Sterling Area imposed some financial burdens on both the UK and the Area members. Whereas the costs to Britain have been well captured in previous studies (Pressnell 1978; Schenk 1994, 2010), the implications for the Area members have been analysed – albeit scantly – mainly from the perspective that sterling reserves accumulated by some of the Area members were largely redundant (Avaro 2024; Schenk 2020; Wright 1954). Access to the accumulated reserves, for instance, was restricted by the British authorities to prevent 'unauthorized monetary flows from Sterling to non-Sterling countries' (Wright 1954, 573). A recent study by Avaro (2024, 939) documented how attempts by the South African and Indian governments to gain greater access to their sterling reserves were met with threats from British authorities.

The fact that members' access to sterling reserves was restricted fuelled the argument that the Sterling Area arrangement was designed to serve the political and economic interests of the UK (Henshaw 1996). This view is reinforced by an earlier claim that the 'colonies existed as mere back gardens to be exploited for the enrichment of the mother country' (Awolowo 1966, 36). By 'tacitly agreeing to accumulate Sterling balances rather than demand immediate payment for goods and services exported to the United Kingdom' (Zupnick 1955, 71), the operations of the Area inadvertently undermined the development efforts of the members. This was especially so for the colonies and Protectorates who were glued to the arrangement because they had neither independent central banking structures nor monetary management systems of their own. Whereas there were no central banking structures in place in most African countries before independence, the post-independence central banking arrangements were largely built on colonial structures.

Related to the problem of access to accumulated sterling reserves were two major sets of constraints. They were 'the tendency of the central pooling system to contribute to inflationary pressures in the Sterling Area; and how the system contributed to the misallocation of scarce resources regarded from the vantage point of the area as a unit' (Zupnick 1955, 71). On the Nigerian side, which constitutes the subject matter of this paper, the frustration imposed by the restriction was mentioned in a secret memo from the Federal Ministry of Finance to the permanent secretaries of the regional ministries of finance where the former had expressed that:

> Quite apart from the fact that it is clearly contrary to the overall national interest that such large Nigerian-owned assets should remain sterile and unproductive insofar as the economic

> development of Nigeria is concerned, the very existence of these very large balances is a continued source of embarrassment when the Federal Government is seeking to raise external loans. Experience has shown that it is virtually impossible to convince would-be-lenders that Nigeria really requires a substantial injection of overseas capital for the public sector of the economy when these very large balances are lying idle.[1]

Attempts to use the SGA to mitigate the constraints against the Area members were also not very successful. This was because the potency of the later scheme to stabilize the sterling and prevent rapid diversification was challenged by the underestimation of the rate of sterling reserve accumulation in countries like Nigeria and Saudi Arabia, which inadvertently hiked the costs of operating the SGA, induced volatility in sterling reserves, and rendered the scheme less efficient (Schenk 2010). Nigeria's foreign exchange fortune, for instance, changed significantly following the discovery of crude oil and the country becoming an oil-producing and exporting nation in 1958 (Akindele 1986; Madujibeya 1976). This was not originally foreseen in the design of the Area arrangement.

The above challenges notwithstanding, some of the countries, including Nigeria, held on to their membership up to the end of the arrangement in 1974. On what informed members' decisions, two schools of thought have emerged. Championed by the British Treasury, the first school was anchored on the claim that the sterling was not just an international currency of choice, but one that was too difficult to dispense with without disrupting the prevailing global financial order. In the words of the Treasury, for example, it was at that time doubtful 'whether the Commonwealth preferences would survive in its present form if the Sterling system did not exist'.[2] Scholars who aligned with this view have similarly argued that countries retained their membership because it was in their best interest to do so (Henshaw 1996; Wright 1954).

The opposing school, featuring scholars like Hugh Gaitskell, Elliot Zupnick, D. K. Fieldhouse, and recently Maylis Avaro and de Bromhead and colleagues, focused on the exclusivity of some key clauses in the Sterling Area framework (Fieldhouse 1986; Gaitskell 1952; Zupnick 1955). Examples of such clauses include the non-convertibility clause that prohibited members from diversifying their sterling balances, even amidst potential losses; the central pooling system and the consequent inflationary pressure against the Area members; and the requirement for 100% cover for members' fiduciary issues of notes and coins in London (Gaitskell 1952). Central to the argument was that members stayed because they lacked the capacity and the economic structure to do otherwise. Investments in local money and capital market assets were limited, and London could offer more convenient and viable options (Olakanpo 1961).

Interestingly, country-specific case studies that interrogate diplomatic episodes and negotiations on the terms of the SGA and the Sterling Area conditions tend to favour the contestation that the continued membership of some other Commonwealth African member countries was due to internal capacity and institutional constraints. Such relevant country-case and archival studies are well summarized by White (2016) and de Paiva Abreu (2017). The case studies have, in recent times, become important in providing background evidence on the intertwined link inherent in collateral monetary

[1] See for details The Federal Ministry of Finance internal memo by the Permanent Secretary dated 7 April 1960 (F.10886/III/422).

[2] Document forwarded to the United Kingdom Information Office by H. O. Morris via Confidential Memo dated 9 October 1958 (FCO 141/ 13751).

management systems. The capacity of country case studies to unearth details of diplomatic episodes and gauge reactions is responsible for the recent call for case-by-case accounts of the operations of the Sterling Area (Narsey 2016; Schenk 2020). This is especially so for a country like Nigeria, which was at the receiving end of all the stages of British monetary management experiments – from the currency board to the Sterling Area and a post-independence interlocking monetary linkage. The emergence of Nigeria as an oil-producing nation equally led to an increase in her influence in the Sterling Area. The country was also a special case for her 'vital role in attempting to preserve the stability of Sterling and the recovery of the British economy' (Hinds 1999, 108). Nigeria, for instance, was considered a fertile ground for British international banking interests, in that after South Africa, she was Barclays Bank's largest and most profitable overseas banking operation (Barclays Bank DCO 1971). Relying on the case of Nigeria, our study revisits the contestations on why some of the Sterling Area members stayed tight in the arrangement even when it was no longer fashionable to do so.

To achieve its goal, our paper relies on three major sources: The first set of sources is made up of historical materials mainly from the National Archives of Nigeria (e.g. Federal Ministry Finance internal memos – F.10886/III/422 and F10894/47; budget speeches, and the Northern Region's Ministry of Trade and Industry memos – No. ORH5/496), the British National Archives, and files from the Bank of England (BoE) Archive. The second includes original Nigerian sources based on official government publications, national media accounts, and other relevant reports. The third set of sources includes secondary literature focusing on the history and operations of the Sterling Area and the SGA. After this introduction, section 2 lays the premise for monetary operations in Nigeria from the emergence of the WACB to the institution of the Sterling Area system. Section 3 explores how Nigeria adapted to the various sterling guarantee arrangements that were operationalized before the scheme was allowed to elapse in 1974. Section 4 critiques the various factors that shaped Nigeria's continued engagement in the Sterling Area system, even after the expiration of the SGA, while section 5 concludes the paper.

2. Nigeria, the WACB, and the Sterling Area operations

The Sterling Area operation drew from the principles and operations of the WACB. The WACB, which was established in October 1912 and was headquartered in London, had a membership made up of Nigeria, the Gold Coast (Ghana), The Gambia, and Sierra Leone. Each member was incorporated as a British Colony, Protectorate, or Trust Territory. The operations and performance of the WACB in the British West African colonies are well documented by Schenk (1997), Uche (1995, 1996), and Hopkins (1970). While the monetary activities of the colonies were by design overseen by the headquarters in London, the Board broadly undertook the task of managing the linkage between overseas sterling supply and local sterling demand. By virtue of her membership in the WACB and her status as a British colony, Nigeria automatically became a Sterling Area member at the initial stage of the arrangement in 1931. As in most other colonial blocs where the currency board system operated, the WACB laid a firm foundation for the emergence and operations of the Sterling Area.

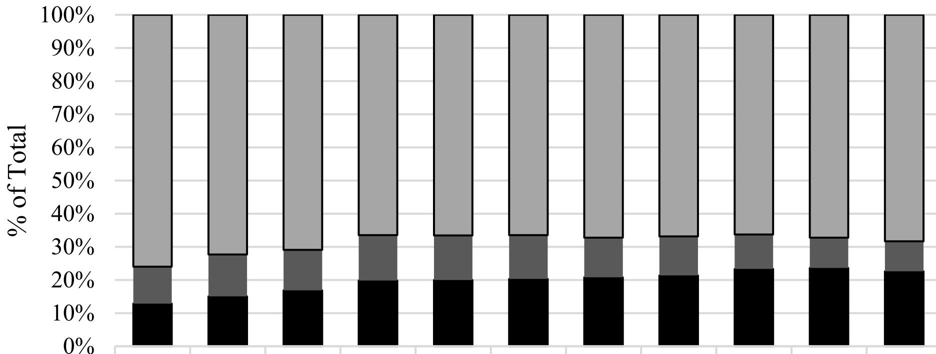
The underlying principles of WACB, some of which constituted the building blocks of the Sterling Area scheme, include that exchange rates in the member countries were quoted in sterling, official reserves were held in sterling; 'payments and private assets were normally routed or held in London; and [there was] freedom of payments made within the Sterling Area, but restrictions on payments outside' (Masson and Pattillo 2004, 5).[3] As with the WACB, the Sterling Area operated to mobilize and preserve sterling reserves. Circumstantially, the emergence of the Area coincided with the outbreak of the Second World War in September 1939 and the consequent attempt by Britain to conserve wartime foreign exchange and mount trade controls (IMF 1996; Schenk 2020). To secure membership in the Area, the British authority enticed members with incentives involving a certain degree of freedom of movement of exchange and commercial controls (Avaro 2024; Gaitskell 1952; Wright 1954). This option fits well in Seddon's (2021, 755) stratification framework, which yields to the desire of the principal to 'limit the possibility that member states will exit when pressures arise', especially concerning the fear that members, if allowed, would shift towards the accumulation of their reserves in the US dollar (Schenk 2013).

Under both the Sterling Area and the WACB arrangements, Nigeria's role and influence were visible. Not only was the country a major reserve surplus member, but her influence within West Africa was equally responsible for the region's copious engagement in the entire arrangement. As evidenced in Figure 1, the percentage of West African colonies' reserve balances to total balances ranged from 16.9% in 1946 to as high as 35% by 1955. This compared to a range of 13–21% for East Africa within the same period. By 1956, Nigeria and the Gold Coast (now Ghana) alone accounted for up to 30% of the entire sterling reserve holdings (Schenk 1994).

With the establishment of the Central Bank of Nigeria (CBN) in March 1958 and to flag independence in October 1960, Nigeria exited the WACB and theoretically cut the umbilical cord that tied its monetary fortunes to that of the British. Although the country changed from being administrated by the Queen and Governor-General to a Republic on 1 October 1963, not much of the impact of the change was seen in the economic structures in place. In reality, the long-term trade relations and the operations of the Sterling Area persisted (Ojedokun 1971, 214). The introduction of a Nigerian pound and the subsequent outbreak of a Civil War in 1967 impacted the country's monetary relationship with the UK but did not significantly affect the status quo. In effect, the Nigerian pound remained paired one-to-one with the British Sterling from 1958 to 1968. The 1967–70 Civil War, for instance, resulted in a rapid depletion of the country's external reserves and consequent deterioration in the balance of payments position (Oshikoya 1990); a decrease in foreign exchange earnings due to a sharp decline in crude oil production (Sule 1982); and a change in the country's governance structure and the monetary system. Of note, the Biafran government equally established its own central bank and floated its own sovereign currency. There was even an allegation on the side of the CBN officials that the depletion was 'further aggravated by the hawking of the Nigerian £ in international financial markets by the rebels [Biafran government] for their purchase of arms' (Isong 1968, 8).

Notwithstanding, a more popular view was that the Nigerian Civil War had a substantial negative effect on the country's sterling reserve balances. A channel for such an effect was the desperate search for funds to finance the federal army.[4] Corroborating this view, the

[3]For details of the reactions of Nigerians to the dollar restriction programme of the British Government, see the Northern Region's Ministry of Trade and Industry memo by the Permanent Secretary dated 16 July 1957 (No. ORH5/496).
[4]Also see the Civil War account by Siollun (2009).



	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
East Africa	14.7	17.5	17.2	20.6	20.2	19.9	17.8	17.6	15.6	13.6	13.2
West Africa	16.9	20.8	23.8	29.9	30.0	30.6	30.9	32.0	35.2	35.1	33.1

Figure 1. Colonial sterling balances – 1946–56. Source: ODI (1964), British Aid-5 Colonial Development, Overseas Development Institute, London.

then Federal Commissioner of Finance, Chief Obafemi Awolowo, had along this line posited that 'it was an overriding policy of government that nothing should be spared' and that 'the financial resources of the country were to be mobilized and deployed for the accomplishment' of the objective of winning the war (Awolowo 1970, 5–6). He equally observed that 'the pressure on our foreign exchange reserve also began to mount inexorably at an unprecedented and unpredictable rate' (7). It was also in a bid to weaken economically the Eastern regional bloc, the stronghold of the separatist Biafran government, that the Nigerian military government dissolved the country's regional governance system (Uche 2002). The government then adopted a centralization policy that saw the replacement of the erstwhile four autonomous regional structures (Northern, Western, Eastern, Mid-Western regions) with 12 state structures on 27 May 1967. It is essential to note that the state creation took place the same day the Eastern Region was declared an independent state of Biafra. The government also changed the national currency on 3 January 1968 to block the Biafran Republic from accessing the Nigerian pound for war financing (Adesina 2018; Owen 2009; Uche 2002). In an interview, Chief Obafemi Awolowo admitted that the change was 'to prevent Ojukwu taking the money which his soldiers have stolen from our Central bank for sale abroad to buy arms' (The News 2020). The consequence of such measures included substantial depletion of the country's sterling reserves and a balance-of-payments crisis due to fiscal recklessness and a decline in foreign exchange earnings. It has been argued, along this line, that subsequent changes in the Sterling Area arrangement were caused by the actions of major sterling holders, such as Nigeria, as well as external developments and pressure from non-Commonwealth Sterling Area members (Akindele 1986; Uche 2002, 2008).

Although a series of devaluations of the Sterling had occurred in the past, the 18 November 1967 devaluation by 14.3% was arguably the most significant because it 'marked a watershed in Britain's place in the international economy and for the global role of Sterling' (Schenk 2002, 551; also see Bank of England 1974). The confidence brought to the sterling by the Area arrangement was then tested, especially as all member countries were adversely affected. For Nigeria, the devaluation resulted in great losses for the government and reduced the Nigerian pound value of the sterling element of Nigeria's foreign assets by £8.3 million (Nafziger 1972, 232). It raised the cost of servicing external debts, which then were denominated in pounds sterling and brought about alarming speculative pressures against the Nigerian pound, with speculators even going 'to the extent of naming the exact date that the Nigerian £ would be devalued' (Isong 1968, 8). The Nigerian pound later escaped devaluation and, in the judgement of the then Federal Finance Commissioner, Obafemi Awolowo, 'we lost substantially as a result of the Sterling devaluation, and would have lost much more if we had devalued' (Awolowo 1970). It was not surprising that the SGA scheme was later judged to be exploitative by top officials of successive military governments. This was acknowledged in a British government telex quoting Brigadier Tunde Idiagbon, the then Chief of Staff Supreme Headquarters (Vice President) of Nigeria, as follows:

> Undeterred by this loss and confident that the British economy would recover, we entered into the Sterling Guarantee Agreement with Britain from 1968 to 1974, during which time we maintained a minimum of 60% of our foreign reserve in Sterling. On a number of occasions during the period, the Sterling rate fell below the guaranteed level of 2.4 dollars. All that we got in compensation for the last three years of this bilateral agreement was a mere three million seven hundred and fifty-six thousand pounds. A grave act of bad faith was perpetrated when Britain unilaterally abrogated the agreement in 1974.[5]

Some of the countries (including Nigeria), having attained independence in the early 1960s, consequently took charge of their own monetary management, at least in principle. The affected Area members utilized the opportunity to adjust their national reserves to reflect their changing patterns of trade which were increasingly involving more non-UK suppliers.[6] As shown in Figure 2, the direction of Nigeria's exports, for example, increasingly shifted from the UK to the USA. Specifically, Nigeria started increasing the proportion of gold and other foreign currencies held in its reserves to meet its increasing balance of payments deficits out of its sterling balances (see Figure 3 for the deficits, especially for the 1960 to 1967 period).[7] Also, the central banking law in the country was consistently amended to empower the apex bank to pursue a policy that would 'induce the Nigerian business community to rely less on the London Money Market and more on domestic sources for their monetary and financial needs'.[8]

Another major issue was the causality between the UK's resolve to join the European Economic Community (EEC) in January 1973 and the restraints imposed by the Sterling Area operations. Firstly, the future of the sterling played an important role in the decision of the UK to join the Community. Secondly, the applications of the UK to join the EEC

[5]See Whyte to Foreign, Commonwealth and Development Office (FCO), Confidential telex dated 6 July 1984 (BoE 8A210/ 16). According to P. B. Edgley of the Bank of England: 'Idiagbon's claim that Nigeria lost N 16.3mn from the value of foreign reserves as a result of sterling's devaluation appears to be close to the mark.' See P. B. Edgley to S. J. Wordsworth, letter dated 7 September 1984 (BoE 8A210/ 16).

[6]See, for an account of this, Secret HM Treasury internal memo from Edgley to D. A. Walker dated April 1976 (BoE 39413).

[7]See for details, HM Treasury internal memo by N. A. Nagler dated February 1969 (BNA T 312/ 2831).

[8]Some of the series of amendments included the 1958 Ordinance amended in 1961 and 1962 to clarify the regulatory powers of the Central Bank over the commercial banks; the Central Bank of Nigeria Act (Amendment) Decree 1967, the Currency Conversion Decree 1967, the Central Bank of Nigeria (Amendment) Decree 1968, and the Banking Decree of 1969 (see Tomori and Girvin 1972, 341).

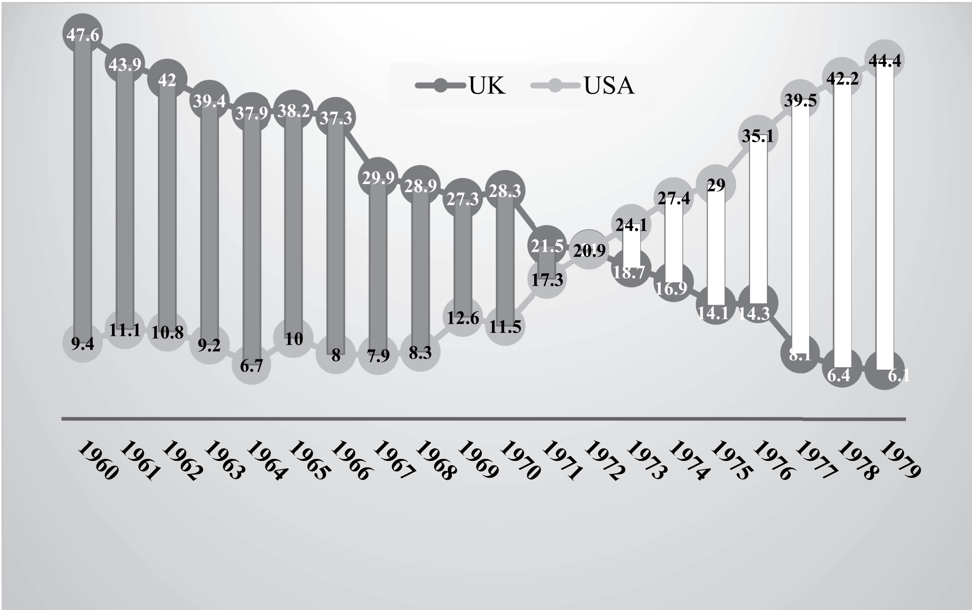


Figure 2. Direction of Nigeria's external trade relation with UK and USA compared, 1960–79 (as percentage of total value of exports). Source: Central Bank of Nigeria, Economic and Financial Review (1968, 1970, 1975, 1977, 1981).

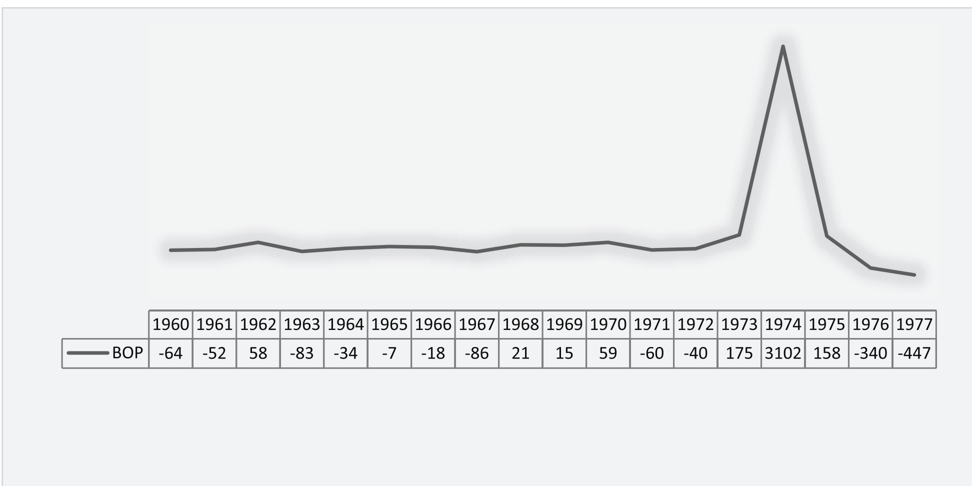


Figure 3. Nigeria's balance of payments (millions of Naira) – 1960–77. Source: Central Bank of Nigeria (CBN), Economic and Finance Review for Various Years.

consecutively in 1961 and 1967 were declined because of the belief that such close links with the Commonwealth vis-à-vis the Sterling Area arrangement could hinder its dedication to the EEC conventions (Steinnes 1998). This was because the international stability of the sterling was dependent on the perceived danger that the accumulated sterling balances held by resource-rich area countries such as ‘the Gold Coast (Ghana), Malaya and Nigeria posed to the international stability of the pound’ (Hinds 1999, 112). For instance, the sterling balance for the Gold Coast by 1957 stood at over £200 million, whereas that of Nigeria by 1959 was over £216 million (Krozewski 1993, 256).

The EEC team was also concerned with the claim that its negotiations with the UK could have enormous third-party consequences and thus required that great care be taken in dealing with the subject matter. This perhaps explains the ‘conspiracy of silence’ around monetary issues during the accession negotiations (Strange 1967, 7). It was, therefore, not a coincidence that the UK’s 1967 application to join the EEC was made in the same year that it devalued the sterling. Towards the end of 1967, it had become obvious that the policy thrust of the UK government was to gradually decrease the influence of the Sterling Area while preventing the mass diversion of members’ foreign reserves away from the sterling. To avert the impending exodus from sterling holdings, the UK government immediately in 1968 began SGA negotiations with the concerned countries aimed at guaranteeing against a further diminution in the value of sterling balances held by such countries (Newton 2013). In doing this, it adopted what Seddon (2021, 760) referred to as the stratification strategy that allowed it to ‘maximize its utility by avoiding collective bargaining and instead exploiting the system’s fragmentation and heterogeneity by setting different policies for different members’. The next section examines how the negotiation played out with an influential Sterling Area member: Nigeria.

3. Nigeria and the signing of the SGA

As earlier argued, the SGA was an innovative strategy adopted by the UK to deal with the dwindling fortune of the Sterling Area. The Agreement, which officially came into force in 1968, was designed to checkmate diversification away from the sterling to dollar reserves and provide a dollar value guarantee for most of the sterling reserves held by Sterling Area monetary authorities. The terms of the Agreement, as submitted by the British authorities, demanded that the affected members of the Sterling Area individually sign up to five specific commitments:

> Firstly, to obtain undertakings from countries that they would hold a minimum percentage proportion of their total external reserves in Sterling that was not lower than the percentage as at June 1968. Secondly, to obtain undertakings that the promised guarantee would exclude Sterling holdings above 20% of official external reserves. Thirdly, to persuade countries to agree that a charge should be levied for the guarantee. Fourthly, for undertakings to be valid for seven years and subject to review at any time by mutual consent, and fifthly, to obtain assurances that 15 countries would make deposits of foreign currencies with the Bank for International Settlements totalling around $2,200 million (Rogers 2012, 74).

The Agreement, which was negotiated and signed on a case-by-case basis, focused on ensuring that official holders of sterling reserves were each guaranteed from losses arising from a fall in the exchange rate of the sterling against the US dollar. The most conspicuous aspect of the SGA was the MSP. At the start, the UK government wanted a higher margin to shield itself from higher liabilities likely to be mounted by sterling exposures. On the other hand, the Sterling Area members wanted lower margins to ensure a flexible reserve management system. The prevailing specificities of each country

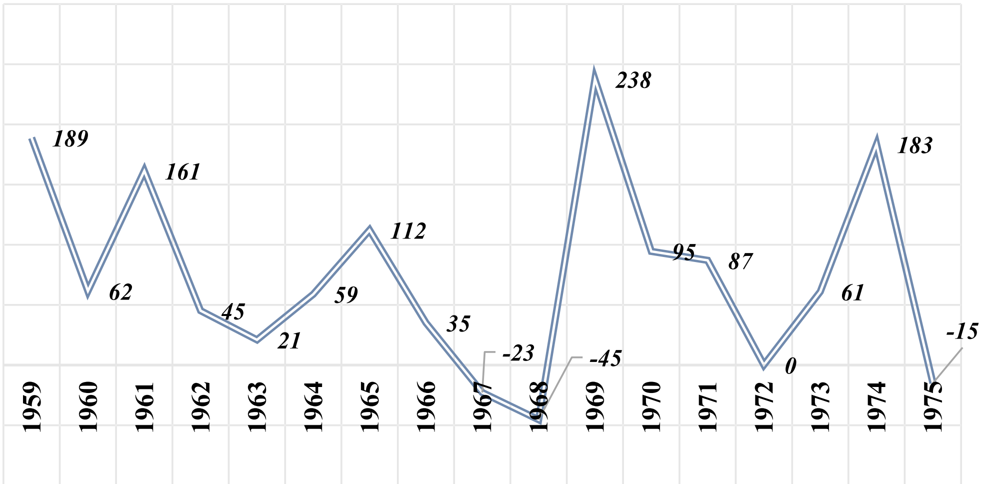


Figure 4. % Growth rate of crude oil exports. Source: Sule (1982, 23).

eventually emerged to influence the outcome of the negotiations. For Nigeria, the negotiation was complicated by several factors, including the political unrest at that time and the Nigerian Civil War (Tomori and Girvin 1972). The war inadvertently weakened the federal governance structure, considering that public service professionals from the separatist Biafran bloc, which comprised the Eastern regional part of the country, were then said to be the stronghold of the service. There was also a drastic decline in foreign trade, particularly as Nigeria's percentage share of Organization of the Petroleum Exporting Countries (OPEC) crude oil export dipped from a pre-war level of 2.8% in 1966 to 0.8% in 1968 (Akindele 1986, 18). The growth rate in total crude oil export also dipped sharply in the first two years of the war – from 35.1% in 1966 to – 22.8% and −45.4% in 1967 and 1968 (see Figure 4) (Sule 1982), which meant less foreign exchange earnings for the Nigerian government.[9] Expected also was the fact that the Nigerian government had to massively deplete the balance of its sterling reserves to finance the war. As a consequence, the Civil War and the political instability at that time also caused some delays in the commencement and progress of the SGA negotiation (Uche 2008). For the Nigerians, the negotiation process relegated the need for a robust SGA exit to a contingent focus on getting more foreign exchange earnings to finance the Civil War.

Nigeria's contingent approach to the sterling reserve management strongly influenced the contents of the agreement, especially in the specific areas of the size of the MSP, the reserve constituents, the basis for interest charges against the MSP, and the operationalization challenges. On the required size of the sterling holdings, a secret telex to the Commonwealth office on 5 September 1968 reported that Adamu Atta (Permanent Secretary, Federal Ministry of Finance) had argued that the Executive Council had taken a definite line on 60% MSP.[10] He could not possibly alter this proportion even by a small amount

[9]See also the Full Text of Address 1970/1 Budget Speech By Chief Obafemi Awolowo, The Federal Commissioner for Finance, 21 April 1970.
[10]See Secret Telex from Sir D. Hunt to Commonwealth office dated 5 September 1968 (BoE OV 44/ 299).

without reference to the Council – a stand that was understandable because of the tension induced by the civil war and more so because currency management was part of the Nigerian military government's war tools. This was because the acceptance of UK proposals would require significant policy shifts from the pending decision to diversify sterling balances.[11]

Although the negotiation was similarly challenging for other major sterling holders, the British were able to exploit the 'system's fragmentation and heterogeneity' to deal with the member countries individually on unequal terms (Seddon 2021, 760). For instance, stronger monetary management capacity made it possible for Area members like Malaysia, Singapore, and Australia to secure a much lower commitment of 40% MSP and a private agreement to allow the level to float at 47–48% (Schenk 2008). In the case of Nigeria, the capacity challenge was noticeable in a secret memo from the Federal Ministry of Finance, acknowledging that it was 'inevitable for the semi-official bodies to invest in Sterling assets given the absence of a developed money market in Nigeria providing the range of facilities for the investment of funds which the London market does'.[12] The autonomy of the regional governments at the time shielded them from the dictates of the central government, especially concerning their reserve management. This meant that a feasible option for the federal government was to morally persuade the regions to align with its idea of mobilizing foreign exchange for national development. This was evident in a secret memo from the CBN offering to assist the regions to participate in the federal government's efforts to centralize and repatriate the country's overseas assets for maximum domestic use.[13]

Schenk (2010) offered further insights into this, explaining that members secured agreement based on the relative strength of their domestic monetary systems. Accordingly, colonies with the largest MSPs reflected 'the continuation of colonial monetary arrangements that required 100% Sterling backing for local currency issue and the denomination of most government reserves in Sterling' (Schenk 2010, 292). Figure 5 further demonstrates the inverse correlations between the local monetary management system and the size of the MSP.

The second controversial basis for the negotiation was the provision that the Nigerian government would pay a charge for the UK government guarantee of their sterling holdings. The discriminatory nature of this provision was such that whereas it was a mandatory clause for the former colonial Commonwealth members, it was left out in the negotiations with independent nations like Singapore, Hong Kong, Australia, New Zealand, and the Republic of Ireland (Capie 2010). The Nigerian authorities, for instance, argued that given the fact that the strengthening of the sterling would benefit the private sector as well as the Overseas Sterling Area, it would be unfair for the full burden of the cost of the scheme to fall exclusively on public sector finances of Overseas Sterling Area countries.[14] According to an internal memo of the HM Treasury, the Nigerians were

[11]See His Majesty's (HM) Treasury internal memo by N. A. Nagler dated February 1969 (BNA T 312/ 2831).

[12]See Federal Ministry of Finance internal memo by the Permanent Secretary dated 7 April 1960 (F.10886/III/422). The lack of interest in the local money markets by semi-official bodies (such as marketing boards, regional development corporations, local government/native authorities, post office savings bank) was a great deal considering that at that time, those groups held about 73.85% of the country's official sterling assets (see Federal Office of Statistics, Lagos, July 1960).

[13]See a secret letter of the Central Bank of Nigeria to the Kano Native Authority, Kano, dated 9 August 1963.

[14]See Secret Telegram from Bell to Commonwealth Office dated 3 March 1968 (BoE OV 44/ 299).

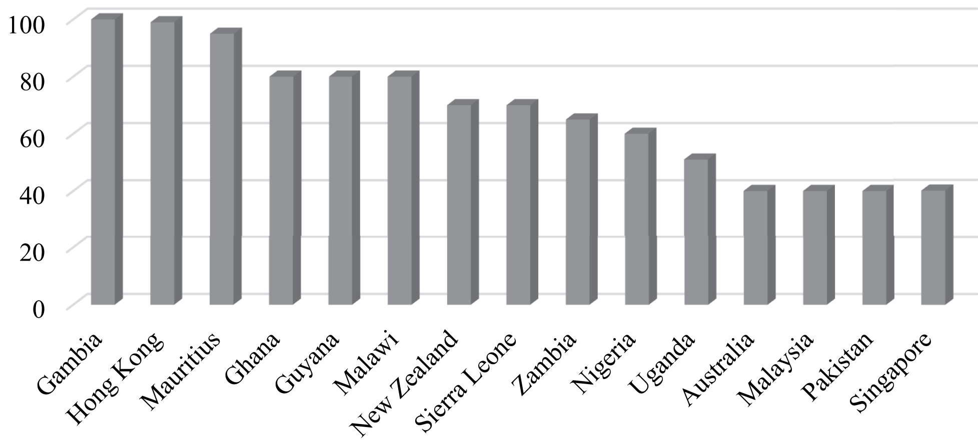
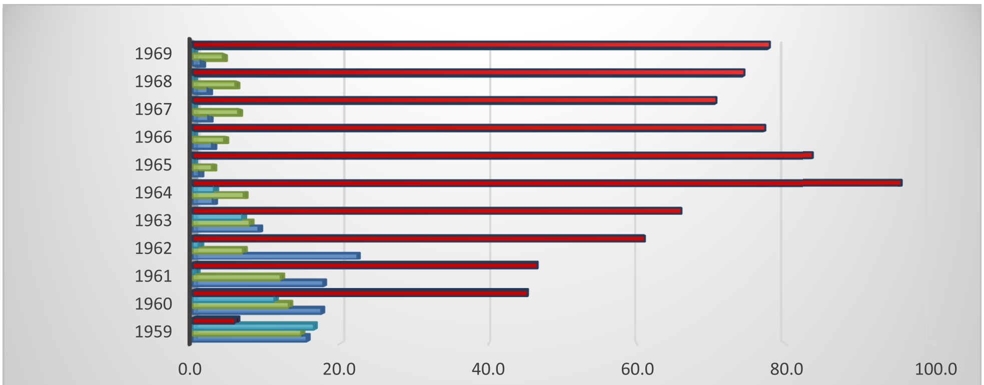


Figure 5. Level of 1968 Minimum sterling proportion (MSP) compared across major sterling reserve holders (as % of total). Source: Schenk (2010, 294).

very much opposed to the charge proposals. They claimed that this would fall exclusively on the central government although private holders of non-guaranteed Sterling would benefit equally from increased stability (Capie 2010). The argument of the Nigerians was apt given that such private holders were largely foreign businesses who at the time dominated major economic spheres in the country (Onimode 1978).

The third area of controversy had to do with the constituents of the reserves. Specifically, the preferred position of the UK government was that for the agreement, Nigerian reserves should include all the reserves held by the various layers of governments and semi-governmental institutions in the country. The British also wanted the Nigerian government to maintain 70% of these reserves in sterling. The Nigerians, however, argued that their MSP should be calculated regarding only their central bank's reserves – a legitimate argument because for the greater part of the mid-1950s to late 1960s, the reserves of the regional governments and other semi-official organs of the government (such as the marketing boards and development corporations) were outside the control of the Nigerian federal government and the CBN.[15] The Nigerian government had as such insisted that the reserves of their regional governments and semi-official government corporations be excluded from calculating the MSP. The aim was to avoid the constraints imposed on the country by the pre-independence monetary controls. Clement Isong, the then Governor of the CBN, also 'made a slightly emotional statement about the need for the central bank to have elbow room. An MSP of 70 percent overall would be too rigid', essentially considering that the actual proportion of the country's sterling reserve was just 66%.[16] As shown in Figure 6, the argument of including the central bank's held sterling reserves in the calculation of the MSP made no sense at the early stage of the negotiation (by 1959), but essentially lost steam from 1960 when the proportion of reserve holding by the bank grew to 60% and above.

[15]Federal Ministry of Finance. 1960. Sterling Assets of Governments and Semi-Official Organisations – Provisional Figures for 31 March 1960 and Revised Figures for 31 December 1959 (F10894/47).
[16]See Secret Telex from Sir D. Hunt to Commonwealth office dated 5 September 1968 (BoE OV 44/ 299).



	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
CBN	5.8	45.2	46.7	61.1	66.0	95.7	83.8	77.3	70.7	74.5	77.9
Marketing Boards	16.5	11.2	0.4	0.9	6.7	2.9	0.0	0.0	0.0	0.0	0.0
Regions/States	14.8	13.1	12.0	6.8	7.7	6.9	2.6	4.3	6.2	5.8	4.1
Federal	15.5	17.5	17.7	22.3	8.9	2.7	0.9	2.6	2.1	2.1	1.1

Figure 6. Foreign exchange assets of the banking and official institutions (£N million). Sources: Central Bank of Nigeria (CBN) Economic and Financial Review (for the relevant years).

Despite the position of the Nigerians, the HM Treasury insisted that 'Federal and Regional Government balances, which were theoretically available to the Government, should be included in order to prevent their potential diversification.'[17] It conceded, however, that the 'balances of semi-official corporations and certain pension funds should be excluded from reserves to calculate MSP although they would remain covered by the guarantee in return for an undertaking that these balances would be maintained in Sterling and not diversified'.[18] It was in the context of the above dynamics and negotiations that the lower MSP of 60% was agreed for Nigeria.[19] Specifically, the Nigerian authority signed this agreement with the government of the UK on 24 September 1968. Under the scheme, Nigeria was required to maintain a minimum of 60% of its official reserves in UK sterling assets. In return, the government of the UK committed (to Nigeria and other affected countries) that in the event of the middle sterling/USD rate in London falling, and remaining, for 30 consecutive days, 'below $2.3760 (1% below the parity of $2.40 ruling when the agreement was concluded), a payment in Sterling would be made to respite the dollar value of officially-held Sterling exceeding 10% of each country's total official external reserves' (Bank of England 1974).[20] The next

[17]See HM Treasury internal memo by N. A. Nagler dated 5 February 1969 (BNA T 312/ 2831).
[18]Ibid.
[19]See HM Treasury secret internal memo by N. A. Nagler dated 5 February 1969 (BNA T 312/ 2831).
[20]See also D. Hunt (BHC Lagos) to O. Arikpo (Minister of External Affairs, Nigeria), secret letter dated 24 September 1968 (BNA DO 118).

section shows that given the inherent disagreements in the negotiation, it was not surprising that the actual implementation was met with even more diplomatic tussles.

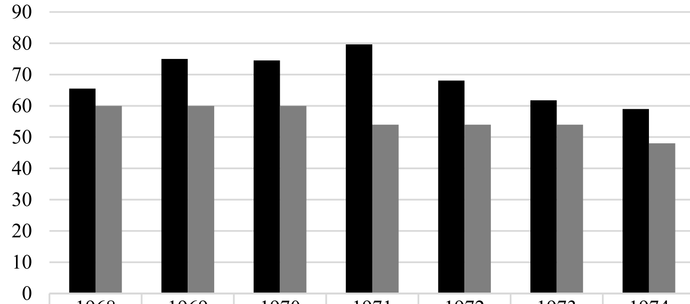
4. Controversies around the SGA implementation

There were disagreements in the interpretation and operationalization of the SGA between Nigeria and Britain. In effect, early attempts at the operationalization were ridden with mutual suspicion between the two. In June 1971, for instance, Roy Fenton (the head of the BoE's Overseas Department at that time) observed that the bank was continuously matching figures received from London depositories with the local advice and writing central banks 'if the figures diverged significantly for more than two months. The only countries still giving rise to more than transient problems on this score are Ghana, Nigeria, and Trinidad.'[21] Fenton's interpretation of the problem was insightful because of his important role in the creation of the CBN in the late 1950s, including having to act as its first Governor from 1958 to 1963. With specific reference to Nigeria, HM Treasury explained its suspicion of the causes of the above divergence. This was based on its belief that it had been the practice of the CBN 'since soon after the civil war to conceal some movements of foreign exchange in its fortnightly returns in which external assets have been consistently published at, or around the target mark of N£45 million'.[22]

The above line of suspicion was, however, not uncommon among the British authority. For example, the British were suspicious of the move by Singapore to swap a £10 million gold deposit for sterling investments in the London money market, which caused it to begin to investigate the country's sterling dealings in greater detail (Schenk 2010). It also believed that any excess of the N£45 mn target was concealed in 'other securities' which acted as a 'header to … keep published external assets steady when there is a decline in reserves'.[23] On the other hand, it was conceded that although the Nigerians were behind with their reporting under the Sterling Agreement, HM Treasury 'has no reason so far to suspect that they are not disclosing the true position'.[24] This was all more true considering that the country's proportion of sterling holdings never at any point fell below the MSP, as evidenced in Figure 7.

The real problem with operationalizing the SGA manifested by the time the agreement was due for renewal in 1971. The UK government was already rescinding its earlier position for higher MSP, due to its push for EEC membership. On the side of Nigeria, the oil boom at that time meant more surplus foreign exchange earnings and higher flexibility in reserve management, and a threat to the sterling due to the volatility of international crude oil prices (Krozewski 1993). In principle, for Nigeria, the contestation shifted from the push for lower MSP to a fresh concern raised that the sterling might be replaced by an alternative medium and that if this happened, countries like Nigeria who had built their reserves hugely on the sterling would be at the losing side (Awolowo 1970). The threat was real considering the inflation pressure on the sterling and the subsequent devaluation, which made the US dollar more attractive for reserve holdings by central banks (Eichengreen 2005). This fear manifested clearly when Britain, through the

[21]Ray Fenton to C. R. Bell, letter dated 21 June 1971 (BNA T312/ 2831).
[22]Ibid.
[23]Ibid.
[24]See Tomkins to Lee, letter dated 19 January 1971 (BNA T312/ 2831).



	1968	1969	1970	1971	1972	1973	1974
■ Average Sterling Proportion	66	75	75	80	68	62	59
■ Minimum Sterling Proportion (MSP)	60	60	60	54	54	54	48

Figure 7. Proportion of sterling in total Nigerian external reserves (%). Source: Bank of England Archive, File No. 8A210/16.

Chancellor's letter delivered by the British High Commission (BHC) in Lagos, proposed on 28 July 1971 to renew the SGA with Nigeria.

While receiving the letter, Mr Obi (Deputy Permanent Secretary, External Finance) informed Mr Hope (BHC, Lagos) that the Nigerian government was not against the renewal of the agreement. It feared, however, that 'the renewed agreement would not run its course to September 1973 because the role of Sterling might be changed before that date'.[25] Mr Hope was, however, of the view that 'there was really no connection between the consideration of Sterling's role after our entry into the EEC and the renewal of the Sterling Agreement with Nigeria which would otherwise lapse in two months' time'.[26] He nevertheless extended the assurance of the Chancellor that wider consultations would be made to 'surely resolve any doubts or problems on this score'.[27]

The guarantee of certain official overseas holdings of sterling was consequently discontinued, through the 12 November 1971 Budget speech of the Chancellor of the Exchequer (Bank of England 1971). Notwithstanding, the Nigerian government continued its unfiltered push for a lower MSP, possibly to gain more space in its overseas reserve management. It was as a consequence of this that Britain proposed the reduction of the MSP for Nigeria from 60 to 54%.[28] Britain also proposed to renew said agreement for another two years.

Under the above circumstances, not much progress was achieved during the subsequent negotiations. The claim of the British authority, for instance, was that the Nigerians in charge of the negotiation, who were 'imperfectly qualified to judge the somewhat specialized issues involved, were understandably reluctant formally to commit their Government'.[29] In addition to the above constraints, there was at the time no Finance Commissioner, and the Permanent Secretary of Finance did not have the powers to commit the Nigerian government on such an important issue without explicit approval from the Federal Executive Council.[30] The former Commissioner, Obafemi Awolowo, resigned

[25]See Secret Telex from Packard to FCO dated 28 July 1971 (BoE OV 44/ 299).
[26]Ibid.
[27]Ibid.
[28]See P. B. Edgley to S. J. Wordsworth, letter dated 7 September 1984 (BoE 8A210/ 16).
[29]B. H. C. Lagos to P. A. R. Marshall, letter dated 23 September 1971 (BNA T 312/ 2831).
[30]It was not until 14 October 1971 that Shehu Shagari was named Finance Minister. He replaced Obafemi Awolowo.

on 13 June 1971 to avoid being sacked, presumably due to his unfavourable disposition towards directing the government's post-war spending to development rather than to the military (Awolowo 1970). It was also within that period and under similar circumstances that the CBN Governor, Isong, was removed and replaced with Mallam Adamu Ciroma in September 1975. Isong's main offence was his push for monetary management autonomy (Nwachukwu and Nelson 2017). Despite the above challenges, the UK government managed to get the renewed agreement signed on time. The British were able to mitigate the suspicions on the side of Nigerians that 'something was afoot for the benefit of better British relations with Europe' and that the primary motive behind the push to further reduce the MSP was the desire by the British 'to move closer to the Communities by running down Sterling's reserve role'.[31]

The implementation of the agreement was hampered by the intrigues surrounding its renewal, as well as other exogenous factors. Among those factors was the dramatic change in the international monetary arrangements in August 1971 when President Richard Nixon of the US unilaterally suspended the conversion of dollars into gold. This resulted in the Smithsonian Agreement, which was negotiated amongst the Group of Ten Industrialized Countries in December 1971, which involved a depreciation of the sterling by 8.6% to the dollar. The consequence was that, whereas the agreement was signed under a fixed exchange rate system, its implementation was met with a floating system imposed by the 1971 Smithsonian Agreement. Hence, in June 1972, a sterling crisis erupted, leading to a float of the British pound (Magee 1973; Naef 2022). By July 1972, speculation against the dollar was so intense that it became increasingly difficult for European central banks to prevent the dollar from going beneath the level fixed by the Smithsonian Agreement of 1971 (Westerfield 1977). The Smithsonian Agreement finally collapsed in March 1973 and was replaced by a system of managed floating between the currencies of most major countries (Crockett and Nsouli 2013).

With the exchange rate of the sterling rising to US$2.60, under the Smithsonian Agreement, the UK could not hold back but went on to unilaterally float its currency (Crockett and Nsouli 2013). The pound even depreciated below the pre-Smithsonian agreement rate. Between 1967 when the SGA was signed and 1976 (two years after it ended), the exchange rate of the sterling to the US dollar had fallen from £1 = US$2.40 to an all-time low of £1 = US$1.63 (Batchelor 1977).

The UK government implemented the guarantee at US$2.35, which then became the new guarantee rate. This development did not go down well with the Nigerians (De Bromhead et al. 2023b). The UK government, however, argued that 'it is unreasonable for Nigeria to expect to be reimbursed for more than one fall below 2.40 unless, of course, they had been prepared to reimburse HMG for any rise in the rate back to 2.40'.[32] Talks were subsequently held to agree on a mechanism for settlements under the floating exchange rate system. No consensus had, however, been reached by the time the renewed agreement lapsed in September 1973.

HMG subsequently made unilateral offers to all participating countries, including Nigeria, to extend the agreement until March 1974. These 'were take-it or leave-it offers' and no pressure was put on countries to participate (some did not) (Singleton

[31]K. A. East (BHC Lagos) to P. A. R. Marshall (FCO London), letter dated 23 September 1971 (BNA T 312/ 2831).
[32]See P. B. Edgley to S. J. Wordsworth, letter dated 7 September 1984 (BoE 8A210/ 16).

and Schenk 2015, 1170). Against expectations, Nigeria was among the countries that decided to participate. The September 1973 Declaration guarantee (US$2.4213), 'which also had to be implemented, was based on average sterling/dollar rates over the six months guarantee period'. Under the agreement, 'there was provision for only one settlement covering the six months and averaging took care of upward as well as downward fluctuations in the rate'.[33] When this agreement extension expired on 14 March 1974, it was again unilaterally replaced under similar conditions, with the MSP further reduced to 48%. Shehu Shagari, Nigeria's Federal Commissioner for Finance, positively responded to the letter, acknowledging that although it was a step in the right direction, he 'would have preferred a level of between 40 and 45%. I shall be grateful if you [the BHC Lagos] will convey the gist of this letter to the Chancellor'.[34]

The UK government considered Shagari's response to be 'rather ungracious' while concluding that a reply from the Chancellor was neither necessary nor appropriate.[35] It was, therefore, concluded that, if need be, the Nigerians could be reminded that 'the guarantee arrangements do not require a country with rising reserves (as Nigeria surely will be), to increase its Sterling holdings'.[36]

At the expiry of the second extension of the agreement in December 1974, the UK government decided to unilaterally end the entire guarantee programme.[37] The absence of consultation in the winding-up process was blamed on the UK government's loss of confidence in the Nigerian authorities. Peter Edgley (a member of the BoE's Overseas Department) was, for instance, quoted as emphasizing that:

> Nigeria was not one of the difficult countries during the initial negotiations in 1968 but from renewal in 1971, they were always suspicious about our intentions. They were dissatisfied with a dollar guarantee and consistently claimed that compensation should have been paid from US$2.60 (after Smithsonian) rather than US$2.40.[38]

As will be seen in the next section, the UK government went on to actively discourage the use of sterling as a reserve currency by some countries, but despite this, the Nigerian government involuntarily continued to hold substantial sterling balances as part of its foreign reserves.

5. Nigeria and the post-Sterling Guarantee era

By the time the SGA finally lapsed in December 1974, the sterling reserve management goals between Britain and major holders like Nigeria had even diverged significantly. As of then, Britain had attained EEC membership and was left with an incentive to ensure that the sterling global reputation was preserved. The Nigerian government, for its part, became free not just in deciding the proportion of Sterling reserves to be held but also in its foreign exchange management choices. Although diversification was, at that time, a viable foreign exchange policy, the process in Nigeria was modest. For instance, the country's foreign reserves dramatically increased from US$3.547 billion in

[33]Ibid.
[34]See secret letter from Shagari to British High Commission Lagos dated 18 April 1974 (BNA FCO 59/ 1120).
[35]See D. I. Lewty (FCO) to V. W. St Clair (Treasury), letter dated 30 April 1974 (BNA FCO 59/ 1120).
[36]See C. E. Peatall (FCO) to A. C. Hall (BHC Lagos), letter dated 3 May 1974.
[37]See P. B. Edgley to S. J. Wordsworth, letter dated 7 September 1984 (BoE 8A210/ 16).
[38]Ibid.

1973 to US$21.47 billion by the end of 1974; and as much as £1.5 billion of its global total of £4.9 billion as of May 1975 consisted mainly of official sterling balances (Schenk 2010, 366). The petroleum sector of the economy grew in relevance as the mainstay of the country's foreign exchange receipts – accounting for more than 90% of all available sources of foreign exchange earnings, and aiding the sharp increase in the external reserve assets.[39] In absolute terms, therefore, the country's sterling reserve was rising.[40]

On 29 July 1975, a military coup overthrew General Gowon and installed General Murtala Mohammed. Although the change occasioned by the coup caused widespread changes in government, it was generally not expected to affect Nigeria's preference for sterling as a reserve currency. At the time of the change of government, about 53% of Nigeria's foreign reserves were held in sterling (Aluko 1977).

The uncertainty brought by the coup also affected the monetary management system in place. Although Clement Isong remained the CBN Governor up to five months after the change of government, it was widely expected that he was going to be sacked. He was removed later in 1975, essentially because of his stance against the fiscal disposition of the military government of General Murtala Mohammed (Adesina 2018). Isong had before then told BoE officials that the expenditure of the new government was out of control and could be impacting Nigeria's reserves. Given the prevailing political circumstances and the uncertainties surrounding Isong's position as the Governor of CBN, the UK government was not sure of what to make of Isong's information. After the sack of Isong, Adamu Ciroma, a newspaper owner and businessman from Northern Nigeria, was appointed Governor of the CBN on 24 September 1975. This compounded the country's central banking capacity and further strained the relationship between Nigeria and the British monetary authority.[41] It was also as a result of this that the BoE believed he was anti-British, having played key roles in earlier rounds of sterling negotiations. As a board member of the CBN, Ciroma was also recorded as an astute advocate of the domestication of CBN operations and its independence.

The earlier warning by Isong became apparent during the visit of S. W. Payton, the deputy head of the BoE's Overseas Department, to the CBN in November 1975.[42] He became aware of a problem in the foreign exchange management system in Nigeria which had the potential to impact the country's use of the Sterling as a reserve currency. According to Payton, under the system in place at the time:

> All foreign exchange had to be bought or sold via either dollars or sterling – the CBN does not operate in any other currency. The rates for dollars and sterling are fixed against the naira at infrequent intervals and remain operative until changed …. As a consequence, banks now advise customers to have import invoices drawn in dollars and to make all sterling remittances via dollars. I have an uneasy feeling that this curious practice could in the long run build up trouble for us if the CBN eventually decides that their losses had to be written off.[43]

[39]See the 1975/6 Budget Broadcast by His Excellency, General Yakubu Gowon, Head of the Federal Military Government, Commander-In-Chief of the Armed Forces of the Federal Republic of Nigeria, 31 March 1975.
[40]See the table titled Nigeria: Actual Proportion of Sterling in Total Reserves (1968–1974) in BoE File No. 8A210/16.
[41]See Edgley to Payton, Secret Bank of England memo dated 2 December 1976 (BoE File No. 139413).
[42]See BoE internal memo (and background brief) to Payton titled Mallam A. Ciroma, Governor Central Bank of Nigeria and dated 8 January 1976 (BoE File No. 139413).
[43]See Secret Bank of England internal memo dated November 1975 (BoE 8A210/ 14). In 1977, the Nigerian government announced that it would phase out this practice. See 1977 Bank of England internal memo titled Nigerian Exchange Rate Policy (BoE 39413).

On 13 February 1976, there was an attempted coup in Nigeria during which the Head of State, General Murtala Mohammed, was killed. He was replaced by General Olusegun Obasanjo, a Yoruba from western Nigeria. In an internal memo, P. B. Edgley of the BoE stated that he expected that the Nigerian government policies would remain broadly unaltered. He further stated that at least in the short run, the replacement of Mohammed by Obasanjo 'could be marginally advantageous to expatriate commercial interests, since he [Obasanjo] is less anti-business than most of the leading military figures'.[44]

Against expectation, Obasanjo, in his first national budget speech, reiterated his inclination to put an end to the 'indecisive and halting policy that the country followed in the conduct of foreign affairs', and stated that his government would adopt 'a dynamic and purposeful line consistent with the nation's interest'.[45] On 9 March 1976, the Governor of the CBN, Mallam Adamu Ciroma, while visiting Port Harcourt, announced that Nigeria's foreign exchange reserves, which used to be predominantly in pounds sterling, had been redistributed into various convertible currencies, including Deutsche marks, US and Canadian dollars, Japanese yen and Swiss francs.[46] When asked whether the plan to redistribute Nigeria's foreign reserves had anything to do with Britain's alleged involvement in the 1976 attempted military coup in Nigeria, Ciroma explained that the decision to diversify Nigeria's foreign holdings was not a recent one but had been taken as far back as 1974.[47] Confirming this, the then-military Head of State, General Yakubu Gowon, had during the 1973/4 national budget speech directed the Central Bank to take 'steps to diversify the country's external reserve holdings in order to fully protect the national interest in the current world money markets'.[48]

The announcement by Ciroma, however, came after the sterling began to slide in 1976. Before that, the BBC World Service reported the speculation in the British press that 'the drop had been precipitated by the removal from London of part of Nigeria's Sterling balances as a result of the Dimka affair'.[49] This was based on the suspicion in the country that the British government provided some support to the leader of the 13 February 1976 failed coup, Lieutenant Colonel Bukar Suka Dimka (Darton 1976). Some Nigerian commentators even boasted that this represented a turning point in the relationship between Britain and Nigeria (Aluko 1977). They further claimed that 'Britain knows that what remains of the Sterling in terms of its international recognition is what Nigeria and a few other Arab [oil] producing countries decide to make it.'[50]

The reality was, however, different. According to the British High Commission Lagos, Ciroma made the announcement simply because

> the CBN wanted to make it clear that they had not been caught out by the downward movement in Sterling, as their reserves had already been diversified both as a protection against exchange rate fluctuations and to take account of Nigeria's current external trade pattern.[51]

[44]BoE Internal Memo by P. B. Edgley dated 23 February 1976 (BoE File No. 139413).
[45]See 1976/7 Budget Speech Broadcast by the Head of State, General Olusegun Obasanjo, Belt Tightening All-Around, 31 March 1976.
[46]*Nigerian Chronicle*, 11 March 1976.
[47]*New Nigerian*, 10 March 1976.
[48]See the 1973/4 Budget Broadcast by His Excellency, General Yakubu Gowon, Head of The Federal Military Government, Commander-in-Chief of the Armed Forces of the Federal Republic of Nigeria, 31 March 1973.
[49]See letter by Miss R. J. Spencer (BHC Lagos) dated 12 March 1976 (BoE File No. 139413).
[50]See *Daily Times*, 10 March 1976.
[51]See letter by Miss R. J. Spencer (BHC Lagos) dated 12 March 1976 (BoE File No. 139413).

Furthermore, it was reported that 'many foreign exchange dealers believed that the BoE itself encouraged the slide to keep British export prices competitive given the country's high inflation rate'.[52] A secret BoE memo also concluded that Nigeria could not be held responsible for the sliding sterling; and that the country's reserve management policy over this whole period had been dictated by rational technical considerations.[53]

The preference of the Nigerian government for a gradual rather than a radical diversification did not, however, betray the presumed 'turning point' in the country's relationship with Britain. The benefit of a 'dynamic diversification policy', as highlighted in the 1976/7 national budget broadcast, was rather 'to protect the real value of our foreign currency reserve holdings'.[54] A secret memo of HM Treasury noted that there 'is little evidence yet that the Nigerians see the need for changing their policy of gradual diversification'.[55] For the UK, Nigerian sterling holdings automatically became a major issue that could undermine its new policy. This was so because, after the lapsing of the SGA in 1974, Nigeria immediately emerged as the highest holder of sterling reserves in the world. Although the vagaries of the oil market caused Nigeria's sterling reserve holdings to significantly fluctuate, the potential for the country to increasingly earn an enormous windfall from oil rents remained high. The threat of a spillover effect of this on the stability of the sterling was also ripened.

Based on the above, it was, therefore, not surprising that the UK government immediately informed the Nigerian government of its new policy on the holding of sterling reserves by other countries. In June 1977, Ciroma resigned as CBN Governor and was replaced by Ola Vincent who had been his deputy. According to a BoE internal memo, Ola Vincent's 'apparently sleepy manner conceals a shrewd business brain'.[56]

Shortly after Vincent became Governor of the CBN in 1977, he visited the UK. During the visit, the need for Nigeria to curtail its use of sterling as a reserve currency was raised with him by the Governor of the BoE without much success. Specifically, Vincent's position was that sterling was attractive and the dollar unattractive. He also argued that other reserve assets were not easy to get into at the time. To the British, this was not convincing, especially since there were increasingly other alternatives, including investments in other reserve assets like gold and the US dollar (de Bromhead et al., 2023a; Singleton & Schenk, 2015). When pressed on this matter, Vincent politely pointed out that Nigeria was free to act as it pleased since Britain 'do[es] not yet operate exchange control against capital inflows'.[57] Although UK had an exchange control system that restricted the capital outflows vis-à-vis purchases abroad by UK residents (from 1938 up to October 1979), there was no such control on capital inflows from other countries. This missing link prompted the changes in the British exchange control policy between 1977 and 1979. On 18 November 1977, for instance, some key changes were made in the exchange control policy, including a severe restriction of 'the use of Sterling in the finance of third country trade, which was expected to lead to the repatriation' and 'a modification of the guidance to banks, designed to prevent loans and advances being replaced by Sterling

[52]See *Business Times*, 9 March 1976.
[53]See secret memo from Edgley (BoE) to HM Treasury dated 8 April 1976.
[54]See 1976/7 Budget Speech Broadcast by the Head of State General Olusegun Obasanjo, Belt Tightening All-Around, 31 March 1976.
[55]See BoE internal memo titled Central Bank of Nigeria: Personalities and dated 14 July 1977 (BoE 210/15).
[56]Ibid.
[57]See Bank of England internal memo titled Nigeria: Increase in Sterling Holdings and dated 14 October 1977.

acceptance credit facilities' (Bank of England Annual Report 1977, 9). It was also as part of the measures to moderate capital inflows and 'protect the exchange rate and the official reserves from the impact of any further run-down of official Sterling balances' that the UK government took a $3 billion facility from the Bank for International Settlements earlier in February 1977 (Bank of England Annual Report 1978, 12).

In furtherance, the British government made several attempts to moderate Nigeria's unfiltered access to sterling reserve accumulation. This included a directive from the BoE reiterating the seriousness of the British government's intentions regarding the holding down of balances.[58] In June 1979, during the BoE Governor's dinner, P. B. Edgley of the BoE reminded Amao (Acting Chief of Foreign Department at the CBN) of the bank's policy on official holdings of sterling and expressed the hope that 'the Nigerian balances would not rise more than the current levels despite the buildup of oil income'.[59] Later events proved that the Nigerian authority, though having pledged to cooperate with BoE, could not keep its word, for several reasons. These included the fact that holding of sterling assets always fluctuated sharply in line with domestic economic problems; the rigidities of their cumbersome administrative machine and fluctuations in oil receipts; lack of capacity on the side of the CBN to monitor the UK economy;[60] and spending recklessness on the side of the Nigerian government, among others.[61] During the period, Nigeria's oil receipts continued to fluctuate, thus negatively impacting its ability to strategically hold down sterling reserves.

A 1980 BoE internal memo revealed that 'Nigeria's total Sterling reserve at the time stood at £367 million'; and that since '£269 mn were BGS [Balance on Goods and Services], and £49.8 mn was earmarked against litigation, free liquid assets only amounted to about £56 mn – a mere six days' disbursements'.[62] The issue of expenditure recklessness at that time was also acknowledged by the then newly elected Civilian President, Alhaji Shehu Shagari, who had emphasized that the country's public spending had consistently outstripped revenue since 1975 and had resulted in overall budget deficits and necessitated an increase in both internal and external borrowing.[63] Amidst this, the BoE continued to press for Nigeria's sterling balances to be consistently held down.

Of note is that the lack of monetary management capacity and the recklessness of reserve spending emanated from the country's sterling reserve management strategy being historically balance-of-payments-oriented, as against the hybrid strategy of focusing on Balance of Payments (BoP) and investment. As the former Head of State, Olusegun Obasanjo, posited, the deterioration in the balance of payment position from the mid-1970s was because 'we not only spent all our foreign exchange receipts … but also

[58]See memo titled CFM: Nigeria/Sterling and dated 21 September 1977.

[59]See BoE internal memo by P. B. Edgley dated 8 June 1979 (BoE File No.8A210/ 16).

[60]An internal memo of the BoE, for instance, noted that the CBN's 'Research Department's monitoring of the UK economy appears to be sketchy, owing to marked staff shortages … and they rely largely on assessments by international organizations. There was no need, therefore … to deploy detailed arguments in defense of our economic management'. See undated BoE Note for the Record titled Nigeria: Conversation with Falegan (BoE 210/ 15).

[61]On the implications of such fiscal disposition, see the Speech by Alhaji A. Mai-Bornu, Chairman of the Bankers' Committee and Governor, Central Bank of Nigeria, the First Annual Dinner of the Local Centre of the Institute of Bankers, Lagos, 25 February 1966. See also Extract from Memo from R. E. Barber to A. D. Loehnis via N. J. Balfour dated 21 April 1980 (BoE File No.8A210/ 16).

[62]See Extract from Memo from R. E. Barber to A. D. Loehnis via N. J. Balfour dated 21 April 1980 (BoE File No.8A210/ 16).

[63]See Speech by the President and Commander-in-Chief of the Armed Forces, Alhaji Shehu Shagari, on the Occasion of his Budget Address to the Joint Session of the National Assembly, 18 March 1980.

dipped into accumulated reserves to meet current commitments'.[64] The problem was of such a scale that the BoE Deputy Governor had to send 'quite a forceful message' to the Governor of the CBN to remind him of the existing British sterling policy.[65] Ola Vincent, the Governor of CBN, promptly accepted that Nigeria was conscious of the British monetary policy stance of limiting the role of the sterling as a reserve currency, but was expediently inclined to maintaining sufficient sterling balances for operational purposes.[66]

Whereas BoE continued to press for Nigeria's sterling balances to be consistently held down, the strategies adopted by the Nigerian authorities were inadvertently designed to ensure 'the nation to continue to remain externally solvent'.[67] That was a sign that the Nigerian government might not be willing to respect the new British policy on the holding of sterling by foreign governments. This meant that all that the UK government had to do was to consistently monitor Nigeria's sterling holdings and to alert the Nigerians whenever their sterling holdings rose uncomfortably. The Nigerians, for their part, usually responded by diversifying such excess sterling holdings to other currencies. The subsequent deterioration in the Nigerian economy, however, ensured that this problem no longer arose.

6. Conclusion

Our study documents the tensions and bilateral rifts in Nigeria–UK monetary relations, which arose when the UK varied its policy on the role of the sterling as an international reserve currency. In doing this, the study contributes to the body of existing literature on how the Sterling Area operations shaped the culture of reserve management in the post-colonial African setting. Specifically, we show that attempts by Nigeria to optimize the bilateral gains from the Sterling Area and the SGA were scuttled by a desperate push to get the scheme to serve more British interests, mutual suspicion on both sides, the lack of requisite monetary and reserve management capacity by the CBN, and the fiscal recklessness on the side of the Nigerian government. The lack of requisite capacity provided the British authority enough space to navigate through the country's monetary system and led to suboptimal reserve management choices that avoided more robust investment-oriented reserve management strategies by Nigeria. On the other hand, the government's fiscal recklessness contributed to the volatility of the sterling and became a serious source of strain in the Nigeria–UK monetary relation.

Before independence, the British government's policy designed to guarantee the accumulation of sterling reserves from the colonies was backed by corresponding policies that restricted unauthorized monetary flows from sterling to non-sterling countries. Post-independence, especially from the early 1970s, the incentive schemes that ensured reserve accumulation remained in place, but the British had overwhelmingly lost the power to control access and guard against reserve diversification. This was specifically because the UK had no capital control at the time. The implication was that the continued

[64]See 1976/7 Budget Speech Broadcast by the Head of State Lt. Gen. Olusegun Obasanjo, Belt Tightening All-Around, 31 March 1976.

[65]See Secret BoE internal memo by Edgley dated 20 March 1980 (BoE File No.8A210/ 16).

[66]See Telex from Governor CBN to Deputy Governor BoE dated 12 March 1980 (BoE File No.8A210/ 16).

[67]See an Address by Alhaji Shehu Shagari, President of the Federal Republic of Nigeria and Commander-in-Chief of the Armed Forces on the Occasion of the Presentation of 1981 Budget Proposals to the National Assembly, 24 November 1980.

stay of countries like Nigeria in the Sterling Area arrangement became a source of threat to the entire Sterling Area arrangement. The belief at the time by the Nigerian authorities that it made sense to hold more sterling reserves was fuelled more by a lack of reserve management capacity than by any logical policy framing. Weak monetary management cohesion resulted in a situation where the UK covertly and overtly made a desperate attempt to pressure the country to reduce its holdings of such reserves. This included a directive from the BoE reiterating the seriousness of the British government's intentions regarding the holding down of balances.[68] Evidence in this paper, therefore, suggests that the reality of international relations is that, beyond the logic of colonization, the primary objective of nation-states is to pursue their self-interest; and how much benefit a country draws from bilateral or multilateral monetary arrangements is a function of the country's internal capacities and prevailing economic and political realities, in the case of Nigeria.

Disclosure statement

No potential conflict of interest was reported by the author(s).

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[68]See memo titled CFM: Nigeria/Sterling and dated 21 September 1977.

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