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The Role Of The Central Bank of Nigeria As Banker To The Government

by

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Introduction

Section 2 (d) of the Central Bank of Nigeria Decree 1991 provided that one of the principal functions of the Bank shall be to "act as banker and financial adviser to the Federal Government". The 1958 Central Bank Act and amendments also contained provisions to this effect. This cardinal statutory responsibility has been performed by the Bank since its inception. As banker to the Federal Government of Nigeria, the Bank maintains accounts not only for the Federal Government but also for all the State Governments, the Abuja Federal Capital Territory as well as Federal and State ministries and quasi-government institutions. This paper is structured in three parts: Part I treats the role of the Bank in the maintenance of bank accounts, part II contains the Bank's role in the management of domestic public debt of the Federal Government, while Part III concludes the paper.

PART I

MAINTENANCE OF BANK ACCOUNTS

Operation of Government Accounts

The Bank maintains current and other special accounts for the following categories of official customers:

- The Presidency
- Federal Ministries
- Federal Parastatals
- Government-owed companies
- Government-owed edncational institutions
- State Governments and all their agencies, and
- International organisations.

The maintenance and operation of bank accounts is regarded as a major banking function of the Bank. However, there has been a long standing debate as to the appropriateness of the Bank's involvement in retail banking. At a time, it appeared that the postponements of the Bank's non-involvement in retail banking were winning, but this perception received a jolt in the second half of 1989 when the Federal Government ordered the withdrawal of all public sector deposits from the

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banks to the Central Bank. This directive was faithfully implemented at that time, resulting in the opening of a large number of new accounts in the Bank. Subsequently, some exemptions were granted to a few government institutions which had been commercialized or were in the process of being privatized. From the turn of events, the ensuing distress in the financial services industry acted as a restraining factor in the urge for these institutions to move their funds from the Bank to commercial and merchant banks. These accounts have remained largely with the Bank.

Opening of Accounts

The Accountant-General of the Federation has the sole power to authorise the opening of new accounts by Federal Ministries and agencies. He also holds the power to formally introduce the countersignatories to all Federal accounts. A countersignatory is the accounting officer of a Ministry who is ultimately responsible for the income and expenditure of his ministry. In most cases, it is usually the Minister, but the Director-General of a Ministry can also act in this capacity. The countersignatory will, in turn, introduce the staff of his accounts department authorised to carry out the day to day operation of the account. He will also indicate the categories of the signatories and the authorised combination. There are two types of signatories to an account, namely the operators and endorsers. The operators are those who operate the account, while the endorsers are those authorised to collect cash payments from the account. The power to update an account lies with the countersigning officer. Updating an account might be in the form of a change of signatories or mandate. Equally too, the counter-signatories can authorise the closure of an account. In the case of state governments, the same procedure is adopted in the opening of accounts, except that the introduction is done by the Accountant-General of the state.

Operation of Accounts

Customers' accounts are operated solely in accordance with the mandates lodged by the account-holders. In order to facilitate the authentication of signatures on instruments and instructions issued by account-holders, the verification process has been fairly automated through the use of the Financial Data Signature Verification System (FIDAS). The FIDAS operates on a stand alone basis, but also has an interface with Banking Operating System (BANKOS), thereby allowing for an on-line interrogation of a customer's account status.

Cash Transactions

The Nigerian economy is still basically a cash economy and the prevailing distress in the financial system has accentuated the reliance on cash for business transactions by bank customers. Substantial amounts of cash payments are made through the counter to customers and these amounts peak during salary periods and festivities. A counter facility for the exchange of currency notes and coins is available for customers as well as members of the general public. This service has subsisted since the inception of the Bank and it is only hoped that with less reliance on cash, it may be terminated or curtailed to the barest minimum.

Cheque Transactions

The Bank has a cardinal responsibility for ensuring the enhancement of an effective and efficient payments system, and one way of achieving this objective is through engendering improved utilization of cheques by bank customers. As this paper dwells only on the role of the Bank as banker to Federal Government as against banker to the banks. the functioning of the clearing house will not be covered. Government customers, however, pay cheques into their accounts at the Bank through the counter or where such government institutions maintain accounts with commercial banks. Cheques paid in would be processed through the clearing house. Apart from the processing of cheques issued by the Bank's customers to other parties for various transactions, a good number of cheques handled are related to the collection of revenue for the Federal Government.

In order to enhance the utilisation of cheques, the clearing house rules were revised in January, 1995, specifically to reduce clearing durations. Consequently, the duration for the determination of value for cheques drawn inter-state or up-country was reduced from 21 to 15 working days; intra-state, from 12 to 9 days and local, from 5 to 4 working days. These changes are designed to improve the payment system and thereby enhance funds flow and management.

A recent addition to the CBN's quest at improving banking services to our customers is the introduction of the Magnetic Ink Character Recognition (MICR) system. This new technology has revolutionized cheque processing and the optimal benefits would be more visible when the system begins to function nation-wide. The enormous increase in the volume of cheque transactions had made manual processing of these cheques rather laborious and errorprone. With the inception of MICR, cheque processing, which is now automated, has been enhanced with considerable ease, resulting in prompt and accurate update of customers accounts as well as the timely production of customers' bank statements. It has also reduced the incidence of wrong entries into customers' statements and enhanced security against frauds and forgeries. All Bank customers in the Lagos area have been issued with MICR cheques.

Accounting for Government Revenue

As banker to the Federal Government, a vital service which the Bank renders is the receipt of and accounting for revenues of the Federation. This role of the Bank is two-fold: the first is observing the banker-customer relationship in the maintenance of the accounts; and the second, is the Bank's responsibility as financial adviser to the government.

Federal Account

The Bank has the singular responsibility of receiving and accounting for the revenues of the Federation. The sources of revenue for the Federation Account are derived from the following components of the Federal Government agencies' accounts:

(i) Nigeria National Petroleum Corporation
(ii) Department of Petroleum Inspectorate

(iii) Federal Board of Inland Revenue (FBIR)
(iv) Customs and Excise

All balances on these accounts are usually transferred into the Federation Account every month for sharing among the three tiers of government and allocations to special funds. The meeting of the Federation Account Committee (FAAC) is held monthly by rotation among the state capitals. The existing revenue sharing formula is shown below:

Federal Government	48.5%
State Governments	24.0%
Local Government Councils	20.0%
Federal Capital Territory	1.0%
General Ecology	2.0%
Stabilization	0.5%
Derivation (1% of Mineral Revenue)	1.0%
Dev. of Min. Producing Areas	3.0%
	100.00%

Any balance left after the above sharing is usually transferred into the Stabilization Account. After each FAAC meeting, mandates are received from the office of the Accountant General of the Federation (AGF) to credit the various accounts of the State Governments and others, while the Federation Account is debited.

Similarly, on monthly basis, balances on the Nigerian Customs Services (NCS) and Federal Inland Revenue Services (FIRS) VAT accounts are transferred into the VAT Distributable Pool Account at Abuja where the distribution is made according to the approved revised formula as follows:

Federal Government	40%
State Governments	35%
Local Government Councils	25%

The New Customs & Excise Revenue Collection Procedure

The new Customs & Excise procedure for revenue collection took off on June 5, 1995. Under the new system, there are seven designated commercial banks appointed by the Federal Government to collect revenue from importers on behalf of the NCS. The introduction of the new system was necessitated by the observed lapses in the old system which resulted in under-collection of revenue by the NCS.

At the end of each week, these designated banks remit to the CBN the revenue collected on behalf of the NCS. Thus far, the new system would appear to have operated satisfactorily although it is rather early to attempt an objective assessment. For one thing, the direct interface between the designated banks and the CBN would eliminate one of the observed abuses in the old system, i.e. the incidence of forged bank drafts.

The Petroleum (Special) Trust Fund

Following the drastic increase in the cost of petroleum pump price, Decree 25 of 1994 was enacted establishing the Petroleum (Special) Trust Fund (PTF) or the Fund. The Decree, as amended, provides that the Fund shall receive all the monies from the sale of petroleum products less the approved production cost per litre which for the time being, is as follows:

(a)	Cost of crude oil	₦2.35
(b)	Excise duty and MVAT	₦0.33
(c)	Marketer's allowance	₦1.30
(d)	NNPC cost and margin	₦1.70

The Decree established a Board for the Fund which shall be responsible for:

(a) Receiving monies accruing to the Fund;

(b) Disbursing monies from the Fund within the first week of every month to the Federation Account, the Nigerian National Petroleum Corporation and to such other beneficiaries as may be determined from time to time by the Head of State, Commander-in-Chief of the Armed Forces; and

(c) Retaining the balance of the money accruing to the Fund, after the disbursements specified in paragraph (b), for the discharge of its functions under the Decree.

Consequently, the Bank opened an account titled "FGN Petroleum Products Account" in October, 1994 to receive procceds of sales of the petroleum products throughout the country. Simultaneously, all CBN branches were directed to open similar accounts and to remit the proceeds to the Lagos Head Office at the end of each week.

There is a technical sub-committee on reconciliation of the account of the Fund which meets monthly to reconcile the proceeds of sales credited into or due to the account, while the apportionment sub-committee also meets monthly to recommend the shares due to the beneficiaries. The Decree stipulated the sharing formula as follows:

Beneficiary	% Share
Petroleum Trust Funds	47
Federation Account	28
NNPC	21
Federal Sub-Treasury	4
	100

Customer Services

Paramount in the Bank's objectives has been the improvement of the level of efficiency of the services rendered. Critics have often argued that because the Bank operates in a seemingly monopolistic market, it is prone to sliding into complacency. Rather, the Banking Hall, which has been in use since the inception of the Bank has been drastically modernized in terms of structure and aesthetics. Unlike in the past, customers' bank statements are now produced more timely, following automation.

In the continued efforts at ensuring customer satisfaction, complaints from customers are obtained and acceptable feedbacks provided through a tripartite meeting held monthly at the Federal Secretariat. The meeting, chaired by the Deputy Accountant-General of the Federation, comprises representatives of Federal Ministries, parastatals and the CBN. There is no doubt that this avenue for interaction has assisted in no small measure in reducing complaints by customers.

Frauds and Forgeries

As a bank, one major problem which the CBN has always had to confront is the incidence of frauds and forgeries perpetrated on customers' accounts. As an institution wholly owned by Government, the CBN's role as banker to the Government demands that staff actively collaborate in the safequarding of its assets. A number of ingenious ways have been designed by fraudsters in assaulting customers' accounts. Unfortunately, some of these frauds are with the connivance of some signatories. However, it is gratifying to note that with the introduction of a combination of preventive and pre-emptive measures, the incidence of fraudulent practices have declined significantly in recent times. Some measures have been designed, partly in the light of experience, to detect and check the spate of frauds.

PART II

MANAGEMENT OF DOMESTIC PUBLIC DEBT

Domestic public debt and its management would be addressed simply from the perspective of the Bank as banker to the Government. As banker to the Federal Government of Nigeria, the Bank not only maintains accounts for the Government, it also accepts some responsibility for the financing of its expenditure gaps. Paragraph 35 of the CBN Ordinance 1958 provides that "the Bank shall be entrusted with the issue and management of Federal Government loans publicly issued in Nigeria, upon such terms and conditions as may be agreed between the Federal Government and the Bank". This provision has been retained in subsequent amendments. The Bank carries out the following functions in the management of domestic debt:

(i) Advising the government as to the timing of floatation of debt instruments and terms of issue;

(ii) Advertising for public subscriptions to the issues;

(iii) Collecting the proceeds of issues on behalf of the government;

(iv) Underwriting any shortfall which is not subscribed by the public, and

(v) Paying interest and principal on due dates and managing a sinking fund set up to facilitate redemption.

The portfolio of domestic debt comprises four securities, namely, Treasury Bills, Treasury Certificates, Treasury Bonds and Development Stocks. As at 31st December, 1995, the outstanding stock of domestic debt totalled ₦344 billion.

Treasury Bills (TBs)

The need to develop the money market and create an avenue for investment of short-term funds led in April 1960 to the first issue of Treasury Bills by the CBN. Treasury bills are short-term government money market instruments of 91 days. At the end of 1995, total outstanding Treasury Bills amounted to ₦103.326 billion. The issue of Treasury Bills is governed by statutory limitations which, however, has been revised upward by the Federal Government to ease credit accommodation by the CBN. The Treasury Bills Ordinance of 1959, which authorised the issue of Treasury Bills, stipulated that the amount of Treasury Bills outstanding at any time should not exceed 10 per cent of the estimated revenue of the Federal Government. The Treasury Bills Ordinance of 1961 revised the amount of Treasury Bills that could be outstanding to 20 per cent and the limit was further revised upward to 40, 50, 85 and 100 per cent between 1962 and 1969. In 1970, the statutory limit was re-defined and raised to 150 per cent of the estimated retained revenue of the Federal Government and the gross revenue of the States.

Treasury Certificates (TCs)

Treasury Certificates, first issued in 1968, are money market government instruments issued for one-year and two-year tenors, respectively. Total (TCs) outstanding as at 31st December, 1995 was ₦37.343 billion. The issue of Treasury Certificates is also governed by statutory limits. The Treasury Certificate Decree No. 40 of 1968 stipulated that Treasury Certificates outstanding at any time should not exceed 50 per cent of the estimated revenue of the Federal Government during the year. This was revised upward to 60 per cent by the Treasury Certificates Decree No. 32 of 1969.

Treasury Bonds

Treasury Bonds were introduced in 1989 in an attempt to minimize debt service payments that would arise from the policy of interest rate deregulation adopted under the Structural Adjustment Programme. When the auction system for the floatation of Treasury Bills and Certificates was to be introduced in November 1989, the Federal Government requested that part of the outstanding short term securities be converted to fixed interest bonds. Consequently, ₦20.0 billion of Treasury Bills outstanding were converted to bonds, styled as "5 per cent Federal Republic of Nigeria Treasury Bonds 2004-15". The bonds which carry a fixed interest rate of 5 per cent are wholly held by the CBN. A sinking fund was established for the redemption of the bonds. As a result of the large quantum of domestic debt outstanding and the ensuing debt service cost, the treasury bond option became attractive to

Government. Consequently, fresh issues were made during the fiscal years 1992, 1993, and 1994. As at 31st December, 1995, total outstanding treasury bonds amounted to ₦234.34 billion of various tranches with coupon rates of 5% and 10% and maturities of between 5 and 25 years.

Development Stocks

Development stocks were first floated in 1946 by the British Colonial Administrators to provide finance for economic development. A sinking fund was established for redemption of both the principal and interest on the securities. After independence, successive administrations continued to float development stocks to provide development finance. From a paltry sum of ₦5.3 million in 1960, development stocks outstanding rose to ₦3,069.0 million by 1980. The outstanding stock started to decline as a result of the decision by the Federation Government in 1988 not to float new ones for on-lending to State Governments. At the end of 1995, development stocks outstanding amounted to ₦3.29 billion. The issue of development stocks is subject to statutory limitations. Section 2 of the Finance Decree No. 32 of 1969 stipulated that the level of development stocks outstanding at any given time should not be more than 75 per cent of the Central Bank's total demand liabilities. Over the years, there has been compliance with the statutory requirement.

Ways and Means Advances

Ways and Means Advances represent an overdraft or credit facility provided by the Bank to meet the cash flow requirements of the Federal Government. For instance, when the budget is announced, the Federal Government normally projects its revenue from taxation and other sources for the fiscal year. Such receipts would not be realized until after the first month whereas the supply of government services is continuous and begins from the first day of the year. Therefore, there is need for some credit facility which, in accordance with statutory provisions, should be settled once the revenue starts to flow in. The Central Bank of Nigeria Act 1958, CAP 30 as amended, empowers the CBN to grant temporary advances in the form of "Ways and Means" to the Federal Government up to 25 per cent of its estimated recurrent budget revenue. The statutory limit was revised downward in the CBN Decree No. 24 of 1991 to 12.5 per cent of the estimated current budget revenue. The Advances are expected to be liquidated at the end of each fiscal year. In practice, however, the statutory limits have not been strictly enforced mainly because of visible government expenditure gaps.

Between 1980 and 1993, Ways and Means Advances to the Federal Government were in excess of the statutory limit for nine years, while the Ways and Means Advances as a ratio of the estimated budget revenue was over 50 per cent for six years. This points to government's heavy reliance on CBN credit as a major source of deficit financing with its adverse implications for the attainment of macro-economic stability.

As regards Ways and Means Advances, the Bank sees its role and function as highly legitimate and in the normal course of banking business. Technically, the advances are normal overdraft facilities between a bank and its customer, within limits prescribed by statutory regulations. What perhaps is objectionable is the incessant and endemic recourse to and bursting of the facility. Unfortunately, it does not appear that the Bank has any power to induce compliance by Government.

There have been serious insinuations as to the Bank's insincerity or complicity in the granting of these advances. Critics who appreciate and understand the mechanics of Government and governance would accept that returning unpaid top government cheques drawn even on unfunded accounts is not easy to do.

During fiscal year 1994, the closing Ways and Means figure was ₦81.36 billion. As at August 31, 1995, the balance stood at ₦25.86 billion, as against a corresponding figure of ₦47 billion in the preceding year. It must be admitted that this performance in fiscal discipline is highly commendable, especially when weighed against the excesses in recent years. Given the seeming buoyancy in government current revenues as well as the projected deficit of ₦12.84 billion for fiscal 1995, however, a much lower Ways and Means position would have been adjudged more auspicious.

As banker to Government, it has been the Bank's duty to advise on the adverse consequences of Government undue reliance on Ways and Means Advances. However, as pressures on government finances increased, and recourse to the facility became inevitable, the Federal Government exercised its legislative power by reviewing the permissible credit from the CBN upward. In addition, each of the provisions for CBN credit facility in the enabling laws had been enacted without any obvious intention that these debts would be paid from government retained revenue. For instance the Federal Government can borrow:

(i) 150.0 per cent of the estimated retained revenue of the Federal Governments through Treasury Bills;

(ii) 60.0 per cent of the estimated revenue of the Federal Government during a financial year through Treasury Certificates;

(iii) 75.0 per cent of the CBN's total liabilities through Development Stocks; and

(iv) through the conversion of existing Treasury Bills into Treasury Bonds for the purpose of observing statutory regulations.

The overall credit from aveuues indicated above is a multiple of the retained revenue of the Federal Government. Nevertheless, interest payments on the domestic debt continue to grow as the principal increases from year to year. It is therefore recommended that this line of credit should be reviewed because of its adverse consequences for effective monetary management and the attainment of macro-economic stability generally.

PART III

CONCLUDING REMARKS

As a developing nation, the role which the Bank plays as banker to the Government is likely to remain very visible in the short to medium-term. This assertion is reinforced by the fact that the programme of financial markets liberalization as well as privatization/commercialization does not appear to have engendered a concomitant stripping of certain aspects of the Bank's role. The retail banking function of the Bank is an issue which requires a special re-appraisal as to its desirability for the Bank. In our view, the Bank may undertake only wholesale banking for Government as against retail banking which embraces offering banking services to all institutions, both government and quasi-government including primary and secondary schools, local council agencies and lottery boards; etc. The human and material resources devoted for these services could be better employed. In a way, an element of money creation is occasioned through the unitended credit which some of these government institutions enjoy from the Bank.

The issue of fraud and forgeries perpetrated on customers accounts has posed a great challenge. The management of the domestic public debt as well as the ability to contain its growth has been rather daunting. A significant percentage of government's yearly revenue has to be dedicated to domestic debt service. While some amelioration is being achieved through the application of below-market interest rates, the issue of halting further accretion remains unresolved. To the extent that the Bank is required to fund government borrowing requirements, it would appear that the desired solution can be found in a deliberate change in government policy which recognized the harmonization of fiscal and monetary policies.

I thank you for your attention.