



PRESENTATION TO THE PRESS
ON THE OUTSOURCING OF
CURRENCY PROCESSING AND
DISTRIBUTION
BY

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CENTRAL BANK OF NIGERIA



Outline of Presentation

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3. Option of outsourcing to the private sector service providers
4. Requirements for selecting service providers, and Operational Guidelines



Outline.....contd.

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1. The Salient Issues

- The issuance of legal tender currency is a core mandate of the CBN.
- Currency processing and distribution are among the non-core processes in the Central Bank of Nigeria approved for outsourcing to private sector service providers--a fall out from the implementation of the Project EAGLES initiative (restructuring programme) in 2004. The other non-core processes which have since been outsourced include canteen services, courier services, facility management, etc.
- Outsourcing of these processes is consistent with best practice.



The Salient Issues...Contd

- Creating an enabling environment with adequate incentives will encourage private sector service providers to take over the processes.
- Beside the outsourcing of these processes, the existing cash-in-transit (CIT) and cash sorting companies which provide services for the banks, but whose services are un-coordinated, will be brought under the regulatory and supervisory framework of the CBN to ensure standardization and uniformity.

The Salient Issues... contd.



- The core currency management processes which will be retained by the CBN are: design and issuance of currency , as well as the disposal of unfit notes.

2. Rationale for Outsourcing

- To enable the CBN to refocus to its core mandate which, when couched in terms of the Bank's principal functions, includes the maintenance of monetary and price stability, promotion of a sound financial system, maintenance of external reserves to safeguard the value of the Naira and provision of expert economic and financial advice to the Federal Government .
- To enable the CBN to focus on policy and strategic issues that will further improve currency management and enhance public confidence in the currency, e.g. improving techniques for forecasting the currency requirements of the economy and combating counterfeiting, etc.



Rationale for Outsourcing ... contd.

- To enhance volume and availability of issuable notes, thereby promoting the "clean notes" policy.
- It is aimed at enhancing efficiency and reducing costs. The outsourced processes will be managed by professionals while the CBN would lease/sell the processing machines and bullion vehicles. No maintenance and spare parts problems; no more down-time.

3. Option of Outsourcing to the Private Sector Service Providers



- Private sector service providers are major actors in advanced jurisdictions.
- Some companies are already processing for some banks though on a low scale, while CIT companies provide services for banks. However, their activities remain unregulated and uncoordinated. There is a need to harness their potentials.
- An enabling environment in the form of guidelines and an incentive scheme are vital to encourage investors in the sector.

4. Requirements for Selecting Service Providers and Operational Guidelines



- The CBN has released the operational Guidelines for outsourcing currency processing and distribution and the risk management requirements to the public.
- Appropriate regulatory and supervisory framework, which will ensure standards and quality control, has been prepared.
- Existing companies providing the services will undergo a registration process. Registration is also applicable to prospective ones.
- Promoters of CIT and sorting companies are expected to have proven experience in the relevant areas.

Requirements for Selecting Service Providers and Operational Guidelines...contd.



- The views and suggestions of major stakeholders, especially companies that are already providing the services in Nigeria, and deposit money banks, have been incorporated in the guidelines and other working documents to secure their buy-in.
- Minimum authorized capital for CIT companies is N1 billion while that for Currency Processing Companies is N3 billion.
- Company must be registered locally with CAC. In effect, operations would be conducted by a company registered locally. The company is, however, free to enter into a technical partnership with foreign technical partners.



5. Modalities for Dealing with CBN's Stock of Processing Systems and Distribution Facilities

- The CBN will lease/sell its processing machines to service providers.
- Lessees will maintain the machines and facilities.
- The Bank will lease currency processing offices to service providers, pending the establishment of their cash centres.



Dealing with the stock.....contd.

- The CBN will lease/sell bullion lorries and jeeps, including boarded ones to service providers by competitive bidding.
- The CBN will, however, retain some currency movement vehicles and sorting machines in designated locations as a fall-back strategy.
- Payment to service providers will be based on productivity and agreed rates.



6. Incentive Scheme

- The objective is to promote efficient service delivery and process currency within two weeks of deposit, for a start.
- CBN to disengage from providing the services (currency processing and distribution) on the commencement of the scheme (CBN should not be seen to be competing with the service providers). However, implementation will be phased.
- Deposit of only unfit notes by deposit money banks at the CBN
- Lease/sale of processing equipment and lease of Currency Processing Offices to private sector service providers, on generous conditions
- Sale/lease of currency distribution equipment and facilities, including boarded bullion vehicles, to the private sector service providers



Incentive Scheme cont'd.

- Introduction of the facility of Cash-Held-To-Order (CHTO) of the CBN to enhance efficiency and cost-effectiveness of cash operations. This entails the maintenance of vaults dedicated to the CBN in the cash centres of the service providers. This initiative is intended to minimize the physical movement of cash and by implication, in security of lives and property, and cost for deposit money banks.
- Deployment of CBN engineers/technicians, managers and operators to assist the service providers to configure processing machines, train staff and monitor operations.

7. Currency Processing and Distribution Standards



- The CBN will ensure standardization and safeguard the integrity of the currency
- CBN will supervise the configuration and re-configuration of processing systems to ensure adherence to appropriate sorting standards.
- CBN will carry out routine and spot checks to ensure compliance with currency processing and distribution standards.
- Six-sided armoured vehicles with a minimum body plate of B3+ for bullion lorries. Vehicles to be fitted with communication and tracking systems and run-flat tyres and shall have separate compartments for currency and personnel.
- Compliance with insurance requirements for CIT operations



8. Security Issues

- Risks have been identified and evaluated and mitigating factors recommended to provide adequate safeguards.
- All service providers are to ensure adequate security and insurance of their premises, vaults and currency movements.
- CBN is collaborating with the Police to ensure the success of the scheme.
- The service providers and deposit money banks need to evolve platforms for collaboration with the security agencies.



9. Benefits of Outsourcing Currency and Distribution to private sector service providers

- Opening-up and deepening the financial services sub-sector
- Outsourcing will enable the CBN to refocus to its core mandate
- Promote efficiency in cash management and achieve cost savings for the CBN and the deposit money banks
- Enhanced output and availability of clean notes to the public
- Foreign direct investment into the financial services sub-sector
- Generating labour employment opportunities



10. Clarifications on Some Claims in the Press

i. Outsourcing the Naira?

- What the CBN will outsource is its currency processing and distribution functions, and NOT the printing and minting of the Naira as published in one of the newspapers.

Clarifications on Some Claims in the Press contd.

- ii. In one of the newspaper publications, it was speculated that the CBN has outsourced to a South African Company.
 - The claim is absolutely false. There is no such thing.
 - Only duly incorporated companies in Nigeria are qualified to apply. However, the company can enter into a partnership with a foreign technical partner. This is similar to what is obtainable in the banking and communications sectors.
 - Selection will be based on competitive bidding. So far, over 30 companies have collected the bid documents.



Clarifications on Some Claims in Press contd.



iii. The issue of efficiency and cost-effectiveness:

- Multiple players will engender healthy competition and enhance the generation of issuable notes in the system.
- Shared facilities will drive down cost
- The establishment of cash centres will lead to the generation of substantial economies of scale, as currency processing, distribution and custodial management can take place within the same centre.

Clarifications on Some Claims in Press ... contd.



iv. Any job loss?

- The implementation of the scheme will lead to job creation as multiple players will operate in the industry.
- Increased deployment of ATMs in the country makes the reform inevitable.