PART ONE

ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

CHAPTER 1

1.0 CORPORATE ACTIVITIES OF THE CENTRAL BANK OF NIGERIA

The CBN continued its re-engineering initiatives under the project "EAGLES" with the adoption of the strategic directions for Business Continuity Management (BCM), Service Oriented Architecture (SOA) and Knowledge Management (KM) under the Business Continuity and Integration Strategy (BCIS). In order to improve access to central banking services nationwide, the construction of new branches and currency centres, as well as extensive renovation of some of the existing branches continued in 2009. Furthermore, to enhance the implementation of the Bank's monetary policy, arrangements for the replacement of the Real Time Gross Settlement (RTGS) System with a more robust one that would provide the platform for the Payments System Vision 2020 were at an advanced stage. The electronic-Financial Analysis and Surveillance System (e-FASS) was also improved upon to support the risk-based, consolidated and cross-border supervisory framework. The CBN continued to shoulder its corporate and staff social responsibilities of promoting knowledge through conferences, seminars and workshops which were of strategic national interest, and provided financial assistance to organizations and the less privileged in the society.

1.1 ADMINISTRATION

1.1.1 Board of Directors and Other Committees The composition of the Board of Directors of the Central Bank of Nigeria (CBN) changed during the year. Sanusi Lamido Sanusi was appointed Governor and Chairman of the Board, with effect from June 3, 2009 following the expiration of the tenure of Chukwuma C. Soludo. The Senate confirmed the re-appointment of Tunde Lemo as Deputy Governor for a second term, effective January 7, 2009. Kingsley C. Moghalu was appointed Deputy Governor on November 6, 2009 to replace Ernest C. Ebi, whose second term ended on June 3, 2009. In addition, Stephen O. Oronsaye was appointed to replace Akpan H. Ekpo, who resigned his membership of the Board on August 17, 2009, to take up appointment as the Director-General of the West African Institute for Financial and Economic Management (WAIFEM). Juliet A. Madubueze was retired from the Board while Ochi C. Achinivu joined the Board in August 2009, by virtue of his position as the Permanent Secretary, Federal Ministry of Finance. Consequently, the Board comprised the Governor, Sanusi Lamido Sanusi (Chairman); four Deputy Governors, namely, Suleiman A. Barau (Corporate Services), Sarah O. Alade (Economic Policy), Kingsley C. Moghalu (Financial System Stability) and Tunde Lemo (Operations); and six non-executive Directors. The non-executive Directors comprised Ochi C. Achinivu (Permanent Secretary, Federal Ministry of Finance), Ibrahim H. Dankwambo (Accountant-General of the Federation), Dahiru Muhammad, Samuel O. Olofin, Joshua O. Omuya and Stephen O. Oronsaye.

The Board held seven (7) regular meetings and three (3) emergency meetings in 2009. The Committee of Governors held twenty (20) regular meetings and two (2) emergency meetings, while the Governors' Consultative Committee held seven (7) regular meetings. The Committee of Departmental Directors held twelve (12) regular meetings and three (3) extraordinary meetings, while the Audit and Investment Committees of the Board held five (5) and one (1) meetings, respectively. The membership of the Monetary Policy Committee (MPC) was formally constituted in 2009 in line with the provisions of Section 12 of the CBN Act, 2007 (as amended).

1.1.1.1 Monetary Policy Committee (MPC)

The MPC held six (6) regular and one (1) extraordinary meetings at which major domestic and international economic developments were reviewed and appropriate monetary policy decisions taken. The MPC reviewed the Monetary Policy Rate (MPR) downward twice during the year, in line with the prevailing macroeconomic conditions. The decisions of the Committee were promptly communicated to the public via press briefings by the Governor and a communiqué issued at the end of every MPC meeting.

Table 1.1: MPC Decisions on MPR in 2009

Date	Rate (%)	Decision
January 14, 2009	9.75	Unchanged
February 9, 2009	9.75	Unchanged
April 8, 2009	8.00	Reduced by 175 basis points
May 21, 2009	8.00	Unchanged
July 7, 2009	6.00	Reduced by 200 basis points as anchor rate (not transactional rate), re-introduced interest rate corridor, 8.0 per cent for Standing Lending Facility (SLF) and 4.0 per cent for Standing Deposit Facility (SDF)
September 1, 2009	6.00	Unchanged
November 3, 2009	6.00	Unchanged with asymmetric corridor of interest rates around MPR of +200 and -400 basis points for SLF and SDF, respectively.

1.1.2 Development of CBN Branch Offices

The CBN sustained the development of branch buildings and currency centres in all the state capitals in order to provide quality banking infrastructure and easy access to banking services nationwide. During the year, consultants were commissioned for the pre-contract services for nine (9) new branch buildings in Dutse, Birnin-Kebbi, Lafia, Damaturu, Jalingo, Yenagoa, Abakaliki, Ado-Ekiti and Gusau, while the renovation of buildings to serve as Currency Centres for these locations also commenced. In addition, the extensive renovation of the branch buildings in Maiduguri, Kaduna, Benin and Ibadan, as well as the Learning Centre in Lagos reached advanced stages. Furthermore, the upgrade of central air-conditioning systems at the Minna, Bauchi, Makurdi, Owerri and Akure branches was completed, while the construction of the Lagos Office, as well as the International Training Institute and the Governor's Residence in Abuja progressed.

1.1.3 The Computerisation Programme

The bank-wide deployment of Information Technology (IT) infrastructure continued in order to improve the operational efficiency of the Bank. Furthermore, to enhance the implementation of the Bank's monetary policy, arrangements for the replacement of the Real Time Gross Settlement (RTGS) system with a more robust one that would provide the platform for the Payments System Vision 2020 reached an advanced stage. The electronic-Financial Analysis and Surveillance System (e-FASS) was also being enhanced to support the risk-based, consolidated and cross-border supervisory framework. Also, the process of upgrading the banking and enterprise applications in order to improve CBN's banking operations and the internal operating efficiency commenced in 2009. The integration of the enterprise applications was enhanced to improve the accuracy of the Analytical Balance Sheet (ABS). All locations were connected to the corporate network of IT systems, using high-speed fibre optics in order to enhance service delivery to end-users. Network nodes were fortified with the latest anti-virus solutions to guard against emerging threats and attacks, and reduce incidents of spam emails to the barest minimum. These transformed the internal processes and provided support for monetary policy formulation via the daily ABS, trial balance and other reports.

1.1.4 Library Operations

The total volume of books in the Bank's library system, after old titles were weeded out, was 93,003, compared with 92,102 in 2008. Also, the volume of books, journals and periodicals consulted by staff increased by 9.5 per cent from 5,750 in 2008 to 6,355. The Library continued to subscribe to electronic journals through the following service providers: SWETS, IPI and EBSCO.

1.1.5 Legal Services

In the course of the year, the Bank was involved in a number of activities and projects aimed at strengthening its legal and regulatory framework, as well as enhancing the overall effectiveness of the financial system. These activities included: the push for the re-enactment of the BOFI Act; submission of a draft bill for an Act to establish the Asset Management Corporation of Nigeria (AMCON) for the acquisition, management, restructuring and disposal of the risk assets of banks; the draft of the legal and regulatory framework for the establishment of a Credit Bureau in Nigeria, and the review of draft agreements to ensure the effective management of Nigeria's external reserves. On the prosecution of cases involving the Bank and other parties, judgments were given in favour of the Bank in twelve (12) cases while one (1) was resolved against the Bank. In continuation with its efforts to ensure a financial crime-free environment, the Bank organized sensitization workshops for Compliance Officers of the deposit money banks and other financial institutions. The Bank also conducted sensitization workshops for its staff to familiarize them with the CBN Act, 2007.

1.1.6 Internal Audit

All the eighteen (18) departments in the Head Office and twenty-eight (28) branches were audited. In addition, twenty (20) spot checks and process-based audit of high-risk activities and seven (7) system applications were evaluated, while eight (8) ad-hoc assignments on eight (8) processes were carried out. Also, three hundred and twenty-seven (327) currency disposal operations requiring audit witnesses were completed, compared with eighty-six (86) in 2008. In the absence of any material or significant irregularities or cases of fraud uncovered, a reasonable assurance opinion was expressed by the internal auditors to the effect that no major weaknesses in the overall systems of risk control and governance existed in the Bank.

Box 1: The Project Alpha Initiative of the CBN

The banking sector consolidation exercise of 2004/2005 had some salutary impact on the Nigerian economy and led to the emergence of bigger banks which, before the global financial crisis, created a general belief that the banking sector was sound and growth would be encouraged. However, this sentiment proved misplaced following the outbreak of the global financial and economic crises and some interdependent factors that led to the manifestation of an extremely fragile financial system. This was because the main downside effect of the consolidation programme on the system was the near total neglect of adherence to good corporate governance practice. Corporate governance in many banks failed because their boards ignored best practices for various reasons, ranging from being misled by executive management and participating in obtaining unsecured loans at the expense of depositors, to lack of capacity to enforce good governance on bank management. There were also the problems of the overbearing influence on the boards by the Chairmen/CEOs, lack of independence of some boards, failure to make meaningful contributions to safeguard the growth and development of the banks, weak ethical standards, and ineffective board committees. Lack of investor and consumer sophistication also contributed to the crisis, as the failure to impose market discipline allowed banks to take undue advantage of customers. Investors, many of whom were new to investing, were unaware of the risks they were taking while consumers were often subjected to poor services and, sometimes, hidden fees. The absence of a strong tradition of consumer protection in Nigeria resulted in many investments being undertaken without a proper understanding of the risks involved. These problems were compounded by the lack of full disclosure by banks to the CBN, uncoordinated and unclear delineation of responsibilities between the CBN and other government agencies on issues concerning the financial sector, absence of a framework for consolidated bank examination, generally weak supervisory and oversight functions of the supervisory agencies, as well as an underdeveloped infrastructure and a harsh business environment. Others included long and expensive legal processes, the absence of reliable credit rating agencies and basic credit information on customers.

These weaknesses prompted the CBN to undertake further reforms in order to reposition the banking industry for the decades ahead. The reforms are anchored under "The Project Alpha Initiative". The Project **A**lpha blueprint is built around four pillars (**"Es"),** namely:

- En hancing the quality of banks,
- Establishing financial stability,
- Enabling healthy financial sector evolution, and
- Ensuring that the financial sector contributes to the economy.

In order to enhance the operations and quality of banks in Nigeria, the CBN initiated a five-part programme. This consists of industry remedial programmes to fix the key causes of the crisis through improved data quality, enforcement of good governance, enhanced risk management and financial crime prevention. It also includes the implementation of risk-based supervision, a comprehensive review of the regulatory framework, enhanced provisions for consumer protection to restore consumer confidence in the industry and ensure that banks understand their responsibilities, as well as internal transformation of the CBN to effectively supervise and regulate the industry. These initiatives are being structured in such a manner that the banks would do most of the work to inculcate a new behaviour in the industry, with the CBN playing a cross-industry programme management role. A key plank of this programme is that the CBN would hold individuals responsible for their actions. In order to address the failures of corporate governance in the industry, the CBN intends to establish a specialist function to develop the Nigerian Capital Adequacy and Enterprise Risk Assessment Process modelled on the ICAAP (UK) and COSO (USA) frameworks which focus on **governance** issues to ensure that best practices are embedded in the industry. An enhanced annual performance measurement process for Boards and individual directors would be introduced, in addition to a rigorous pre-appointment assessment of their qualifications. Already, tenure limits for bank CEOs have been introduced, while efforts are being made to implement fully the 2006 Code of Conduct for the banking industry. The reform programme is expected to strengthen corporate governance in banks and at the CBN.

The key features of the initiative on the **establishment of financial stability** are the strengthening of the Financial Stability Committee within the CBN and the establishment of a hybrid monetary policy and macro-prudential rules. Others are the development of directional economic policy, counter-cyclical fiscal policies, and further development of the capital market as an alternative to bank funding. The first set of initiatives is related to monetary and macro-prudential policies through which the CBN would strengthen the **Financial Stability Committee (FSC) with a focus on maintaining systemic stability.** The Bank's Monetary Policy Committee (MPC) and the FSC would be at the core of the new macro-prudential framework and would work together to ensure that monetary policy is shaped by systemic risk trends that are consistent with the expanded hybrid goals for asset price stability. The CBN would also introduce **new macro-prudential rules** to address specific causes of financial crisis, as well as **capital control approaches** to prevent foreign 'hot money' from destabilizing the capital markets and the real economy. In addition, the CBN would encourage the implementation of a **directional economic policy** to improve basic infrastructure, diversify the economy, increase the investment absorption capacity of priority sectors, and support measures that enable sustainable economic growth.

The CBN would promote an **enabling healthy financial sector evolution,** through a competitive banking industry structure that would address infrastructure, such as credit bureaux and registrars, improve the cost structure of banks, ensure a reliable and secure payments system, and reduce the informal economy. The creation of an Asset Management Corporation is expected to provide the first step towards the resolution of the problem of non-performing loans in banks and eventually facilitate further consolidation. This process is ongoing and it is expected that all banks would be totally weaned off the CBN support by the end of Q3 2010. The Bank also intends to review the universal banking model and in its place introduce international, national, regional, mono-line and specialized banks such as Islamic banks. The capital requirements of banks would vary with the range and complexity of their mandates such that they would be well capitalized relative to their risk profile.

The final initiative would focus on **ensuring that the financial sector contributes to the real economy**. Past financialisation exercises of the economy have not benefited the real sector as anticipated, as the development finance institutions that were set up for specific purposes, such as housing, trade and urban development have failed to fulfill their mandates. Many successful emerging markets have, however, seen proactive governments take action that has positioned the financial sector as the main engine of growth in the real sector.

Nigeria can learn from countries with successful track records in creating financial accommodation for economic growth, through such initiatives as development finance, foreign direct investment, venture capital, and public private partnerships. To ensure that the financial sector contributes significantly to the economy, the following areas would further be strengthened:

a. Leveraging the CBN Governor's role as advisor to the President on economic matters to ensure that the financial sector contributes to the real economy;
b. Taking the lead in measuring more accurately the relationship between the real economy and the financial sector, as well as the transmission mechanism;
c. Evaluating continuously the effectiveness of existing development finance initiatives, such as agriculture credits and import-export guarantees;
d. Taking public lead in encouraging examination of the critical issues for economic development (impact of infrastructure, such as power, ports and railways);
e. Leading further studies on the potential of venture capital and private/public partnership initiatives for Nigeria; and
f. Cooperating with State Governments to run a pilot programme in directing the financial sector's contribution to the state's social and economic development.

The challenges in Nigeria's economy are generally due to the inherent economic weaknesses, such as insufficient diversification of the economy, high security risks, a complex business operating environment, and inadequate infrastructure. The sound development of the financial sector and overall economic success would, therefore, require that the CBN and other stakeholders to do a lot of heavy lifting in many policy areas, including the rapid development of physical and institutional infrastructures.

1.1.7 Restructuring of the CBN (Project EAGLES)

The Bank continued its re-engineering initiatives under the project "EAGLES" with the adoption of the strategic directions for Business Continuity Management (BCM), a Service-Oriented Architecture (SOA) and Knowledge Management (KM), under the Business Continuity and Integration Strategy (BCIS). The review, documentation and implementation of the processes across Strategic Business Units (SBUs), with special attention to those processes that cut across SBUs, such as procurement, e-payment of staff salaries and suppliers as well as a quarterly Staff Performance Appraisal (SPA) mechanism continued. The process of the Trade and Exchange Department was re-engineered with the introduction of Data Analysis and Monitoring offices. The processes and structure of the Finance, Human Resources, Banking Supervision, and Other Financial Institutions departments and the Governor's Office were repositioned and redesigned to enable efficient operations. A review of the job roles and grade alignment of Bank staff was conducted for enterprise planning (recruitment and deployment), budgeting and promotion.

The Management approved the creation of new departments and reviewed the roles and functions of SBUs across directorates to reposition the Bank to meet the challenges of the global economy. With these developments, the policies and processes completed in the review period included: the telephone facility, a Visitors Management System, a Service Level Agreement, Web-based training and a Code of Business Ethics and Conduct (COBEC).

The Management approved the creation of new departments and reviewed the roles and functions of SBUs across directorates to reposition the Bank to meet the challenges of the global economy.

In order to ensure an efficient records management, the Bank pursued the delivery of the key initiative of the Records Management Policy and Procedures, through the operation of a centralized scanning centre at the Records Centres. Automated physical filing systems were made operational in all the business units, except the Benin and Uyo branches and the six (6) new currency centres. The Integrated Document Management System (IDMS) viewer software was installed on users' workstations across the Bank to enhance access to scanned semi-active records. In addition, sensitisation workshops were conducted for most of the SBUs during the review period.

Under the Strategic Alliances among groups and partners, the Bank continued its collaboration with the Nigerian Postal Services (NIPOST) to enhance the effective implementation of the microfinance policy of the Federal Government. Other alliances involved the National Bureau of Statistics (NBS) for timely, accurate and reliable data for the Bank to achieve its mandates and the SERVICOM Integrated charter for the Bank was finalized.

1.1.8 Communications

The Bank sustained its efforts at improving transparency in the conduct of monetary policy through regular interactions with stakeholders and the public. These included publicizing the decisions of the MPC and the Bankers' Committee. The Management of the Bank briefed the Senate at a plenary session in addition to making several appearances before some committees of the two chambers of the National Assembly to provide information on the state of the economy. Regular interactions with stakeholders and the general

Regular interactions with stakeholders and the general public through media briefings and luncheons with media executives, inter-governmental agencies, the Manufacturers Association of Nigeria (MAN) and other agencies were sustained.

public through media briefings and luncheons with media executives, inter-governmental agencies, the Manufacturers Association of Nigeria (MAN) and other agencies were sustained.

In line with the Bank's determination to foster learning and strengthen the capacity of media practitioners to appropriately report the Bank's policies, programmes and contemporary financial and economic issues, a Seminar for Finance Correspondents and Business Editors was held in Markurdi, Benue State from July 15 to 17, 2009 with the theme, "The Global Economic Crisis and Exchange Rate Management in Nigeria".

1.1.8.1 Anti-Corruption and Ethical Issues

The Bank collaborated effectively with the anti-corruption agencies and other stakeholders, including the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and Other Related Offences Commission (ICPC), and Nigeria Postal Services (NIPOST), as well as deposit money banks, in preventing corrupt practices and apprehending fraudsters. The identified issues were duly reported to the Management and the law enforcement agencies. The Bank organized three anti-corruption sensitization seminars for its staff in three locations in the country and published two editions of its "Transparency" journal. The Bank also hosted the United Nations Sanctions Team and members of the National Focal Point. Its contributions were in the areas of money laundering, asset freezing, management of the consolidated list, political corruption and the challenges in the implementation of resolutions.

1.1.9 Staff

The Bank recruited seventy-three (73) personnel, comprising five (5) executives, fifteen (15) senior, forty-two (42) junior, five (5) research consultants (visiting scholars), four (4) contract and two (2) personal staff for the Governor. The Bank, however, lost the services of twenty-seven (27) staff through death, twenty-four (24) voluntary retirements, twenty (20) mandatory retirements and three (3) resignations. Furthermore, ten (10) staff had their appointments terminated and nine (9) were dismissed. The staff strength of the Bank declined to 5,019 from 5,027 at end-December 2009. As part of the incentives to boost morale and enhance performance, the Bank promoted nine hundred and fifty-one (951) members of staff in 2009, a breakdown of which shows that 128 executives, 645 senior and 178 junior staff benefited from the exercise. The Bank also honoured a total of 647 staff with the Long Service Awards. A total of fifty (50) employees were upgraded/converted to various grades, consisting of nineteen (19) senior and nine (9) junior for upgrading and fifteen (15) senior and seven (7) junior for conversion.

1.1.10 Medical Services

In order to sustain a healthy workforce, the CBN undertook various medical interventions. A total of forty-five thousand, nine hundred and ninety-eight (45,998) cases involving staff and their dependants were attended to at the Staff Clinic. Three thousand, one hundred and seventy (3,170) emergency cases were treated at the CBN Head Office Sick Bay. In addition, six thousand, nine hundred and fifty-four (6,954) cases were referred to various stand-by hospitals. Other interventions included the successful immunisation of two thousand and seventy-four (2,074) staff and their dependants against yellow fever, tuberculosis, whooping cough, diphtheria, hepatitis and typhoid. A 'Healthy Lifestyle Seminar' was conducted and a total of one thousand, two hundred and fifty-three (1,253) Executives and Senior Managers attended. A significant cure rate was achieved for staff suffering from major illnesses, resulting in an improved employees' health status. Furthermore, the CBN sponsored medical screening for executives, drivers and staff working in hazardous areas.

1.1.11 Training

The efforts at capacity building, through staff development and skills enhancement, were intensified. As a result, the Bank sponsored staff training programmes, including workshops, conferences, seminars and courses within and outside Nigeria. The staff benefited from a total of four thousand, five hundred and twenty-seven (4,527) training slots involving in-plant and specialized programmes covering emerging issues and general management development. The e-learning application was also deployed to provide more opportunities for learning in the Bank. Furthermore, a Web-based training (WBT) is being developed on the four (4) key IT applications in the Bank to enable staff to learn about different job processes in the Bank.

1.1.12 Recreational Activities

The CBN sponsored various sporting competitions in 2009, including lawn tennis, football, and golf tournaments. The third edition of the CBN Junior Tennis Championship took place at the Lagos Lawn Tennis Court, Race Course, Lagos from March 2 to 8, 2009 as part of the activites to mark the Bank's 50th Anniversary celebrations. The 31st edition of the CBN Senior Open Tennis Championship was held at the National Stadium, Lagos from May 2 to 9, 2009 as part of the activities to mark its 50th Anniversary celebrations. With respect to football, the First Bank Football Club won the final of the All Financial Institutions Football Competition played at the Ahmadu Bello Stadium, Kaduna on December 19, 2009. The final of the 30th edition of the Governor's Cup Football Competition for all CBN branches played at the Rwang Pam Stadium, Jos on October 17, 2009, was won by the Abuja branch. The Bank also sponsored the third edition of the CBN Governor's Golf Cup Tournament, which took place at the Ibrahim Badamasi Babangida (IBB) International Golf and Country Club, Abuja, from November 20 to 22, 2009. In addition, the Bank's workplace gymnasium at the Bank's Corporate Head Office continued to be patronized by staff.

1.1.13 Corporate Social Responsibility

The CBN continued to perform its corporate social responsibility function by promoting knowledge through the provision of financial and other assistance to organizations/activity groups for the hosting of conferences, seminars, workshops, etc, which were of strategic national interest.

The CBN continued to perform its corporate social responsibility function by promoting knowledge through the provision of financial and other assistance to organizations/activity groups for the hosting of conferences, seminars, workshops, etc, which were of strategic national interest. These included eight (8) professional associations, four (4) orphanage homes/foundations, two (2) training institutions and three (3) government agencies.

1.1.14 Staff Social Responsibility

Staff of the CBN sustained their support for the less privileged in Nigerian society through regular contributions to the Alms Collection Scheme of the Bank. The monetary contributions by staff were primarily designed to keep beggars off the streets of Nigeria's metropolitan cities. The cumulative contributions since its inception in 2003 stood at ₦56.9 million at end 2009, up from ₦45.7 million in 2008. Under the Scheme, the construction of the boys' hostel for the Saint Mary and the Al-Ansar Orphanages in Abuja, was completed.

1.2 RESEARCH AND COLLABORATIVE ACTIVITIES

The Bank conducted research, in line with its core mandates/functions and disseminated data and information on key issues relating to the management of the economy. Work continued on the preliminary draft report on a Macroeconometric Model of the Nigerian Economy. The Model was presented to some major stakeholders in the economy in order to harvest inputs that would enhance the model to meet the standards of an effective macro-model. The CBN was also involved in a number of empirical studies which culminated in published works, notable among which were *"Fifty Years of Central Banking in Nigeria"*, *"The Remittance Environment in Nigeria"*, and *"Strategic Grains Reserves and Economic Development in Nigeria"*. The Bank's 50th Anniversary International Conference, with the theme, "Central Banking, Financial System Stability and Growth" was held at the NICON Transcorp Hotel, Abuja, from May 4 to 6, 2009. The Bank continued to collaborate with the National Bureau of Statistics (NBS) to generate a series of economic indicators through the conduct of the 2008 National Economic Survey.

The regular publications of the CBN in 2009 included: the *2008 Annual Report*; the *2009 Half-Year Economic Report*, the *CBN Economic and Financial Review* and *The Bullion*. Furthermore, seminar papers on topical issues were presented, some of which were published in the Bank's journal. Other papers at various stages of completion included: 'Inflation Forecasting Model in Nigeria"; "Appropriate Measures of Inflation for Nigeria under an Inflation Targeting (IT) Framework"; "Monetary Policy Transmission Mechanism in

Nigeria"; "Determinants of Capital Flows and Challenges of Macroeconomic Stability in Nigeria"; "Determinants of Demand Pressure in Nigeria's Foreign Exchange Market"; "Enhancing the Flow of Investment to the Real Sector of the Nigerian Economy"; and "Long-Term Prospects on the Nigeria Rice Economy: Evidence from Niger and Kebbi States". Work on the Bank's publication on Public Educational Series on key macroeconomic concepts continued during the year.

The Bank organized the 17th Annual Executive Policy Seminar with the theme, "Cross-Border Banking: Challenges and Implications for Monetary Management". During the year, five visiting scholars were engaged under the Diaspora/Visiting Scholar Programme initiated by the Bank, aimed at encouraging international scholarly research in the core areas of the Bank's activities. In recognition of the existence of a pool of experts in various disciplines in the CBN, the Bank received and honoured requests for the presentation of lecture papers from various institutions, including regional organizations, such as the African Economic Research Consortium (AERC) and the West African Institute for Financial and Economic Management (WAIFEM). Staff papers were also presented at international and local professional conferences and workshops including those of the Nigerian Economic Society (NES), the Nigerian Statistical Association (NSA), the African Econometric Society (AES) and the Farm Management Association of Nigeria (FAMAN).

During the year, five visiting scholars were engaged under the Diaspora/Visiting Scholar Programme initiated by the Bank, aimed at encouraging international scholarly research in the core areas of the Bank's activities.

1.3 THE CBN BALANCE SHEET

1.3.1 Income and Appropriation

The audited financial statements of the CBN for the year ended 31st December, 2009 indicated that total income was ₦709.0 billion, an increase of 251.7 per cent from the level in 2008. The increase in income largely reflected the rise in interest income, specifically from realized gains on foreign currency. Operating cost declined by 281.7 per cent in 2009, thus, bringing the operating surplus before provisions to ₦43.9 billion, compared with N8.3 billion in 2008.

In accordance with the provisions of Part II, Section 5 (3) of the *CBN Act, 2007* (as amended), the sum of ₦32.9 billion was due to the Federal Government, while the balance accrued to general reserve.

1.3.2 Assets and Liabilities

The size of CBN's balance sheet decreased in 2009 as total assets/liabilities declined by 10.1 per cent to ₦7.6 trillion. The assets position reflected the decrease in external reserves

(10.8 per cent) and loans and advances (25.9 per cent), which more than offset the growth of 16.5, 17.1, 12.6 and 2.3 per cent in Nigerian government securities, other assets, fixed assets and investments, respectively. The decline in total assets was compensated for on the liability side by the fall in deposits (19.9 per cent) and CBN instruments (91.9 per cent). However, IMF allocation of Special Drawing Rights grew by 1,124.4 per cent, 'other financial liabilities' (184.3 per cent), and notes and coins in circulation (2.3 per cent) over end-December 2008. The paid-up capital of the Bank remained at ₦5.0 billion while the general reserve fund increased by 18.0 per cent to ₦71.9 billion.

CHAPTER 2

2.0 MONETARY POLICY, SURVEILLANCE ACTIVITIES AND OPERATIONS OF THE CBN IN 2009

Monetary management in 2009 largely reflected the internal and external economic environments, which was characterized by tight liquidity. Monetary growth was moderate, despite the fiscal injections and other measures taken to ease liquidity constraints of deposit money banks. Monetary policy became less restrictive, beginning from the second quarter and remained so throughout the year. Open market operations (OMO) remained the major tool for monetary policy, complemented by standing facilities, foreign exchange market interventions and macro-prudential ratios. Against the backdrop of the decline or deceleration in the rate of growth of the proximate determinants of broad money, M_2, the growth of monetary aggregates at end-December 2009 was lower than the indicative benchmarks and levels attained as at end-December 2008.

The Monetary Policy Rate (MPR) was reviewed downward, twice, during the year, in line with the liquidity conditions. Interest rates in the inter-bank markets reflected market conditions and remained relatively stable. Also, the yields on fixed income securities across the various maturities were lower than in 2008.

The Retail Dutch Auction System (RDAS) was re-introduced in the first quarter of the year as a temporary measure to accommodate the demand pressures at the foreign exchange, with the machinery put in place for a return to the Wholesale Dutch Auction System (WDAS) in July 2009. Overall, the naira stabilized from the third quarter of the year. The Bank also sustained its efforts to improve the payments and settlement system by harmonizing the clearing cycle to T + 2 across the country. Deposit money banks (DMBs) deployed more ATMs and increased the number of Points of Sale (POS) outlets, thereby boosting public confidence in e-payments. Furthermore, the CBN continued the campaign for clean naira notes through various media and commenced initial processes for outsourcing some currency processing functions for greater efficiency and cost effectiveness. The Bank sustained its developmental functions through the Agricultural Credit Guarantee Scheme Fund (ACGSF) and the microfinance programme, among others.

2.1 MONETARY OPERATIONS

2.1.1 Monetary and Credit Developments

Monetary growth was moderate in 2009, despite the huge fiscal injections and other measures taken by the Bank in the second half of the year to ease the tight liquidity condition in the banking system, and to build confidence in the Nigerian financial markets.

The measures included injection of liquidity into some troubled deposit money banks, a downward review of the MPR and provision of guarantees on inter-bank transactions. These notwithstanding, the growth in money supply at end-December 2009 was below the indicative benchmark for the first time in the last five years.

Monetary growth was moderate in 2009, despite the huge fiscal injections and other measures taken by the Bank in the second half of the year to ease the tight liquidity condition in the banking system, and to build confidence in the Nigerian financial markets.

Base money, the Bank's operating target for monetary policy, stood at ₦1,668.5 billion, exceeding the indicative benchmark of ₦1, 604.8 billion for 2009 by 4.0 per cent. Provisional figures indicated that the growth in broad money, (M2), was 17.1 per cent at end-December 2009, compared with 57.8 per cent at end-December 2008 and the indicative benchmark of 20.8 per cent for 2009. The growth of money stock was largely driven by the increase in the net domestic credit of the banking system. Narrow money (M1) grew by 2.3 per cent at end-December 2009, compared with the growth of 55.9 per cent at the end of the preceding year. Aggregate bank credit to the domestic economy (net) grew by 59.0 per cent, compared with the growth of 84.2 per cent at end-December 2008, broadly reflecting the growth in credit to the private sector, as credit to the Federal Government (net) declined by 26.6 per cent, compared with a decline of 31.2 per cent at the end of the preceding year. The Federal Government remained a net creditor to the system as its deposits with the banking system were in excess of the credit extended to it by the banking system.

Table 2.1: Key Policy Targets and Outcomes, 2005 - 2009 (per cent)

	2005		2006		2007		2008 1/		2009 2/	
	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome	Target	Outcome
Growth in base money	6.5	4.2	7.5	27.8	3.3	22.6	20.8	29.6	3.6	7.7
Growth in broad money (M_2)	15.0	24.4	27.0	43.1	24.1	44.2	45.0	57.8	20.8	17.1
Growth in narrow money (M_1)	11.4	29.7	n.a.	32.6	-	36.6	-	55.9	32.2	2.3
Growth in aggregate bank credit	22.5	17.3	-72.3	-69.9	-29.9	276.4	65.96	84.2	87.0	59.0
Growth in bank credit to private sector	22.0	30.8	30.0	32.1	30.0	90.8	54.7	59.4	45.0	26.0
Inflation rate	10.0	11.6	9.0	8.5	9.0	6.6	9.0	15.1	9.0	12.0
Growth in real GDP	5.0	6.5	7.0	6.0	10.0	6.5	7.5	6.0	5.0	6.7

1/ Revised
2/Provisional

Table 2.2: WAMZ Convergence Criteria, 2005 - 2009

	Target	Achievement				
		2005	2006	2007	2008	2009
Inflation rate	< 5.0 per cent	11.6	8.5	6.6	**15.1**	**12.0**
Ways & Means Advances	≤ 10.0 per cent of retained revenue of the Government	5.1	Nil	Nil	**Nil**	**Nil**
Deficit to GDP Ratio	≤ 4.0 per cent	1.1	0.6	0.5	**0.2**	**3.3**
Gross Official Reserve	≥ 6 Months of import cover	13.1	22.4	20.2	**17.2**	**17.7**

Regarding the objective of attaining a single digit inflation rate, monetary policy was not able to deliver on this, as the headline inflation rate at the end of 2009 stood at 12.0 per cent. The inability to meet this objective was traceable to factors outside the immediate control of the CBN.

Regarding the objective of attaining a single digit inflation rate, monetary policy was not able to deliver on this, as the headline inflation rate at the end of 2009 stood at 12.0 per cent. The inability to meet this objective was traceable to factors outside the immediate control of the CBN. These factors included the effects of the global financial and economic crises, the rise in the prices of foodstuff associated with the increase in transport costs following the announced planned full deregulation of the downstream sub-sector of the oil industry, which led to sharp increases in the prices of petroleum products in the last quarter of 2009 and, hence, transport costs. Indeed, the rate of inflation consistently trended downwards for most of the year until October when it resumed an upward trend.

Overall, despite the impact of the global financial and economic crises, Nigeria was able to meet the WAMZ convergence criteria, with the exception of the rate of inflation.

2.1.2 Liquidity Management

Monetary policy in 2009 was designed and implemented against the background of the liquidity crunch in the domestic economy that had arisen from the global economic and financial crises of 2007/2008. Liquidity management was, therefore, geared towards improving the liquidity and efficiency of the financial market, without compromising the objective of monetary and price stability. The Bank made use of open market operations (OMO), complemented by macro-prudential cash and liquidity ratios, tenored repurchase transactions, sale of treasury instruments at the primary segment of the market, and the Bank's standing facility window. Also, the monthly statutory

The liquidity crunch in the economy raised major concerns of how to achieve the multiple objectives of optimum liquidity in the domestic money and foreign exchange markets, price and exchange rate stability and a steady flow of credit to the real economy in a sound and stable financial system.

allocations to the three tiers of government, especially the draw down of part of the excess crude account, helped to moderate the tight liquidity condition in the early part of the year. Owing to the effects of the global economic and financial crises, the liquidity condition remained tight in the second and third quarters of the year as base money was below the benchmark set for the period, while monetary aggregates remained below the indicative benchmarks for the year. Thus, the outcomes of Reserve Money (RM) of ₦1,291.49 billion and ₦1,261.97 billion were below the indicative benchmarks of ₦1,346.29 billion and ₦1,442.07 billion, for end-June and end-September, 2009, respectively.

Liquidity management was, therefore, geared towards improving the liquidity and efficiency of the financial market, without compromising the objective of monetary and price stability.

The liquidity crunch in the economy raised major concerns of how to achieve the multiple objectives of optimum liquidity in the domestic money and foreign exchange markets, price and exchange rate stability and a steady flow of credit to the real economy in a sound and stable financial system. In order to address these issues, a number of monetary policy measures were undertaken by the Monetary Policy Committee (MPC). The measures included the re-introduction of the Retail Dutch Auction System (RDAS) and a reduction of the authorised dealers' net open position (NOP) from 10.0 to 1.0 per cent of their total liabilities in January and February, respectively. Other measures were the pegging of banks' and BDCs' foreign exchange buying and selling rates to 1.0 and 2.0 per cent, respectively around the official rate and managing the exchange rate within a band of +/-3.0 per cent. The monetary policy rate (MPR) was, however, left unchanged at 9.75 per cent. Given the persistent pressures in the banking system, the MPC reduced MPR by 175 basis points to 8.0 per cent, liquidity ratio from 30.0 to 25.0 per cent, and cash reserve ratio from 2.0 to 1.0 per cent in April. With some level of stability in the foreign exchange market, the stringent exchange rate policy rules were subsequently relaxed in May 2009, including raising the NOP from 1.0 to 2.5 per cent, approval in principle of 50 non-bank class “A” BDCs, and the decision to return to the regime of a fully liberalised foreign exchange market over a 3-month period.

The policy measures undertaken in the first half of 2009 had a salutary outcome, especially in the foreign exchange market. However, the challenges of liquidity tightness in the domestic money market persisted. In response, the MPR was reviewed downwards in July by 200 basis points from 8.0 to 6.0 per cent and was, thenceforth, to serve as an anchor rate rather than a transactional rate; it remained at that level till December 2009. The policy rate was fixed with a symmetry corridor of +/- 200 basis points around the policy rate with the upper band serving as the lending rate and the lower band as the deposit rate under the standing facility window, with effect from July 2009. Another policy measure introduced by the Bank was the guarantee of all inter-bank transactions from July 2009 to

March 2010, to deepen and boost the activities at the inter-bank market and reduce pressure at the CBN standing lending window. The measure was aimed at mitigating the counter-party risk in the inter-bank market, ensuring money market liquidity, as well as facilitating trading among operators. In addition, the exchange control measures introduced early in the year, in response to the pressures experienced in the foreign exchange market, were removed and the Wholesale Dutch Auction System (WDAS) was re-introduced, while the NOP was raised to 5.0 per cent.

As a result of the first round of the joint special audit examination of the banking system by the CBN/NDIC, the Bank injected ₦420.0 billion into five (5) banks in August in the form of Tier two capital with interest and repayable in seven years, callable on the fifth anniversary of the loan to the banks whose capital had been eroded by non-performing loans. An additional ₦200.0 billion was injected into five (5) more banks in October at the conclusion of the second round of the exercise. By the end of the year, one of the banks had fully repaid its loan of ₦30.0 billion. In order to beef up trading in the inter-bank money market which had remained sluggish as banks continued to substantially access CBN's standing deposit facility window, an asymmetric interest rate corridor was introduced. Consequently, the standing deposit facility was reduced by 200 basis points to 2.0 per cent, while the standing lending facility remained at 8. 0 per cent. Also, the temporary ban placed on the use of Bankers' Acceptances (BAs) and Commercial Papers (CPs) was lifted and the 1.0 per cent general provision on performing loans in the existing prudential guidelines was waived for 2009. The policy measures had a salutary effect as the exchange rate of the naira stabilized in the foreign exchange market after the sharp depreciation recorded in the early part of the year. Liquidity conditions also ameliorated in the inter-bank money market towards the end of the year. Thus, the year closed with the RM level at ₦1,668.53 billion, slightly exceeding the indicative benchmark for 2009 of ₦1,604.8 billion by ₦53.87 billion or 4.0 per cent. Other medium-term measures included the approval of ₦500.0 billion for quantitative easing through investment in bonds to be issued by the Asset Management Corporation (AMC) upon its creation by an Act of the National Assembly, and the redemption of promissory notes issued during the bank consolidation exercise for the purchase and assumption of failed banks. The AMC was expected to relieve banks of their "toxic assets" in a bid to reconstruct their balance sheet and restore them to viability.

The policy measures had a salutary effect as the exchange rate of the naira stabilized in the foreign exchange market after the sharp depreciation recorded in the early part of the year. Liquidity conditions also ameliorated in the inter-bank money market towards the end of the year.

2.1.3 Interest Rate Policy and Developments

Developments in interest rates were mixed in 2009. At the short-end of the market, rates were volatile during the first half of the year. However, following the interventions of the

CBN in the third quarter to ensure the stability of the financial system, the money market rates stabilized during the rest of the year. The high rates in the first half of the year could be attributed to the tight liquidity conditions in the banking system, arising from the low repayments and fiscal injections, and lack of viable inter-bank trading. The banking system liquidity, however, improved as a result of the series of action taken by the Bank to stabilize, in particular, some banks whose capital had been significantly eroded and, in general, the banking system. Other interventions included the re-introduction of the interest rate corridor around the policy rate for standing facility window operations; the reduction of MPR from 9.75 per cent to 8.00 and further to 6.00 per cent; the reduction of the liquidity ratio to 25.0 per cent from 30.0 per cent; and the reduction of the Cash Reserve Ratio (CRR) to 1.00 per cent, from 2.00 per cent.

The banking system liquidity, however, improved as a result of the series of action taken by the Bank.

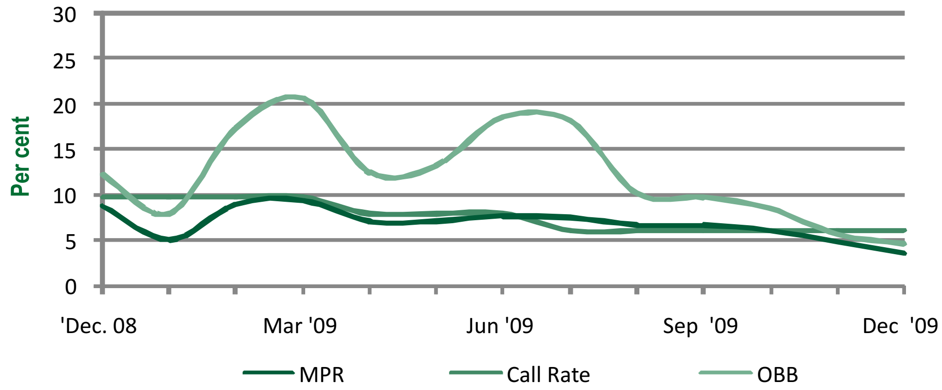
2.1.3.1 Money Market Rates

As a result of the tight liquidity in the banking system in the first three quarters of 2009, rates in all segments of the money market were relatively higher in the last quarter of the year. With downward reviews of the MPR in April and July, coupled with the Bank's policy of guaranteeing all inter-bank exposures, and Pension Fund Administrators' placements with DMBs, interest rates trended downwards in the latter part of the year. On average, the weighted average inter-bank call rate, tenored rate, and open-buy-back rate were 12.2, 16.1 and 6.7 per cent, respectively, compared with 11.9, 14.2 and 9.1 per cent in 2008. The Nigerian Inter-bank Offered Rate (NIBOR) of 7-day and 30-day tenors showed a similar trend, averaging 13.7 and 15.9 per cent, respectively, up from 12.5 and 14.3 per cent, respectively, in 2008.

Table 2.3: Money Market Rates (per cent)

WEIGHTED AVERAGE					
Month	MPR	Call Rate	OBB	NIBOR 7-days	NIBOR 30-days
January 09	9.75	7.91	5.08	10.30	14.91
February 09	9.75	17.30	9.03	16.82	18.07
March 09	9.75	20.60	9.44	21.29	18.92
April 09	8.00	12.51	7.07	13.45	15.25
May 09	8.00	13.17	7.16	14.42	15.91
June 09	8.00	18.60	7.73	19.55	19.84
July 09	6.00	18.10	7.52	18.94	19.66
August 09	6.00	10.17	6.63	12.27	14.29
September 09	6.00	9.76	6.60	11.34	13.78
October 09	6.00	8.46	6.12	9.64	13.35
November 09	6.00	5.62	4.87	8.60	13.75
December 09	6.00	4.68	3.59	7.98	13.45
Average 2009	7.44	12.24	6.73	13.72	15.93
Average 2008	9.85	11.86	9.11	12.47	14.32

Figure 2.1: Money Market Rates in 2009



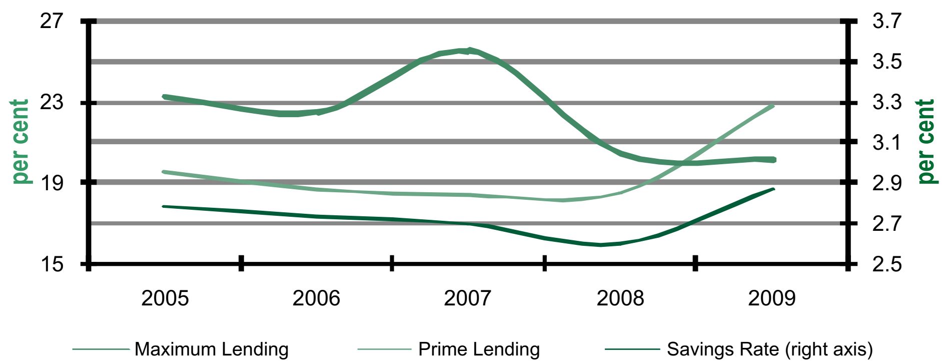
2.1.3.2 Deposit Rates

Available data showed that, in general, DMBs' deposit rates rose in 2009. With the exception of the average savings deposit rate, which fell slightly by 0.40 percentage point to 3.01 per cent, other rates on deposits of various maturities rose to a range of 6.73 13.40 per cent, from a range of 5.91 11.97 per cent in 2008. The average term deposit rate also edged up slightly by 0.1 percentage point to 12.06 per cent from 11.96 per cent in 2008. The higher rates reflected the paucity of funds in the banking system, due mainly to the low volume of funds injected through the fiscal operations of government.

2.1.3.3 Lending Rates

The weighted average prime and maximum lending rates rose by 2.64 and 4.31 percentage points, respectively, to 18.62 and 22.80 per cent in 2009, also reflecting the tight liquidity condition and risk perception of borrowers by the DMBS in the aftermath of the global economic and financial crises.

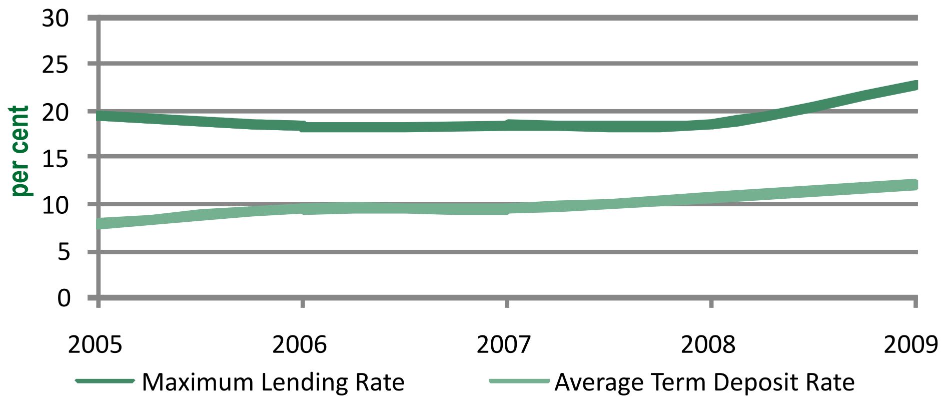
Figure 2.2 Savings and Lending Rates (Prime and Maximum)



Consequently, the spread between the average term deposits and maximum lending rates widened to 10.74 percentage points, from 7.78 percentage points in 2008.

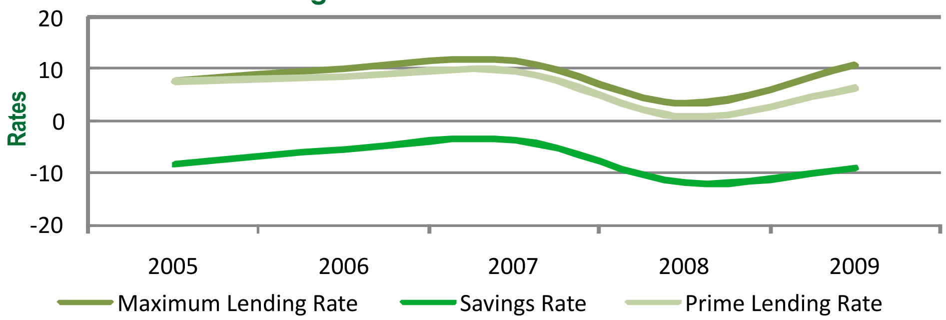
The spread between the average term deposits and maximum lending rates widened to 10.74 percentage points, from 7.78 percentage points in 2008.

Figure 2.3: Spread Between the Average Deposit and Maximum Lending Rates



With the year-on-year inflation rate at 12.0 per cent in December 2009, most deposit rates were negative in real terms. Lending rates were, however, positive in real terms.

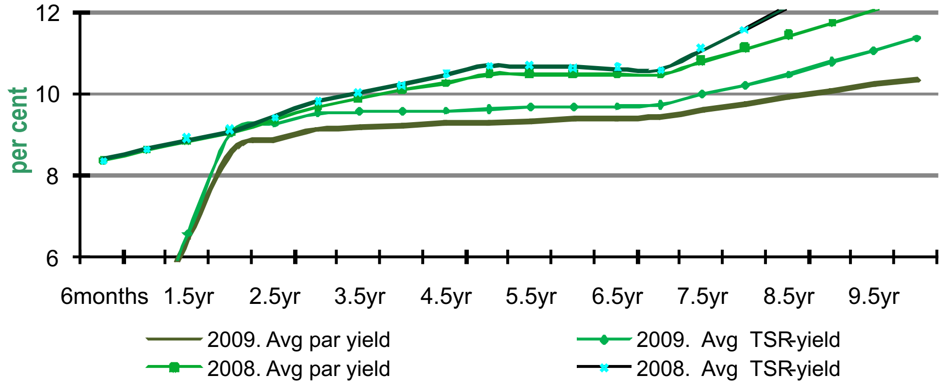
Figure 2.4: Real Interest Rates



2.1.3.4 Return on Fixed Income Securities - The Yield Curve

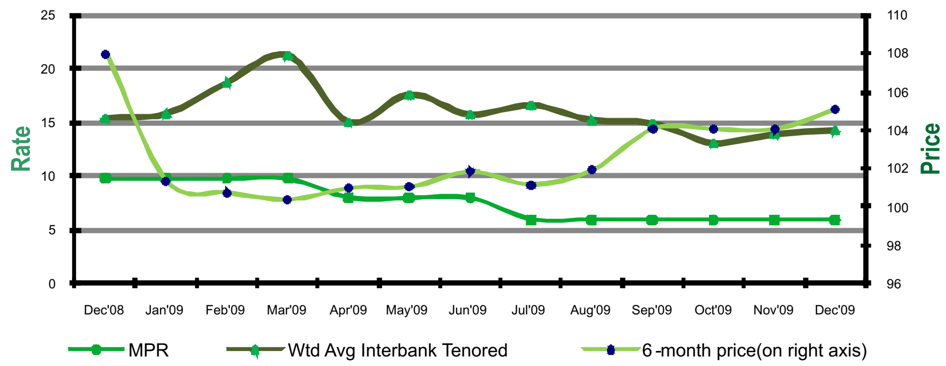
The yield on fixed income securities was generally lower in 2009 than in the preceding year. The par yield curve and the theoretical spot rate curve (TSR-curve) were upward-sloping, but with a steeper slope at the short-end than at the medium-and long-end. The mid-segment of the curve was near flat. The slope of the yield curve was steeper in 2009 than in the preceding year, as the yield spread (the difference between the longest and shortest maturities) widened to 7.07 percentage points, from 3.99 percentage points in the preceding year. The development was attributable to investors' optimism about the short- and long-term prospects of improvement in economic activities, and the expectation of higher inflation and interest rates in the future. Typically, the yield on each maturity was less than the corresponding spot rate across the entire yield curve.

Figure 2.5: Government Bonds and Average Yield



A plot of the price of the 6-month maturity and weighted average inter-bank tenored rate showed that the bond price and interest rates typically moved in opposite directions.

Figure 2.6: Interest Rate and Price of 6-month Maturity



2.1.4 Payments, Clearing and Settlement Developments

The Bank sustained the implementation of the Payments System Vision (PSV) 2020 initiatives in 2009. The Nigeria Automated Clearing System (NACS) was deployed in Kano, Ibadan and Benin Clearing Zones, thereby bringing the total number of automated clearing houses to five (5). The CBN took the following actions to facilitate the efficiency of the payments system:

- Setting the operational rules and guidelines for the Nigeria Central Switch to connect all existing switches for inter-operability and inter-connectivity of the different card schemes;

- Restricting deployment of Automated Teller Machines (ATMs) by banks to their premises only, while ATM Consortia undertook off-site installations;
- Extending the timeline set in the CBN e-banking guidelines for migration from magnetic stripe to Chip+PIN to April 1, 2009;
- Application of e-payment by Federal Government Ministries, Departments and Agencies (MDAs), in line with the Presidential directive prohibiting the use of cheques for transactions;
- Approval of various guidelines, such as the following:
    - Regulatory Framework for Mobile Payments Services in Nigeria,
    - Guidelines on Transaction Switching,
    - Direct Debit Rules and Guidelines on Stored Value/Prepaid Cards,
    - ₦10 million maximum cap for cheque payment effective January 1, 2010; and
- The appointment of a payments system Project Management Team to fast track the implementation of the PSV 2020 initiatives.

Other guidelines included: the revised Nigeria Bankers' Clearing House Rules, the use of a Nigeria Uniform Bank Account Number, the draft guidelines on e-payment of taxes, and draft guidelines on e-payment of salaries and pensions.

2.2 CURRENCY OPERATIONS

2.2.1 Issue of Legal Tender

The "Campaign Against Abuse of the Naira" intensified through the sensitization of stakeholders. In continuation of its currency restructuring programme and clean notes policy, the Bank introduced ₦5, ₦10 and ₦50 polymer banknotes on September 30, 2009 to replace the paper notes. This was to safeguard the integrity of the currency and ensure efficiency and cost effectiveness in printing. With this development, lower banknote denominations were subsequently printed in polymer substrate. To sustain the Bank's clean notes policy, a surcharge of ₦6,000 per box for unsorted banknotes lodged with the CBN was retained during the year. The Bank sustained its efforts to increase its local production of bank notes, as the Nigeria Security Printing and Minting (NSPM) Plc improved its output from 2.63 billion in 2008 to 2.67 billion. The Bank commissioned a Currency Museum on May 6, 2009 and produced a commemorative coin with the image of the CBN Head Office building on the obverse side and motley of coins on the reverse as part of the key events marking the 50th Anniversary of the CBN. The museum provides a unique account of the evolution of money in Nigeria by displaying various historic monetary artefacts and souvenirs, national currencies, a unique mosaic, and different wooden and bronze sculptures with digital media systems. In addition, the

The Bank sustained its efforts to increase its local production of bank notes, as the Nigeria Security Printing and Minting (NSPM) Plc improved its output.

Bank hosts a standard audio-visual section for vital information on currency notes and the education of visitors to the museum.

2.2.2 Currency in Circulation (CIC)

Currency in circulation at end-December 2009 amounted to ₦1,184.3 billion, representing an increase of ₦29.27 billion or 2.5 per cent over the level in the corresponding period of 2008, compared with an increase of 20.3 per cent a year earlier. The growth in CIC was consistent with the slow growth in monetary aggregates, an indication of a lull in economic activities during the year.

2.3 FOREIGN EXCHANGE MANAGEMENT

The policies adopted in the first half of the year to promote stability in the foreign exchange market were the re-introduction of the Retail Dutch Auction System (RDAS); a partial suspension of trading at the inter-bank segment of the foreign exchange market; restriction of sales of forex earnings by oil companies and government agencies to the CBN; and the suspension of the sale of foreign exchange to the Bureaux de Change (BDCs). However, the moderation in demand pressure at the foreign exchange market by the end of the second quarter of 2009 led to a reversal of these policies. Thus, the Wholesale Dutch Auction System (WDAS) was re-introduced in July 2009, and oil companies and government agencies were again permitted to sell foreign exchange directly to authorized dealers of their choice. Also, the CBN resumed the sale of foreign exchange to class 'A' BDCs in April and class 'B' BDCs in August 2009. Consequently, the demand pressure eased considerably by the end of the year, in response to the new policy measures which encouraged substantial sales/supply of foreign exchange by the oil companies to the inter-bank segment.

2.3.1 Foreign Exchange Flows

The inflow and outflow of foreign exchange through the economy amounted to US$67.3 billion and US$36.5 billion, respectively, showing a decline of 37.0 and 22.6 per cent below the levels in 2008. A breakdown of the foreign exchange inflow showed that receipts through the CBN and autonomous sources declined by 49.2 and 26.6 per cent to US$25.0 billion and US$42.2 billion, respectively. The development was due largely to the negative impact of the global financial crisis which reduced the level of capital inflow into the economy. Total foreign exchange outflows through the economy from autonomous sources fell by 37.9 per cent to US$0.7 billion, from the level in the preceding year.

The inflow and outflow of foreign exchange through the economy amounted to US$67.3 billion and US$36.5 billion, respectively, showing a decline of 37.0 and 22.6 per cent below the levels in 2008.

Of the total inflow of foreign exchange through the Central Bank, receipts from the oil sector accounted for US$17.4 billion or 69.5 per cent of the total, compared with US$44.7

billion or 90.6 per cent in 2008. The development was attributable to the decline in the price of crude oil from an average of US$101.5 per barrel in 2008 to US$ 62.08 per barrel in 2009, as well as lower oil production in 2009 relative to 2008. Total foreign exchange outflows through the CBN fell by 23.9 per cent from the level in the preceding year to US$35.8 billion and accounted for 98.0 per cent of the gross outflow through the economy. The development was traceable to the suspension of interventions by the CBN at the inter-bank segment of the foreign exchange market between February and May 2009. Overall, a net outflow of US$10.8 billion was recorded, in contrast to a net inflow of US$2.3 billion in 2008.

The development was due largely to the negative impact of the global financial crisis which reduced the level of capital inflow into the economy.

Table 2.4: Currency Structure, 2007 - 2009

Coins	2007		2008		2009	
	Volume (million)	Value (₦ billion)	Volume (million)	Value (₦billion)	Volume (million)	Value (₦ billion)
₦2	81.9	0.16	104.5	0.21	114.5	228.90
₦1	615.4	0.62	532.2	0.53	490.6	490.65
50k	738.3	0.37	463.1	0.23	454.5	227.26
25k	19.0	0.01	240.6	0.06	212.0	53.00
10k	2.2	0.0002	235.1	0.02	228.3	228.82
1k	0.0	0.0	51.2	0.0005	57.4	0.57
Sub total	**1,456.8**	**1.15**	**1,629.7**	**1.06**	**1,557.3**	**1,023.20**
Notes						
₦1000	264.4	264.40	572.9	572.91	584.4	584.39
₦500	707.2	353.60	801.9	400.93	852.8	426.40
₦200	1,256.0	251.30	571.6	114.32	491.9	98.38
₦100	494.9	49.50	323.6	32.36	350.0	35.00
₦50	351.3	17.60	228.0	11.40	344.9	17.25
₦20	823.0	16.50	827.3	16.55	769.5	15.39
₦10	355.9	3.60	283.2	2.83	285.5	2.85
₦5	579.0	2.90	533.1	2.67	720.5	3.60
Sub-Total	**4,831.7**	**959.40**	**4,141.6**	**1,153.97**	**4,399.5**	**1,183.27**
Total	**6,288.5**	**960.55**	**5,768.3**	**1,155.03**	**5,956.8**	**1,184.30**

Figure 2.7: Ratio of Currency in Circulation to M_2

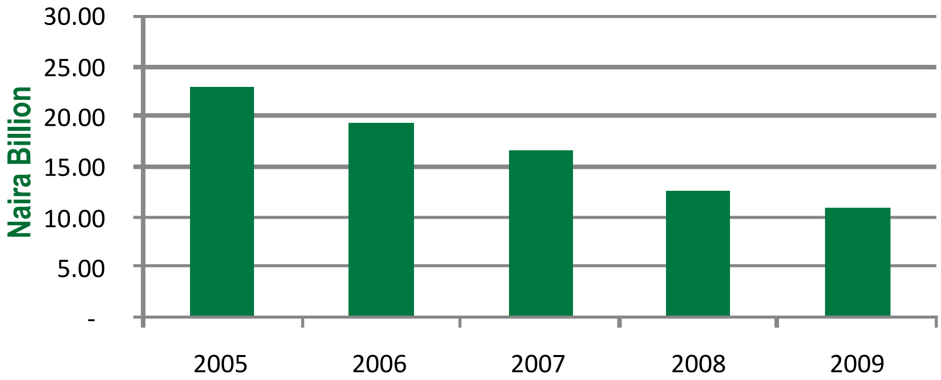
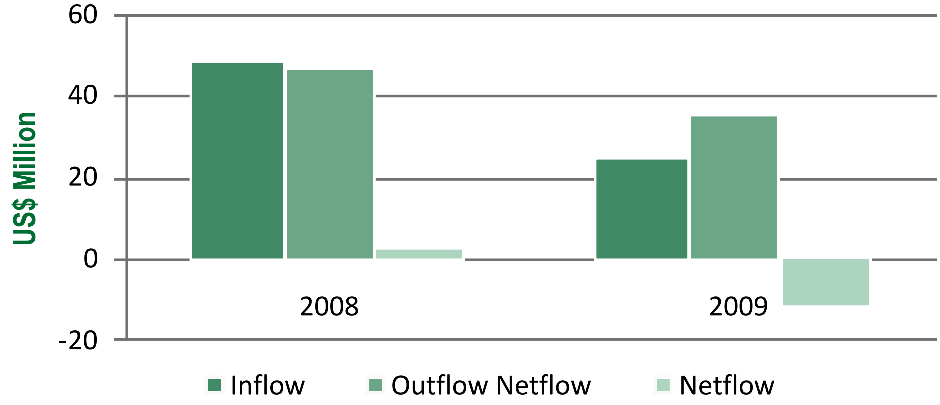


Figure 2.8: Foreign Exchange Flows through the CBN



Analysis of the foreign exchange disbursement showed that funding of the WDAS accounted for 62.8 per cent, Bureaux-de-Change 13.1 per cent, inter-bank sales 7.3 per cent, other official payments (International Organizations and Embassies, NNPC/JV Cash Calls, parastatals and estacode, as well as miscellaneous) 12.9 per cent, drawings on letters of credit (L/C) 2.8 per cent, and external debt service 1.1 per cent.

2.3.2 Developments in the Foreign Exchange Market

A total of one hundred and twenty-two (122) trading sessions were held in 2009, compared with ninety-three (93) in 2008. This comprised seventy-seven (77) trading sessions held under the RDAS and forty-five (45) under the WDAS. The demand pressure observed in the fourth quarter of 2008 persisted through the second quarter of 2009, but moderated in the second half of the year. The demand for foreign exchange at the RDAS/WDAS and BDC segments of the foreign exchange market amounted to US$42.7

billion, showing an increase of 34.7 per cent over the level recorded in the preceding year. Consequently, the amount of foreign exchange sold by the CBN at the RDAS/WDAS and BDC window amounted to US$22.8 billion and US$4.7 billion, respectively, compared with US$10.1 billion and US$11.4 billion in the preceding year. The aggregate amount of foreign exchange sold at the RDAS/WDAS window, (both independent and deposit money banks' BDCs) stood at US$27.53 billion, an increase of 28.1 per cent over the level in 2008.

Figure 2.9: Foreign Exchange Disbursements in 2009

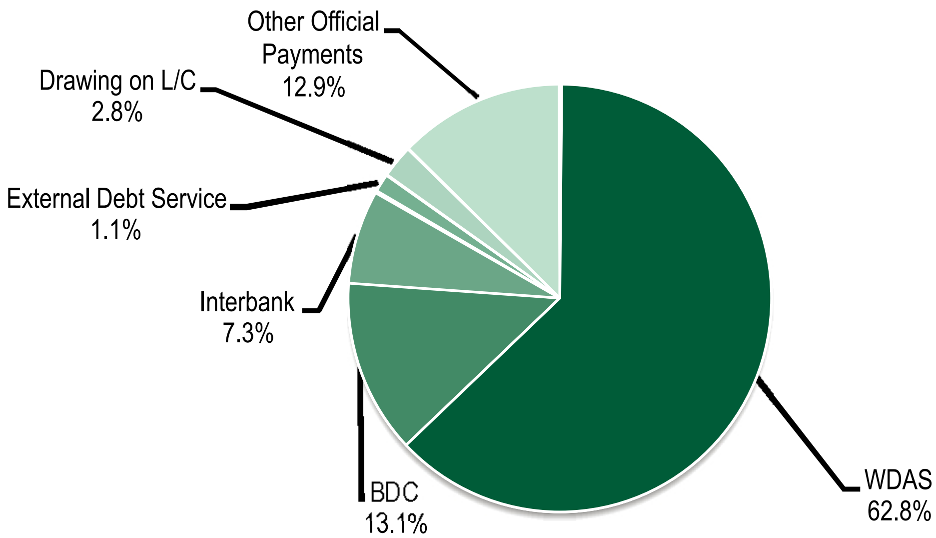


Figure 2.10: Developments in the Foreign Exchange Market

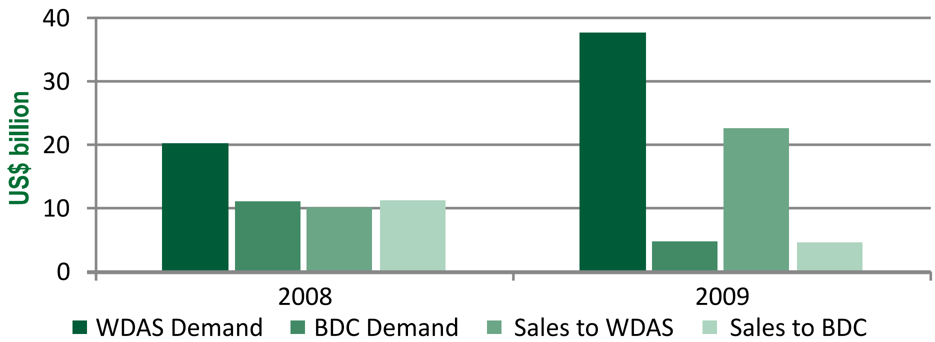
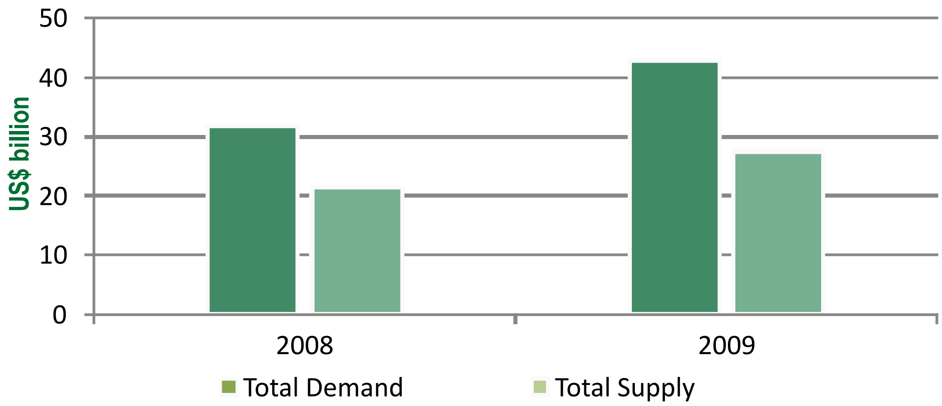


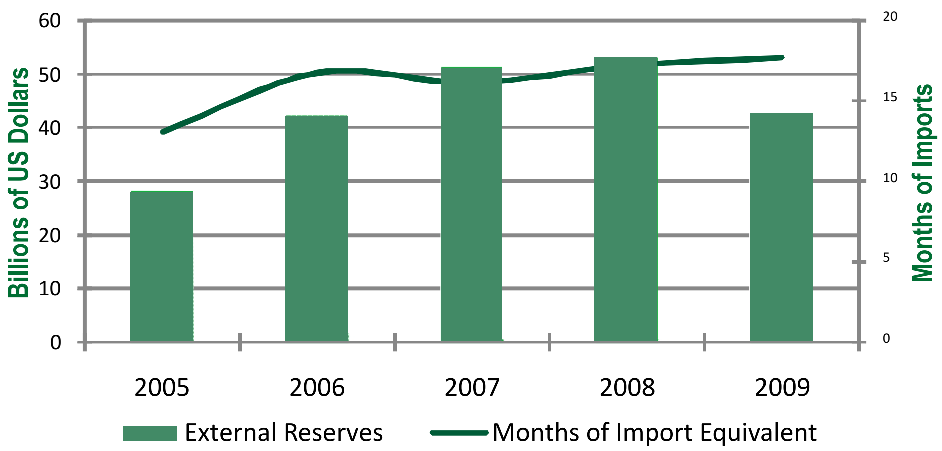
Figure 2.11: Demand for and Supply of, Foreign Exchange



2.3.3 External Reserves Management

Nigeria's gross external reserves at end-December 2009 stood at US$42.4 billion, indicating a decline of 20.0 per cent below the level of US$53.0 billion recorded in the preceding year. The stock of external reserves could support 17.7 months of import, compared with 17.2 in 2008, on account of lower imports in 2009.

Figure 2.12: Nigeria's Gross External Reserves Position (US$ billion) and Months of Import Equivalent



In order to entrench a more efficient external reserve management system, the Investment Committee on external reserves approved the following: rule-based currency diversification of the CBN's external reserves; processing of applications of five (5) additional Asset Managers; review of special guidelines for deposit placement with offshore branches/subsidiaries of Nigerian banks; and the framework for the allocation of funds to Asset Managers and their annual performance review criteria.

The CBN also signed futures clearing agreements with Merrill Lynch, Pierce, and Fenner & Smith Incorporation and commenced the implementation of the portfolio management system in June 2009 to enhance the automation of reserve management operations.

Due diligence visits were paid to some Asset Managers and offshore branches/subsidiaries of Nigerian banks to establish the safety of funds invested, while visits to the Global Custodians were undertaken to review portfolio investments.

2 .4 SURVEILLANCE REPORT ON THE ACTIVITIES OF FINANCIAL INSTITUTIONS

2.4.1 Banking Supervision

The CBN intensified its supervisory and surveillance activities in the banking sector in 2009 by adopting, among other measures, regular appraisal and review of banks' periodic returns, spot checks, monitoring and special investigations and adoption of risk-based supervision (RBS). Considerable progress was made in the development of the RBS framework. In that regard, the aspects of the project completed included Risk-based and Consolidated Supervision Frameworks. Others included Risk Assessment Summary (RAS); Risk Matrix; Supervisory Guides; Supervisory Framework Discussion Series; Intervention (watch-list) Report; Supervisory Plan; Assessment Criteria and Section Notes to provide completion guidance and ensure consistency of working paper documentation. The Bank also commenced the development of preliminary risk profiling of all DMBs, using the newly developed risk-based supervisory methodology and techniques. In this regard, risk-based, on-site examinations were conducted on two banks on a pilot basis.

The CBN intensified its supervisory and surveillance activities in the banking sector in 2009 by adopting, among other measures, regular appraisal and review of banks' periodic returns, spot checks, monitoring and special investigations and adoption of risk-based supervision (RBS).

Due to the improved surveillance activities of the CBN, some credit facilities hitherto not included in the e-FASS Credit Risk Management System (CRMS) database, were captured. Consequently, the database had an outstanding balance of ₦4.0 trillion, extended to 63,451 borrowers in 2009, compared with ₦3.1 trillion to 60,273 customers in the preceding year.

Due to the improved surveillance activities of the CBN, some credit facilities hitherto not included in the e-FASS Credit Risk Management System (CRMS) database, were captured.

Table 2.5: Borrowers from the Banking Sector				
Description	**2008**	**2009**	**Absolute Change**	**% Change**
Total No. of Borrowers	60,273	63,451	3,178	5.3
No. of Borrowers with credits	26,327	27,942	1,615	6.1
No. of Credits/facilities	32,693	36,768	4,075	12.5
Total outstanding balance (₦'000)	**3,110,905,923**	**4,037,669,952**	**926,764,029**	**29.8**
Derived from the CRMS				

In January 2009, the CBN deployed resident examiners to the DMBs to monitor and supervise their activities on a daily basis and report to the Bank. Specifically, the programme placed emphasis on the evaluation of the banks' risk management system and controls, as opposed to performing transaction testing and asset valuation under conventional examinations. This was designed to enhance hands-on knowledge of the banks' operations and the complexity of their risk profile, as well as provide real-time and continuous evaluation of their operations.

As part of efforts towards the attainment of the overall objective of making Nigeria an international financial centre, an exposure draft of the framework for the regulation and supervision of Non-Interest Banks in Nigeria was circulated to stakeholders in March 2009.

To promote a safe and sound financial system, the Bank issued a number of circulars/guidelines to the DMBs, as shown in Table 2.6.

Table 2.6: Circulars and Guidelines to DMBs in 2009

- Revised CBN Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT) Draft Manual, 2009
- Report on Classified Facilities
- Terrorist Individuals and Organisations
- Publication of Un-Audited Accounts of Banks as at September 30, 2009
- Publication of Interest Rates
- Alert on Counterfeit CFA Notes in Circulation
- Restriction on Democratic People's Republic of Korea (North Korea) Government Agencies and Front Companies for Involvement in Illicit Activities
- Daily Returns on Inter-Bank Placements and Takings
- Daily Returns Template
- Suspension of BAs and CPs as off Balance-Sheet Items

- Non-Compliance of Securities Companies of Banks in Nigeria With the Stamp Duties Act 2004
- Revised Guideline for Repo Transactions and CBN Inter-Bank Guarantee
- Preparation of Financial Statements as at June 30, 2009
- Guarantee for Inter-Bank Placement and Placements with Banks by Pension Fund Administrators
- Lending to All Tiers of Government and Their Agencies
- Submission of Details of Total Exposure to Companies in the Energy Sector
- Common Accounting Year End for Banks and Discount Houses
- Submission of Schedule of Commercial Papers (CPs) and Bankers Acceptances (BAs)
- Submission on Details of Exposures, Including Commercial Papers (CPs) and Bankers Acceptances (BAs) to Transnational Corporation (Transcorp) and Virgin Nigeria Limited
- Sanctions for the Violation of the Decision on Maximum Deposit Rate, Lending Rate and Other Charges
- Reminder to Address Anti-Money Laundering/Combating Financing of Terrorism Issues
- Reforms of the Bureaux-De-Change (BDCs) Segment of the Foreign Exchange Market
- Draft Framework for the Regulation and Supervision of Non-Interest Banking in Nigeria
- Liquidity and Capital Adequacy Ratio Computation

BOX 2: BANKING SECTOR REFORMS IN NIGERIA IN 2009

The global financial crisis occurred on account of the concentration of the credit portfolio of financial institutions on overvalued sub-prime mortgage-related assets, built up till 2006. By mid-2007, most of the assets had suffered default. The impact of the crisis was immediately felt in North America and Europe, particularly, in the form of a drastic reduction in available credit and the resultant slump in aggregate demand. The crisis was felt in Nigeria through lower oil prices, a decline in capital inflow, pressure on foreign reserves, and a sharp decline in the performance of the stock market. However, the effect of the global financial crisis on Nigerian banks was minimal, mainly because the banking system was not fully integrated into the International Financial System. Notwithstanding, the impact of the meltdown was felt by Nigerian banks that were significantly exposed to the capital market, the oil and gas sector and through the drying up of foreign credit lines. This development

and the resultant illiquidity experienced by the sector compelled the CBN to intensify reforms in the Nigerian banking system.
The reform measures deployed by the CBN to address the illiquidity in the banking sector included the following:

- Reduction in Monetary Policy Rate (MPR) from 10.25% to 9.75%, 8% and further to 6%, with an interest rate corridor of ± 200 basis points for the Bank's standing facility;
- Reduction in Cash Reserve Ratio from 2.0% to 1.0% and Liquidity Ratio from 30% to 25%;
- Directive to banks to restructure margin loans;
- Suspension of liquidity mop-up;
- Greater emphasis on enforcement of the CBN Code of Corporate Governance for banks in Nigeria;
- Deployment of Resident Examiners to banks;
- Review of the Contingency Plan for Systemic Distress in Banks; and
- Intervention in the inter-bank market through guaranteeing of transactions.

Despite the measures, the challenges of illiquidity persisted. The situation was reinforced by the poor asset quality of some banks, which engendered concerns about the systemic risk arising from their over-reliance on the use of the EDW. In order to address these issues, the CBN decided to ascertain the true state of the health of the banks as a first step. Consequently, a special examination to review, evaluate and determine the quality of the banks' portfolios, corporate governance issues, as well as their risk management framework was jointly undertaken by CBN/NDIC in June 2009.

The exercise revealed various infractions including: substantial non-performing loans; poor corporate governance; weaknesses in capital adequacy; and illiquidity in the system. Consequently, the CBN appointed new MDs/CEOs and Executive Directors for eight (8) of the ten (10) weak banks and tasked them with the responsibility of continuing the businesses of the banks as going concerns. Furthermore, the CBN injected a total of N620.0 billion into the affected banks in the form of Tier II Capital. The liquidity injection was structured as a 7-year convertible long-term loan, initially at 11.0 per cent interest rate, but later reduced to 8.0 per cent in December 2009, callable on the 5th anniversary of the loans. The Boards of two (2) of the banks were directed to recapitalize by June 30, 2010 as they were adjudged to have insufficient capital for their levels of operation.

While the measures have had salutary effects in the form of restoring confidence in the banking sector and reducing interest rate, the dearth of credit to the real sector of the economy persisted.

2.4.2 Prudential Examinations

Available data revealed that eleven (11) banks failed to meet the statutory minimum Capital Adequacy Ratio (CAR) of 10.0 per cent at end-December 2009, compared with two (2) at end-December 2008. The development was attributed to the additional provisioning that most banks were required to make, following the findings of the special examination jointly conducted by the CBN/NDIC. Similarly, three (3) banks defaulted on the prescribed minimum liquidity ratio (LR) of 25.0 per cent at end-December 2009, compared with two (2) banks that had breached the prescribed minimum LR of 30.0 per cent at end-December, 2008. The defaulting banks were penalized accordingly.

Prudential examinations conducted on some of the Other Financial Institutions (OFIs) revealed that forty-three (43) out of the ninety-nine (99) Primary Mortgage Institutions (PMIs) in operation met the prescribed minimum liquidity ratio of 20.0 per cent, while thirty-seven (37) satisfied the required minimum CAR of 10.0 per cent. The exercise further showed that some of the PMIs were engaged in foreign exchange transactions. These were appropriately penalized, while others were penalized for false reporting, late and/or non-rendition of statutory returns and audited accounts. Other major regulatory concerns included the pervasive low level of capitalization and investment in the core area of mortgage assets creation and the dearth of long-term funds in the sub-sector.

2.4.3 Compliance with the Provisions of the Code of Corporate Governance for Banks in Nigeria

The CBN continued to monitor compliance with the provisions of the "Code of Corporate Governance for Banks in Nigeria" in 2009. The exercise, along with the outcome of the special examinations revealed that the problems of the banks included excessive risk taking and ineffective risk management. Others were weak internal control mechanisms, undue concentration on short-term gains, lack of capacity on the part of the Board and Management to run the banks, conflict of interest, and excessive executive compensation.

The outcome of the special examinations revealed that the problems of the banks included excessive risk taking and ineffective risk management.

In order to address the shortcomings, the CBN replaced the CEOs and EDs of eight (8) out of the ten (10) affected banks. The reconstituted boards were tasked with the responsibility of continuing the businesses of the banks as going concerns and to strictly complying with the provisions of the Code of Corporate Governance, particularly regarding zero-tolerance on false reporting. The Boards of the remaining two (2) affected banks were directed to re-capitalize by June 30, 2010.

2.4.4 Financial Crime Surveillance/Money Laundering

The CBN intensified its activities on Anti-Money Laundering/Combating Financing of

Terrorism (AML/CFT). Considerable progress was made towards the development of the AML\CFT Compliance Regulation 2010 and the Money Laundering Examination Procedure\Methodology Guidelines Note to ensure that financial institutions comply with AML\CFT legislations. Also, the creation of a dedicated unit in the Bank to be solely responsible for handling AML\CFT issues progressed.

2.4.5 The Special/Target Examination

Following the liquidity problem in the banking industry precipitated by the global financial crisis, a special examination was conducted on the DMBs to ascertain, among others, their exposure to the capital market in the form of margin trading loans, oil and gas sector, mortgages and consumer credits, as well as the level of performing and non-performing loans to all sectors. The exercise revealed various infractions, including substantial non-performing loans, poor corporate governance, weaknesses in capital adequacy, and illiquidity. In order to strengthen the industry, protect depositors and creditors, and restore public confidence, the CBN replaced the Chief Executive Officers/Executive Directors of the eight (8) banks identified as the source of the instability in the industry. Furthermore, the Bank injected a total of ₦620.0 billion in the form of Tier II capital into these banks. The liquidity injection was structured as a 7-year convertible long-term loan, initially at 11.0 per cent interest rate, but later reduced to 8.0 per cent in December 2009, callable on the 5th anniversary of the loan. By end-December 2009, one of the affected banks had fully repaid its loan amounting to ₦30.0 billion.

The exercise revealed various infractions, including substantial non-performing loans, poor corporate governance, weaknesses in capital adequacy, and illiquidity. In order to strengthen the industry, protect depositors and creditors, and restore public confidence, the CBN replaced the Chief Executive Officers/Executive Directors of the eight (8) banks identified as the source of the instability in the industry. Furthermore, the Bank injected a total of N620.0 billion in the form of Tier II capital into these banks.

2.4.6 Banking Sector Soundness

An assessment of the health of the banking sector, using CAMEL parameters, indicated that no bank was rated A. However, one (1) bank was rated B, eleven (11) C, three (3) D, while nine (9) were rated E, compared with zero (0), three (3), eighteen (18), two (2) and one (1), respectively, in 2008. The assessment indicated that twelve (12) banks did not exhibit serious weakness that necessitated supervisory concerns. However, twelve (12) banks, as against three (3) in the preceding year, manifested debilitating conditions that required supervisory attention.

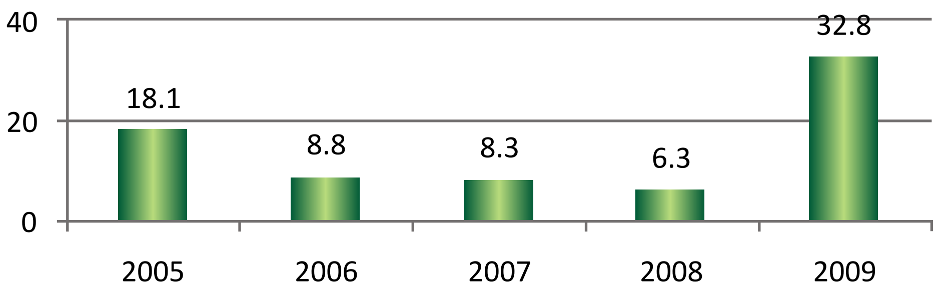
The computed average CAR of the banks indicated that eleven (11) did not meet the stipulated minimum ratio of 10.0 per cent, compared with two (2) as at end-December

2008. The asset quality of the banks, as measured by the ratio of non-performing loans to industry total, deteriorated as it increased from 6.3 per cent in 2008 to 32.8 per cent. This ratio was above the industry threshold of 20.0 per cent maximum prescribed in the Contingency Plan for Systemic Distress. The development was attributed to the CBN requirement that banks make full provisions for all non-performing, off-balance sheet engagements under the new supervisory regime. The average industry liquidity ratio of 35.3 per cent was above the 25.0 per cent minimum requirement. Three (3) banks, however, failed to meet the stipulated ratio, as against two (2) in the preceding year.

Table 2.7 Rating of Banks Using "CAMEL" Parameters in 2009

Rating	Number	
	2008	2009
A	0	0
B	3	1
C	18	11
D	2	3
E	1	9
Total	**24**	**24**

Figure 2.13: Banks' Non-Performing Loans (per cent of Total Credit)



2.4.7 Examination of Other Financial Institutions

The CBN conducted on-site examinations on nine hundred and ninety-five (995) other financial institutions (OFIs). The exercise included the maiden/post-conversion examination of four hundred (400) Microfinance Banks (MFBs); the monitoring/target examinations of two hundred and sixty-two (262) MFBs; and routine examinations of eighty-four (84) Finance Companies (FCs) and five (5) Development Finance Institutions (DFIs). The Bank also carried out spot checks on two hundred and forty-four (244) Bureaux-de-Change (BDCs). In addition, pre-licensing inspections and capital verification exercises were carried out on two hundred and ninety-eight (298) newly licensed OFIs.

On-site examination of the MFBs was conducted to ascertain the extent of compliance with the terms of their business plans as well as with the extant rules and regulations. The exercise revealed that on average, the institutions were well capitalized above the prescribed minimum level of ₦20.0 million. They were, however, characterised by poor asset quality and weak corporate governance. In addition, monitoring/target examination of the MFBs was carried out in response to the identified problems as part of the ongoing sanitization of the financial sector. The exercise revealed a number of severe violations of the prescribed minimum prudential requirements and several other infractions. Appropriate holding actions, including an aggressive debt recovery drive and the suspension of further lending or acquisition of fixed assets/capital projects were imposed on the affected institutions. Also, appropriate mechanisms for close monitoring as well as other support measures were put in place to prevent threats to the overall soundness and safety of the sub-sector.

Under the collaborative arrangement between the CBN and NDIC for on-site examination of OFIs, sixty-one (61) PMIs have been examined between 2007 and 2009. The examinations revealed, among others, that only twenty-five (25) had an adjusted capital that met the prescribed minimum capital of ₦100.0 million. Regular prudential returns were received from seventy-six (76) PMIs, compared with eighty (80) in 2008. The exercise further showed that some of the PMIs were engaged in foreign exchange transactions, contrary to their primary mandate of promoting housing finance/mortgage banking. Overall, twenty (20) PMIs were penalized for late and non-rendition of returns, audited accounts and other infractions.

Routine examinations conducted on the FCs indicated that fifty-five (55) were actively involved in finance company business, sixteen (16) were undergoing restructuring, while thirteen (13) were inactive, which brought the number of inactive FCs to thirty-nine (39). The exercise further revealed a generally low tempo of activities in the sub-sector, following the exposure of most of the companies to the troubled capital market.

A routine examination was carried out on the five (5) DFIs, namely the Nigerian Agricultural Co-operative and Rural Development Bank (NACRDB), the Federal Mortgage Bank of Nigeria (FMBN), the Bank of Industry (BOI), the Nigerian Export-Import Bank (NEXIM), and the Urban Development Bank of Nigeria (UDBN). The exercise revealed, among others, a high level of deterioration in asset quality. Some of the institutions also had negative shareholders' funds, which diluted the overall financial performance of the DFIs. There was, however, an improvement in corporate governance, following the reconstitution of the Board of each of the institutions. Furthermore, two meetings were convened by the CBN and the World Bank to review the weak performance of the NACRDB and reposition it for better performance.

Spot checks conducted on two hundred and forty-four (244) selected BDCs revealed that most of the institutions breached the existing guidelines, particularly in the areas of mark-up margins, record-keeping and the utilization of foreign exchange allocations. Appropriate sanctions were imposed on the erring institutions.

2.5 DEVELOPMENTAL FUNCTIONS OF THE CBN

2.5.1 The Agricultural Credit Guarantee Scheme Fund (ACGSF)

The CBN guaranteed a total of 53,639 loans valued ₦8.35 billion in 2009, thereby bringing the cumulative loans from the inception of the Scheme in 1978 to 647,351 valued ₦34.41 billion.

Analysis of loans guaranteed by states showed that Katsina state had the highest volume with 7,720 loans (14.3 per cent), valued ₦0.67 billion (9.98 per cent), followed by Delta state with 6,845 loans (12.76 per cent), valued ₦1.01 billion (12.05 per cent). Sokoto state came third with 5,281 loans (9.85 per cent) valued ₦0.34 billion (4.04 per cent) of the total. A breakdown of the guaranteed loans by banks showed that nine DMBs granted 41,358 loans valued ₦7.17 billion, while 70 microfinance banks granted 12,281 loans valued ₦1.18 billion.

A sub-sectoral analysis of the loans guaranteed indicated that food crops got the highest volume of 44,672 loans valued ₦5.52 billion, followed by livestock with 3,789 loans valued ₦1.73 billion, and fisheries with 9,612 loans valued ₦1.51 billion. Cash crops had 16,693 loans valued ₦0.82 billion, while mixed farming and 'others' had 95 and 539 loans valued ₦0.01 billion and ₦0.09 billion, respectively.

The volume and value of recovered loans in 2009 stood at 34,300 loans valued ₦3.81 billion, thus bringing the cumulative volume and value of fully repaid loans since the inception of the Scheme to 442,726 and ₦18.20 billion, respectively. Analysis on a state basis showed that Zamfara state had the highest volume of repaid loans with 9,470 loans (7.71 per cent) and ₦759.88 million (19.92 per cent). Kwara state came second and Katsina state third with 2,763 (14.01 per cent) and 2,730 loans (9.16 per cent) valued ₦252.01 million (6.61 per cent) and ₦176.42 (4.62 per cent), respectively. In terms of claims settlement, 38 claims valued ₦14.23 million were settled, compared with 44 claims valued at ₦2.0 million in 2008.

Table 2.8: Distribution of Loans under the ACGSF by Volume and Value of Loans in 2009

Category	Volume	Value in ₦' million
₦5,000 and below	28	0.14
₦5,001- ₦20,000	5,707	90.41
₦20,001 – ₦50,000	16,674	686.42
₦50,001 – ₦100,000	11,823	983.54
₦100,001 and above	19,407	6,589.00
Total	**53,639**	**8,349.51**

2.5.2 The Trust Fund Model (TFM)

The Bank signed eight (8) MoUs under the TFM in 2009, bringing the total number of MoUs signed under the model as at December 2009 to fifty-five (55). The total sum pledged as at December 2009 was ₦5.51 billion from ₦5.507 billion.

Table 2.9: Funds Placement under the Trust Fund Model (TFM) end-December, 2009

S/No	Type of Stakeholder	Amount (N)	Number	Remarks
1	Multinationals/Oil Companies	₦0.444 billion	4 Multinationals	₦5 million less due to suspension of MISCAD
2	SGs/LGAs/Ministries	₦2.429 billion	17 States/17 LGAs/3 Govt. Ministries	
3	Federal Govt. Agencies	₦2.000 billion	1 Federal Govt. Agency	
3	Individuals/Organizations	₦0.634 billion	13 Individuals/Organisations	
TOTAL		**₦5.507 billion**	**55 Stake Holders**	**₦5 million less due to suspension of MISCAD**

2.5.3 Operations of the Agricultural Credit Support Scheme (ACSS)

A total of ₦356.9 million was approved for payment by the Bank under the Scheme as 6.0 per cent rebate in respect of 20 agricultural projects to deposit money banks in 2009. Cumulatively, the number of applications received as at end-December 2009 was 190, valued at ₦36.5 billion and the number of applications approved by banks was 147, valued at ₦27.6 billion.

2.5.4 The Commercial Agriculture Credit Scheme (CACS)

During the year under review, the Central Bank of Nigeria, in collaboration with the Federal Ministry of Agriculture and Water Resources (FMA&WR), established the Commercial Agriculture Credit Scheme (CACS) to promote commercial agricultural enterprises in Nigeria. The Scheme is funded through the issuance of ₦200 Billion FGN Bond floated by the Debt Management Office (DMO). The Scheme was phased into two 1st and 2nd tranches of ₦100 billion each. The CBN signed an agreement with two participating banks UBA PLC and FBN PLC under the first tranche and all twenty-four commercial banks in the country are to participate in the administration of the 2nd tranche, from January 2010.

Under the first tranche, a total of 311 applications amounting to ₦287.73 billion were submitted by project promoters for consideration, out of which 166 valued ₦150.0 billion qualified for "No Objection" notes. The two participating banks (PBs) approved and disbursed funds to 54 projects amounting to ₦43.332 billion.

Table 2.10: Performance of the Agricultural Credit Support Scheme (ACSS)

Performance Parameter	Jan – December, 2009		2006 – December, 2009	
	No	Value (₦) million	No	Value (₦) million
Application Received by banks	5	167.0	190	36,458.8
Approval by banks	5	147.5	147	27,558.3
Project submitted to CBN for verification	5	147.5	103	20,253.3
Project verified	5	147.5	101	18,893.3
Disbursement by banks	5	147.5	101	17,327.3
Approval for 6% interest rebate	20	356.9	49	656.45

Table 2.11: Performance of the Commercial Agriculture Credit Scheme (CACS)

Banks	Amount Allocated to Banks Under the 1st Tranche	Amount Disbursed by Banks (₦'b)	% of Disbursed Funds to the CACS Funds Allocated to Banks	Number of Projects	Un-disbursed Funds (₦'b)	% of Un-disbursed Funds to the Funds Released
UBA Plc	75	38.62	63.62	43	36.38	48.5
FBN Plc	25	7.712	18.5	11	20.38	81.15
TOTAL	100	43.332	43.33	54	56.668	56.67

The balance undisbursed fund under the 1st tranche was withdrawn from the two banks and pooled, to be accessed by the twenty-four banks under the 2nd tranche.

2.5.5 Capacity Building for Microfinance Clients/Institutions

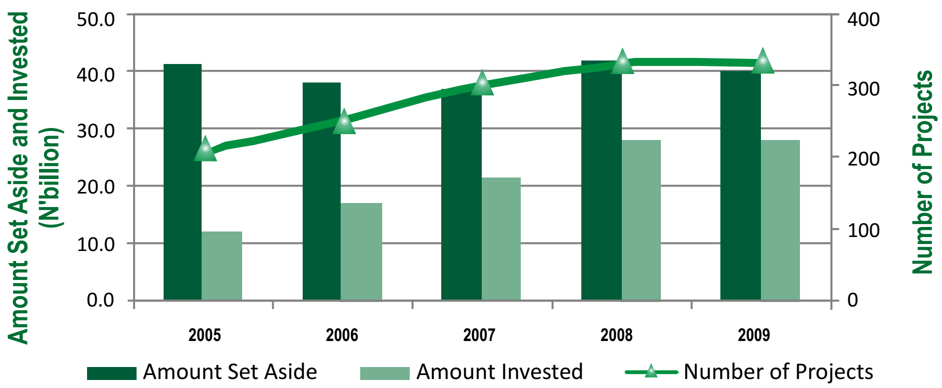
The three (3) Entrepreneurship Development Centres (EDCs) established by the CBN continued their activities in 2009. Overall, 40,435 graduates have been produced, including, 20,079 women. In all, 1,734 jobs have been created since the inception of the programme. Furthermore, three hundred and seventy-five (375) trainees, representing 2.38 per cent of the total trained succeeded in obtaining loans valued ₦107.99 million from banks and microfinance institutions to start their businesses. Major challenges faced by the centres included lack of microcredit loans for business start-ups or expansion, as well as management crises.

The Bank also conducted a one-day capacity building programme for staff of Microfinance Institutions (MFIs) in each of the six geopolitical zones of the country in June 2009. Four hundred and thirty-five (435) participants benefited from the effort. The Bank, in collaboration with the Nigeria Deposit Insurance Corporation (NDIC), organized a train-the-trainers course during November/December 2009 as a core component of the Microfinance Certification Programme designed to certify pre-selected microfinance training service providers. Beneficiaries included one hundred and eighty-eight (188) consultants drawn from fifty (50) institutions.

2.5.6 The Small and Medium Enterprises Equity Investment Scheme (SMEEIS)

Following the decision to make participation under the SMEEIS optional for banks, the balance of the total funds set aside by the banks under the scheme remained at ₦42.02 billion, the same as in June 2008, while the total value of SMEEIS investments stood at ₦28.20 billion (67.1 per cent of the funds set aside) in 336 projects.

Figure 2.14: Performance of SMEEIS



In accordance with the shift in focus from SMEEIS by the Bankers' Committee, the balance in the SMEEIS Fund Account was transferred as seed fund to kick-start the Micro Credit Fund (MCF) initiative.

Figure 2.15: Sectoral Distribution of SMEEIS Investments by Banks as at end-December 2009