**International Journal of Academic Accounting, Finance & Management Research (IJAAFMR)**
**ISSN: 2000-008X**
**Vol. 3 Issue 1, January – 2019, Pages: 23-43**

# The Central Bank of Nigeria: History, Current Operations and Future Outlook

**Ogochukwu Chinelo Okanya[1], Oluseun PASEDA[2]**

[1]Department of Banking and Finance
Institute of Management and Technology, Enugu, Nigeria
[2]University of Lagos, Nigeria.

***Abstract:*** *As Nigeria's Central Bank marks its 60th anniversary, it has become necessary to assess its performance. Consequently in this paper, we provide a comprehensive, unbiased review of the Central bank of Nigeria (CBN). The paper starts with a discussion on the role and activities of the West African Currency Board, which was the precursor of the CBN and subsequently analyzes how the Board led to the emergence of the CBN. We look at the functions, mandate and organizational structure of the CBN. Second, we assess how the CBN has responded to the changing financial landscape over the years. Third, noting that the CBN has over time promoted financial reforms and played a key regulatory role, we discuss the sufficiency of the financial reforms it has promoted as well as the regulatory tools that it has deployed over the years. In this regard, we specifically highlight the role of the CBN in the global financial crises of 2007-2009 as well as the European debt crises of 2010 to 2013. Fourth, given that the primary mandate of the CBN revolves around price and exchange rate stability, we analyze its performance thus far noting the numerous challenges it has faced. Summarily, we find that the CBN has operated a multi-pronged approach by utilizing a combination of policy instruments including price-based, quantity-based and administrative policy measures. Going forward, we recommend that the CBN needs to continue to adopt avant garde mechanisms to further strengthen the Nigerian banking industry with a view to maintaining the stability and health of the economy.*

**Keywords**: Central Bank of Nigeria, financial reforms, policy measures.

## 1. INTRODUCTION

With Nigeria's prominent position as the biggest economy in Africa (Knoema, 2018), economists and foreign investors have become increasingly interested in understanding the nature of the Nigerian financial system and the way in which financial system regulators and supervisors administer the financial landscape. More specifically, international observers are interested in how the Central Bank of Nigeria (CBN) administers the monetary policy as well as banking system regulation. The Nigerian financial system consists of financial instruments, financial markets, financial intermediaries, operators, rules, conventions and norms that facilitate the flow of funds through the macro-economy. The system is controlled through government agencies such as the CBN.

This paper is an exploratory attempt on the development of central banking in Nigeria, its operations at different episodes of Nigeria's national development as well as its future outlook. The paper is divided into six sections. The first section introduces the paper. The second section reviews the currency board system that predated the establishment of the CBN. The third section reviews the role of the CBN at different episodes of national development. The fourth section discusses the mandate and organization of the CBN. The fifth section highlights the main functions of the CBN and an attempt is made at performance evaluation/assessment. The sixth section concludes.

## 2. THE WEST AFRICAN CURRENCY BOARD

During the period in which the four British West African territories were under colonial rule, the West African Currency Board (WACB) was the colonial monetary authority. The WACB, established in 1912 and headquartered in London, had a constitution that charged it "to provide for and to control the supply of currency to the British West African Colonies, Protectorates and Trust Territories." (Uche, 1997a:220). In practice however, the Board was no more than a Bureau *de* Change issuing as much local currency as the banks wanted to buy for sterling and vice versa. It was therefore not, in the technical sense, a monetary authority. During the period from 1912 to 1960, the common currency for the British West African colonies was the West African pound currency note which exchanged at par with the British pound at the rate 1:1. Such a system, however, satisfied the monetary policy objective of the Bank of England in achieving price stability in the colonies as well as enormous seigniorage profits. The price stability policy was also compatible with British commercial interests in the colony as it helped facilitate trade with London. The colonial banks that oiled the trade mechanism also profited from the system (Uche, 1997a, Uche 2009).

Price stability and parity conversions however had their cost: the ability of the WACB to create credit was severely hampered. This pre-central banking system also perpetuated a situation where large parts of the Nigerian Government funds were held abroad. This situation further constrained liquidity availability for indigenous development. Access to credit was indeed what the Africans, rightly or wrongly, believed that they needed most if they were to gain political independence and so dispensing with the WACB in favor of a Central Bank was considered an integral part of throwing off the economic shackles of colonialism. Political factors were also at work in accelerating the change process as noted by Sayers but quoted by Uche (1997a: 221):

"*Colonial territories seeking some measure of political independence have tended to regard a Central Bank as an outward and visible sign of independence and the lack of one as signifying a continued subjection*." And further stated that, "*In fact, the WACB system was generally seen, by Africans as 'the financial hallmark of colonialism*.'"

**Origins of the WACB System**

In the aftermath of the scramble and partition of West Africa, Britain having secured proper control of its colonies decided to put in place an economic and political system for the smooth functioning of the territories. The colonial government, in an attempt to make British coins more prominent, then went on to de-monetize certain coins that were in circulation. By 1880, for example, formal legislation had been established in the Lagos colony which provided for the demonetization of certain coins. The new regulation recognized only British gold and silver coins and a few foreign gold coins as legal tender (Uche, 2009).

The resultant rise in the use of British coins was, however, not without its problems: Such coins had to be transported from London to the West African coast and then carried inland. The cost of this transfer was not only the transport costs; there were also interest charges building up in London even while the coins were in transit and also during slack trading periods when the coins were stored locally in safes. The preference of the Africans for silver coins did not help matters either as this necessitated the regular reordering of the coin stock for the colony. The above situation, coupled with the need to service the British commercial interests then in existence, created the opportunity for the establishment of a bank. This opportunity was first identified in 1871 when the Bank of West Africa was incorporated in London under the Joint Stock Companies Act of 1862 and 1867. The bank, whose head office was located in London, was to have its first two branches located in Sierra Leone and Lagos. There is, however, no evidence that this bank ever opened for business. It was not until 1891 that another bank - the African Banking Corporation (ABC) - capitalized on this opportunity by opening a branch in Lagos. This marked the advent of both commercial banking and expatriate banks into British West Africa. The ABC, which at the time was headquartered in London and had operations in South Africa, came to Nigeria at the instance of Elder Dempster Company which was in control of the shipping business on the West African coast and therefore heavily involved in the importation of British coins into the colony.

The ABC immediately took advantage of the disorderly system of currency supply to the West African territories. By 28 January 1892, it signed an agreement with the Crown Agents by which the Bank was given the right to import new silver coins from the mint into Lagos Colony – free of charges for packing, freight and insurance. By May 1892, the Bank further consolidated its position by becoming banker to the colonial government in Lagos. The close relationship between the bank and the Elder Dempster Company soon became the subject of protests by other European merchants in the territory. Such protests, among other factors, caused ABC to develop second thoughts about its Nigerian investment.

In 1893, the ABC invited the Elder Dempster Co. to take over its Lagos operations to which the latter obliged and instantly lost its preferential treatment over silver importation. The Governor of Lagos was soon instructed to close the official account with the bank. The reason given was that the colonial government wanted such functions to be carried out by a public bank and not a trading company like Elder Dempster. Perhaps, because of the initial protests received, the colonial government also required that such an institution should be absolutely independent and restricted from engaging in any business other than that of banking.

To get around this problem, a 'public' bank named Bank of British West Africa (BBWA), with Alfred Jones as majority shareholder, was established in May 1894(Uche, 2009). It subsequently established offices in Accra (1898), Freetown (1898) and Bathurst (1902). Soon after, the 'new' bank entered into an agreement with the Crown Agents of the Colonies under which the duties and responsibilities of controlling and regulating the silver currency in Lagos were transferred from the government to the bank. This new agreement was slightly different from the one which the government had with the African Banking Corporation in that it conferred on the bank (BBWA) the sole right of silver importation. The BBWA subsequently consolidated its position in British West Africa by entering into similar agreements with the governments of the Gold Coast colony (1896), Sierra Leone (1898) and the Gambia (1902).

BBWA enjoyed silver importation monopoly until 1912 when a special silver currency was introduced for the West African colony. This, in itself, was mainly a consequence of the disagreements between the colonial governors and Her Majesty's Treasury over the control, sharing and nature of the seigniorage arising from the importation of silver into the British West African colonies. The BBWA had no influence in the establishment of a special silver currency for the colony. If anything, it opposed such a currency. The West African Currency Board (WACB) was subsequently set up bringing to an end the BBWA's monopoly over silver imports into the territory. The WACB was headquartered in London and required agents for its operations within the West African colonies; the BBWA became its obvious ally. The BBWA secured the agency of the currency board in West Africa. In this capacity, it continued to deal with the movement of British money in West Africa, though relieved of control over the supply of it from the mint. The BBWA thus continued to be relevant under the currency board dispensation. Earlier in 1899, the BBWA had lost its monopoly position in the Nigerian colony with the advent of the Bank of Nigeria. However, it retained its monopoly in the Gold Coast, Sierra Leone and the Gambia (Uche, 2009).

Moreover, by the time the Niger Coast Protectorate came into existence in 1893, there was already in place a community of powerful European traders in the territory (Pakenham, 1991). These European traders seeking to maintain their tight grip on the market had come up with a working agreement for the purpose of stifling competition. Their plan was simple- keep costs low; maximize profits and ensure that a uniform amounts were paid for whatever commodities they purchased. To forestall the BBWA from gaining a foothold in their territory, they set up the Anglo-African Bank in 1899 and made a strong bid for the job of importing silver into the colony and for the banking business of the colonial government. The Colonial office obviously knew that this bank would be of little assistance in the task of establishing the British currency in the colony; this was due to the fact that the companies behind the Anglo African Bank believed that the maintenance of the barter system best served their interests. Such an attitude was against the interest of the Colonial Government which was pro-monetization. Monetization, it was believed, would make governance and the lives of government employees easier.

The Colonial Government eventually persuaded BBWA to open a branch in the South. This directive was resisted and there was aggressive protest by the European merchants against the activities of the BBWA and associated companies. Specifically, in May 1908, there was a petition done to the Secretary of State for the Colonies, the Earl of Crewe, to end the monopoly of the BBWA over silver importation. With the protests came moves for the two competing banks (BBWA and the Bank of Nigeria-established in 1899) to merge. From 1906, Alfred Jones interested in the merger, made several attempts albeit unsuccessfully. It was not until 1912, three years after the death of Alfred Jones that the Bank of Nigeria was finally absorbed by the BBWA (Uche, 1997).

The opposition of the Colonial Government to the Bank of Nigeria showed that the interest of the Colonial Government did not always coincide with those of colonial banks. The Colonial Government, sometimes through the WACB, was at the time interested in using the commercial banks as a tool for advancing its monetization agenda. The British trading interests that set up the Bank of Nigeria, however, perceived this as being against their interest. Each party subsequently adopted its own strategy in order to achieve its aim. In other words, the relationship between the banks and the monetary authority was such that each tried to influence the other. The opposition of the BBWA to the issuance of a special silver currency for the region was another point of divergence between the Colonial Office and the colonial banks.

It is also possible to argue that the interests of the BBWA and the WACB were similar. This was true only to the extent that monetization and currency distribution agency suited both parties. Cracks in their relationship would have emerged had the WACB pursued policies that upset the stable macroeconomic environment under which the bank operated. The Colonial government would also have reacted had the BBWA adopted policies and/or pursued activities that infringed on their interests. In fact, the BBWA did not always agree with the colonial government and monetary authorities as evidenced by the decision of the Colonial government in 1916 to break the monopoly BBWA enjoyed in the region with the introduction of the Colonial Bank. By 1919, the Colonial government had decided on an equal division of the silver currency distribution agency between the two banks. This was endorsed by the Colonial office despite the protests by the BBWA. Stiff competition soon gave way to an agreement between the two banks. The first such agreement occurred in May 1924. This grew in comprehension over the years. It was thus not surprising that, as the collusion among foreign banks grew, the idea of indigenous banks to service the needs of Africans became pronounced.

The foregoing discussion on the relationship between the WACB and the Colonial banks provides a meaningful narrative with the relationship between the Central Bank of Nigeria in the post-independence era and the various commercial banks in the country. The discussion further helps to understand the underlying politics in the regulation of banks by the Central Bank in different phases of the financial system or economic development thus providing a fresh perspective on the forces that shape banking regulation in the post-independence era.

**Role of Banks in the Demise of the Currency Board System**

Nigeria was the only country among the pre-independence British West African colonies that established an indigenous banking system alongside the colonial banking system. The first indigenous bank in Nigeria – The Industrial and Commercial Bank (1929-1930) – failed mainly due to mismanagement, accounting incompetence, embezzlement and the non-cooperative attitude and denigration of colonial banks (Newlyn & Rowan, 1954). Despite this setback, further attempts were made and by 1947, six additional indigenous banks had been established out of which two had failed. The colonial government, foreseeing that further bank failures were imminent, moved to regulate the industry. In 1948, Mr. G.D. Paton submitted his now famous report recommending banking regulation in Nigeria which culminated in the 1952 Banking Ordinance.

Preceding the enactment of the 1952 Banking Ordinance, Nigerians, fearing the imminent clampdown on the establishment of commercial banks following the setting up of the Paton inquiry, had rushed to establish more banks before the advent of regulation. The result was that by 1952 at least 24 local banks had been established thus precipitating a crisis in the Nigerian banking system. It was evident that the majority of these indigenous banks were bound to fail, especially with the advent of regulation. It was against this background that a motion was moved in the Federal House of Representatives for the immediate establishment of a central bank, one of its main aims being to strengthen the existing local banks. In other words, Nigerians saw a central bank as a vehicle for assisting their beleaguered commercial banks. Also entwined with this event was the belief by the Africans that a central bank would make it easier for them to access credit, which would help power the much needed development. Such views sometimes stemmed from a misconception of central banking (Uche, 1997a; Uche, 2009). Also, the WACB was commonly viewed as the "financial hallmark of colonialism." Dismantling it was therefore a legitimate part of the de-colonization process. Foreign banks were uncomfortable with such views. Such banks were registered in London and therefore fell under the regulatory jurisdiction of London. Policies that involved taking orders from indigenous African governments, with respect to their operations, could not be accepted with joy. The WACB system, which exerted little influence on their operations, therefore suited their interests best. Also, the monopoly of the two chief banks of the distribution of the government's silver currency was bound to be lost with the introduction of a central bank. Furthermore, the Bank of England was against allowing the establishment of central banks in underdeveloped economies. The Bank believed that without developed political structures, political interference with the activities of such central banks would be of little use in territories with underdeveloped money markets. Furthermore, developmental functions were at the time considered, at least in colonial government circles, to be outside the scope of central banking.

As earlier mentioned, foreign banks were not the only beneficiaries of the WACB system. The colonial government that established it also earned seigniorage profits from the system. The motion for a central bank with lender of last resort function, not surprisingly, did not please the Financial Secretary appointed by the colonial government, who argued that Nigeria at 'its stage of development' was better served by a currency board than a central bank. He was nevertheless prepared, perhaps due to the immense support the motion received from the African parliamentarians, 'to reconsider the matter'. This culminated in the revision of the motion to exclude assistance to indigenous banks. In essence, the colonial government did not consider it important that such a central bank, if established, should concern itself with developmental functions like assisting in the strengthening of the indigenous African banks. J. L. Fisher of the Bank of England was subsequently invited to examine the matter. He advised against the establishment of a central bank in the (Nigerian) colony. The demand for a central bank gained momentum following the report of the commission appointed by the International bank for reconstruction and development IBRD known as the International Bank mission. The mission was the first non Nigerian body to demand the immediate establishment of a central bank.

Still the federal government did not implement the recommendations of the International Bank Mission but rather set up another committee- the J.B. Loyne's committee. It was the report of this committee that paved the way for the establishment of Nigeria's central bank. Among other reasons, the commission noted the need for the establishment of an indigenous federal institution that would perform central banking functions.

In 1958 following Loyne's recommendations, the Central bank of Nigeria was established. The Central Bank of Ghana preceded that of Nigeria, having been established in 1957. Sierra Leone and Gambia's came into existence in 1963 and 1971 respectively.

**Table 1: Chronology of Events That Led to the Establishment of the Central Bank of Nigeria.**

| Year | Event(s) |
|---|---|
| 1948 | The Colonial Government appointed Mr. G.D. Paton to investigate the Nigerian banking environment and stipulate conditions for healthy banking development. The resulting G.D. Paton's report of 1948 recommended the introduction of banking regulation. |
| 1951/52 | Nigerians rush to establish indigenous banks before the introduction of regulation. At least 17 such banks were established. |
| 1952 | The Nigerian Banking Ordinance was promulgated. |
| 1952 | Africans call for a Central Bank which, among other things, will help salvage the indigenous banks. |
| 1953 | J. L. Fisher, of the Bank of England, advised against the establishment of a Nigerian Central Bank. |
| 1954 | 16 indigenous banks failed. |
| 1954 | An IBRD mission to Nigeria recommended the early establishment of a Central Bank with limited functions. |
| 1956 | J. B. Loynes, of the Bank of England, appointed to advice on the type of central bank to be established. |
| 1958 | The Central Bank of Nigeria established with Roy Pentelow Fenton, of the Bank of England, as its first Governor. |

**Source: Uche (1997a:222).**

## 3. ESTABLISHMENT OF THE CENTRAL BANK OF NIGERIA (CBN)

The dissatisfaction of Africans with the colonial commercial banking system was a major reason for the transition from the currency board system to central banking. This led to the establishment of poorly capitalized, poorly managed and poorly staffed indigenous commercial banks. The collapse of most of these indigenous banks led to calls for a lender of last resort – a central bank – to help save them. Such rescue operations were seen by the Bank of England as beyond the scope of an infant central bank, if established. The Bank of England also had doubts about the ability of a central bank,

International Journal of Academic Accounting, Finance & Management Research (IJAAFMR)
ISSN: 2000-008X
Vol. 3 Issue 1, January – 2019, Pages: 23-43

run by Africans, to resist political interference in monetary policy management. From previous experience of the 20th century interwar years, the Bank of England knew that political interference in the activities of central banks was a direct path to uncontrolled inflation.

**The Role of the CBN in its Early Years** (1958-1972)

The CBN started operations on 1st July 1959 and by April of 1960 had issued its first Treasury Bills. In May 1961, the central bank launched the Lagos Bankers Clearing House which provided licensed banks a framework in which to exchange and clear cheques seamlessly. By July 1, 1961, the central bank had completed issuing all denominations of new Nigerian notes and coins and completely redeemed all of the West African Currency Board's previous money.

Specifically, the CBN continued to administer the Banking Act of 1958 until 1962 when there were significant amendments made to the said Act with the following important provisions:

The minimum share capital of banks was reviewed upwards: indigenous banks £250,000, foreign banks £250,000. Existing banks were given a seven-year grace period to comply with the new capital regulation. (This grace period was commendable when compared to the three-year period of the 1952 Banking Ordinance)

In addition, foreign banks were required to give undertaking to the Ministry of Finance to retain in Nigeria funds equal to the minimum capital £250,000. Other aspects covered by the new Act included new regulations on bank liquidity which now re- defined the composition of liquid assets. With respect to the acquisition of assets, banks were now allowed to own real estate for the purpose of future development. The Act did not make any specific pronouncements regarding the management or corporate governance of these banks.

Just as the seven years grace period for banks was about to expire in 1969, a new Banking decree repealing the 1958 Banking Act was promulgated by the Military administration of General Yakubu Gowon. Specifically, the minimum paid-up capital of banks was reviewed upwards from £250,000 to £300,000 for indigenous banks. Foreign banks were required to beef up capital to £750,000. Furthermore, banks were required to be incorporated in Nigeria following the provisions outlined in the Companies Act 1968 and banks were specifically to publish only the financial statements of their Nigerian operations. Indeed the Central Bank of Nigeria was further strengthened by this new decree and its powers extended to the monitoring and approval of bank adverts. The opening and closing of bank branches could now be done only with the due authorization of the CBN. This new clause on opening of new branches was understandable, given that a major factor behind the failure of a number of banks in the 1953-54 banking crisis were in fact attributed to the ambitious branch openings of indigenous banks (Uche, 1997). Also limits were imposed on interest rates and bank lending to the private sector.

In addition to the existing requirement for banks to transfer 25 percent of their net profit into a reserve fund until the total sum was equal to the paid-up capital, this Decree further required that a transfer of 12.5 percent of net profit be made where the amount of reserve funds was equal to, or in excess of, paid-up share capital. The CBN was thus strengthened to exercise its powers in maintaining monetary stability within the economy.

The end result of these capital increases was the exit of private indigenous banks from the Nigerian banking pitch. By 1969, all the indigenous banks that survived the 1953/54 banking crisis had been taken over by regional/state governments. This was because the share capital increases had made indigenous participation in bank ownership difficult (Ogowewo & Uche, 2006).

As Uzoaga (1986) noted:

"*The cumulative effect of the successive increase [sic] in minimum capital requirements has been the socialization of the most promising private indigenous banks as well as the erection of thorny barriers against effective participation of private indigenous companies in the banking business. Only two groups can now afford to meet easily the stringent capital requirements to operate banks in Nigeria. These are the expatriate banking companies and the statutory or state sponsored agencies*.''

The CBN was also instrumental to the establishment of the Capital Market regulatory body – the Securities and Exchange Commission (SEC) – when, in 1962, it laid a foundation for capital market regulation through the establishment of the Capital Issues Committee (CIC) that was charged with the mandate to regulate the public issues of securities. The CIC's mandate was to examine applications from companies seeking to raise capital from the market and to recommend the timing of such issues. The CIC, however, had no legal backing but operated unofficially as a capital market consultative and advisory body within the CBN. The CIC metamorphosed into a Capital Issues Commission in March 1973. It was not until the Indigenization era of the 1970s, which boosted market activities, that the Securities and Exchange Commission (SEC) was established by the SEC Act 1979. The establishment of SEC followed the recommendations of the Financial System Review Committee led by Dr. Pius Okigbo in 1976.

In sum, during the first one and a half decade of existence of the CBN, preceding the indigenization era, foreign investors were free to set up businesses and manage these businesses themselves or in partnership with the Nigerian State or Federal Government or indigenous Nigerian businessmen. Investment activities took place in the country with the ownership largely concentrated in the hands of foreign investors which resulted in huge repatriation of funds abroad (Teriba, Edozien & Kayode, 1981). To curb this repatriation of funds, the Federal Government promulgated the Nigerian Enterprise Promotion Decree (NEPD) of 1972 which was amended in 1977. During this pre-indigenization era, the Central Bank of Nigeria continued its role as banker to the Federal Government, administering the monetary policy and banking supervision.

International Journal of Academic Accounting, Finance & Management Research (IJAAFMR)
ISSN: 2000-008X
Vol. 3 Issue 1, January – 2019, Pages: 23-43

**The CBN Regulatory Role during the Indigenization Era** (1972-1986)

The Nigerian Enterprises Promotion Decree of 1972 which was promulgated in Nigeria, twelve years after the country gained (political) independence from British colonial rule, put in place a framework for the varied transfer of equity ownership of expatriate businesses to Nigerians. The Decree was replaced by a more stringent order in 1977 (Mohammed, 1985, Uche, 2012, Obasi, 2015).

The objectives of the indigenisation Decrees were derived from the Development Plans of 1970/74 which conceived indigenisation as a logical continuation of the "Nigerianisation" pursuit of the post Independence period. The NEPD launched in 1972 to fulfil the second Plan's objectives had the following objectives: the creation of opportunities for indigenous businessmen; the maximisation of local retention of profits, through a reorganisation of the ownership structure of the economy in favour of domestic capital; and the raising of the level of industrial intermediate capital goods production. The last was to be achieved by compelling the alien business community to move into more capital-intensive and more technologically advanced production, particularly in manufacturing.

The three stated objectives were also central to the 1977 NEP Decree. Brigadier Shehu Yar' Adua, Chief of Staff, Supreme Headquarters, stated in 1976 that the "objectives for the first phase of the indigenisation exercise still remain valid for the second phase…" The second NEP Decree perfected the indigenisation plan and so there were changes in a few areas such as in the number of businesses covered by the decree as well as the level of ownership stipulated. Having increased the number of enterprises under Schedules I and II, the 1977 NEP Decree also covered all unaffected enterprises under a third Schedule. However, Nigerian ownership under the new Schedule III was limited to 40%. In Schedule II, 60% of shares were to become Nigerian, and 40% foreign. A striking difference between the two Decrees is the addition of what government spokesmen called an "egalitarian" objective to the 1977 Decree (Mohammed, 1985).

Dr. A. Adedeji, the former Federal Commissioner of Economic Planning, and one of the chief architects of the 1972 Decree, opined that "the primary purpose of indigenisation is economic decolonisation, the reduction of economic dependence and the achievement of an increasing measure of self-reliance through internally located and self-sustaining growth. Once we define indigenisation in this way, we have to relate our analysis of the problem to its political base." Arguably, nobody is better placed to describe the objectives of indigenisation in Nigeria than the much respected Dr. A. Adedeji. He argued that the economic motives of indigenisation were pre-eminent and yet also acknowledged that political factors must play an important part in the formation and execution of the NEPDs. The configuration of economic forces in the country and the private and sectional pressures on government had clearly significantly influenced post-colonial administration in Nigeria in the direction of greater indigenisation. Nigeria's method of achieving the very "economic autonomy" which was supposed to complement political independence were evident in the government's pursuit of the indigenisation programme.

In order to articulate the overall intentions of indigenisation, in a widely reported speech, General Y. Gowon, then Head of State, during a state visit to Britain in 1973 provided an official summary of the perceived essence of the 1972 indigenisation Decree. He argued that the government was consolidating political independence by doing all that it could to provide more participation by Nigerians in economic life while attracting more investment in sectors of the economy where Nigerians are not yet able to rely on themselves. The same arguments for indigenisation were presented by one of his successors, General O. Obasanjo, in a speech to members of the National Institute of Policy and Strategic Studies in Jos on 3rd September 1979.

He reiterated that "meaningful development and transformation of our society can only be achieved through self-reliant and self-sustaining economic programmes and policies…the idea of a self-reliant and self-sufficient nation is something which must be pursued." The NEPD came to form the policy instrument for the realisation of those pursuits - namely "economic independence", political stability and social progress at large. In all the interviews conducted, and discussions held with government officials, including Nigerian Enterprise Promotion Board (NEPB) and Council (NEPC) staff in the course of Mohammed's (1985) study of indigenisation, one question on which there was unanimity from respondents was on the original officially declared aim of the NEPD - namely economic independence (Mohammed, 1985).

Moreover, a strong economy controlled by the indigenous business sector, was seen as a cornerstone of domestic political stability and in addition, as a necessary condition for a stronger voice in international diplomacy. The realization of socio-economic prosperity and political stability are supposed to be helped by the redistribution of wealth from foreigners to Nigerians. The denunciation by a few radical intellectuals who claimed that the 'strangle hold' by the foreigners was exploitative was not a true reason for the indigenization decree. Rather it was the elite perceptions that it was dangerous to permit external parties maintain economic domination of the country. Thus from the 1970s, government acquired controlling shares in a number of foreign banks, including the "big three" commercial banks which dominated the Nigerian banking space, with the objective to "directly influence their lending policies to the maximum benefit of the economy." The motivation for the Federal Government equity participation in banking was the urgent need to control strategic industries (or what was popularly referred to as the commanding heights of the economy) and to further the indigenization policy that it was pursuing (Ajayi & Ojo, 2006; Uche, 2012). The policy of

Government in banks in which it held equity was to appoint board members including the Chairman and to set out broad policy guidelines for their operations, while the daily running was left with banks' management.

While the Exchange Control Act of 1962 did not deal with banks directly, banks were however affected as the transactions were carried out through the banking system. The existing foreign exchange restrictions would necessarily affect the activities of banks. Nevertheless, the arrangement of government equity participation in banks explains the relative stability that reigned in the banking system up until the adoption of the Structural Adjustment Programme (SAP) in 1986. During this Pre-SAP era which was characterized by intensive regulation and government ownership of banks, the government was unwilling to let any of its banks fail irrespective of the bank's financial condition or quality of management. Government feared the potential adverse effects on confidence in the banking system and in the economy following a bank failure. Consequently, government deliberately propped up a number of inefficient banks, thus implicitly protecting the shareholders. The stability however was accompanied with some 'private costs' in the form of substantial bad debts that resulted from lending to government and preferred sectors as well as a high incidence of Insider loans. In the subsequent phase (SAP era), government focus shifted from shareholders' protection (by averting bank failure) to protection of depositors through the establishment of an explicit deposit insurance scheme.

Specifically, it has been argued that the foundation of another phase of banking distress was laid during the Indigenization era (Paseda, 2012). It has been severally argued that the balance sheet structure of banks (maturity mismatching of assets and liabilities and the non-marketability of some assets) render them particularly vulnerable to inflation. In the words of Merton Miller, banking is a 19th century disaster-prone technology. It is thus, in the interest of such banks to lobby for the enforcement of policies that will counter inflation which was caused by government fiscal recklessness. The huge government reserves accumulated from the oil boom at that time fuelled fiscal indiscipline. Indigenization therefore greatly weakened the ability of the banking sector to protect itself. Government ownership of the banks ensured that when it came to the inflation debate, government was simply talking to itself. It simply became difficult to distinguish between views of government and views of the banks. This was further complicated by the fact that the small size of the Nigerian financial system relative to the GDP effectively reduced banks' clout with respect to influencing government policies. Until fiscal recklessness is checked, the use of monetary policies alone to achieve macroeconomic stability will remain nothing more than an illusion. Thus, under this scenario and even in a democratic setting, any talk about central banking independence will be of little consequence on price stability (Uche, 1997b). This argument became quite obvious with the distress that later plagued the banking industry during the SAP and Post-SAP periods.

A rural banking scheme was launched in July 1977 with the decision to allocate banks to identified rural areas on the basis of a formula which related the number of each bank's rural branches to its total branch network throughout the country. The purpose was to mobilize rural savings and channel them to rural development. Specifically, banks were required to establish over 760 rural branches over a period of 10 years. The sole aim was to mobilize the financial resources of the rural areas, promote banking habit, attract cash held in the rural areas to the banking system in order to enhance the effectiveness of monetary policy and extend credit to the rural areas. The CBN offered a number of incentives to encourage rural bank establishment, including waiving feasibility study for rural branches, excluding rural bank credits from total loans and advances (e.g. for purpose of prudential loan-to-deposit limits), granting a reasonable monopoly period in a rural branches location to enable a bank build up sizeable number of branches in the same locality; and allowing a 5 percent (from April 1980) investment allowance in excess of what is normally allowable in industrial companies (normal initial 15% and annual 10% allowed by banks as industrial enterprises). Due to the large number of rural communities in need of banking services, it was decided to phase the programme for ease of execution and control. The first phase of the programme spanned July 1977 to June 1980 (three years) with 200 "rural" branches allocated to 19 commercial banks to establish. By June 1980, 188 branches (or 94 percent) of the initial 200 branches were opened. The shortfall was lumped into the second phase and opened during the period. The second phase spanned another period of four years from 1980 to 1984. 229 branches out of the planned 266 branches were actually opened. 19 additional branches were opened in 1985 while the CBN continued to exert pressures on the banks concerned to establish the remaining 18 branches so that by 1988, a total of 258 branches had been established under the second phase leaving 8 outstanding. The third phase of the programme (August 1985- July 1989) witnessed the opening of 293 branches out of a 300-branch plan.

However, problems such as infrastructural deficits, poverty levels and illiteracy contributed to the low volume of rural business to cover banking overheads. Again the nationalization of major banks heightened focus on compliance with the allocative policy on lending in accordance with the Banking Decree of 1969. Thus, direct control measures such as sectoral credit guidelines and interest rate controls were used by the Central Bank to influence allocation of resources to the public and preferred sectors of the economy, notably agriculture and manufacturing.

In addition, interest rates in real terms were generally negative leading to low savings, misdirected lending and low growth. The era was characterized by poor service culture, low level of technology utilization for accounting and

ISSN: 2000-008X
Vol. 3 Issue 1, January – 2019, Pages: 23-43

operations, and made banking halls the most unwelcome places to visit as long queues and the use of "tally numbers" were commonplace. It was the era of "sellers' market" characterized by armchair banking.

**CBN Role during the Structural Adjustment Programme/ Deregulation Era** (1986-1993)

In 1986**,** the Babangida Administration, under pressure from the International Monetary Fund and the World Bank, launched the Structural Adjustment Programme. The sharp fall in oil revenues in the early 1980s, accumulated trade arrears and increased debt service burden had precipitated an economic crisis which also reinforced the need to liberalize the economy from government controls. SAP was therefore introduced and designed to achieve balance of payment viability by altering and restructuring the production and consumption patterns of the economy, eliminating price distortions (to improve efficiency of resource allocation), reducing the heavy dependence on consumer goods imports and crude oil exports, enhancing the nonoil export base, rationalizing the role of the public sector, accelerating the growth potential of the private sector and achieving sustainable growth. To achieve the stated objectives, the main strategies of the programme were the adoption of a market-determined exchange rate for the Naira (N), the deregulation of external trade and payments arrangements, reductions in price and administrative controls and more reliance on market forces as a major determinant of economic activity.

An integral part of this programme was the deregulation of the banking system. Bank licensing policy was liberalized thereby giving rise to a proliferation of banks and other financial institutions. For instance, during the period 1985-1992, the number of licensed commercial and merchant banks increased from 40 to 120. Most of these new banks were no more than money changers (Bureau de Change). The deregulation of the economy, loopholes and sometimes outright evasion of the law made it possible for some of the banks to survive and prosper by mainly trading foreign exchange.

Other policy thrust during the SAP era included:

- Deregulation of interest rate regime
- Establishment of the Nigerian Deposit Insurance Corporation (NDIC)
- Promulgation of the CBN Act 1991 and Banks and Other Financial Institutions Act (BOFIA) 1991 (Decree numbers 24 and 25 respectively);
- Introduction of Open Market Operations

From the onset of SAP, the deregulation of interest rates was accepted as an important element of the reform process. Early in 1987, the interest rate structure was adjusted upwards. This policy was taken as a means of improving the efficiency of the banking system and improving resource allocation. The principle of maintaining a minimum level of interest rate on savings and time deposits and a maximum lending rate was retained. The controls on interest rates were removed in 1987 and the CBN adopted the policy of fixing only its minimum rediscount rate. This was to signal the CBN's desired direction of interest rate changes. Another major interest rate policy that was taken was in 1989 when the CBN announced that banks could pay interest on current account deposits while the rate to be paid would be negotiable between banks and their customers. Subsequently, the payment of interest on demand deposits was made mandatory for banks in January 1990. The purpose of this was to enhance greater competition in the mobilization of savings.

Two major changes to interest rates occurred before 1992. The first was the issuance of guidelines by the CBN on the spread of banks' interest rates. This affected the spreads between savings deposit and prime lending rates, the prime and the highest lending rates and the margin between inter-bank interest rates and prime lending rates. The second modification was in January 1991 when the government, as a temporary measure had to prescribe a maximum margin between the banks' average cost of funds and their maximum lending rates as well as a minimum level of savings deposit rates. The resultant high interest rates were suspected to inhibit investment and hence growth, thus counterproductive. In 1992, the policy of interest rate deregulation was reinstated as a result of the orderliness that has been restored to the interest rate regime. The reforms in the financial sector were designed to increase competition, and strengthen the supervisory role of the regulatory authorities.

The proliferation of banks that followed financial liberalization brought about mixed blessings. While the increased number of banks brought about keen competition with all the different innovations, it also overstretched the limited number of qualified people in the industry. Some banks resorted to poaching in an attempt to get the necessary manpower for the management of their banks. As a result of the increasing demand for high-level manpower, given the limited supply, standards were compromised. As a result of the compromise of standards together with other defects such as rampant internal mismanagement, insider abuse, massive loan repayment defaults and macroeconomic instability, there was systemic distress in the banking sector in the Post-SAP era (between 1995 and 2000). Indeed a total of 33 terminally distressed banks had their licenses revoked between 1994 and 2000 - 2 in 1994, 2 in 1995, 26 in 1998 and 3 in 2000.

The deregulation of the economy created both risks and opportunities for the banks and there was increased competition not just amongst banks but also with non-bank financial institutions such as finance houses which were also a creation of deregulation. SAP therefore fundamentally changed the structure of banking in the Nigerian economy. The new spirit of competition meant that the decision as to whether banks failed or not was to be determined by market forces. Government therefore focused on protecting the depositors, hence the establishment of the NDIC in March 1989. Government guarantee of deposits, although limited, also necessitated closer prudential monitoring of the activities of the insured banks. Prudential Guidelines were released to ensure proper credit classification and income recognition, as part of the measures to promote the financial health of banks. The Prudential Guidelines attempted to align banking regulations with international best practices. For instance, the capital adequacy requirements were introduced in accordance with the Basel Accord and rules on classification of/ provisions for loan exposures and off-balance sheet commitments were based on International Accounting Standards. The profits declared by most banks shrunk as a result of this prudential regime and their financial condition could have been much worse had they not been allowed to spread the required provisions over a period of four years. For example, First Bank of Nigeria made a loss after tax of N205.4m in 1990 compared to a profit after tax of N106m reported for the previous year (Ajekigbe, 2009). In addition, Government's directive that back-log of naira deposits for foreign exchange applications yet to be approved and all public-sector deposits be transferred to the CBN, to curb rising inflation, also triggered a liquidity crisis in the financial system.

With the promulgation of the CBN Decree No 24 of 1991 and the BOFI Decree No 25 of 1991, the independence of the CBN was strengthened and its capacity to supervise both banks and non-bank financial institutions was enshrined in the legal framework. Prior to that period, one of the problems that plagued the Nigerian financial system was the inadequate legal framework for the effective regulation and supervision of both banks and non-bank financial institutions. In addition, the repealed CBN Act of 1958 and the Banking Act of 1969 were not only inadequate but were also riddled with ambiguities. The new CBN Decree however, made it possible for the Central Bank to report directly to the President instead of the bureaucracy fraught with the previous method of reporting through the Ministry of Finance. Furthermore,

- The CBN acquired the powers to compile and circulate to all banks in Nigeria, a list of bank debtors whose debts to any bank had been classified by bank examiners (S. 52).
- The BOFID vested the CBN with the sole licensing power for both banks and non-bank financial institutions (S. 2, 3, 56 and 57). This, therefore, brought the activities of primary mortgage institutions, discount and finance houses, etc. under the regulatory ambit of the CBN.
- The CBN was vested with the powers to deal with any failing (or ailing) bank and failed bank. For instance, the CBN, with the approval of the President, can assume control and management of a failing bank (S.34) and apply to a court either to purchase a failing bank for a nominal fee, for the purpose of restructuring it or liquidating it (S.36).
- To enhance the CBN's newly granted administrative enforcement powers, the Decrees overflow with provisions imposing high monetary penalties ranging from N5,000 to N1m as well as imprisonment terms ranging from one to ten years. The NDIC at the time endorsed the provisions of the Decrees.

Further, the practice of government equity participation in banks, as under the indigenization era, came to an end between 1992 and 1993 when the Federal Government divested most of its equity holdings in banks to Nigerian private investors. The reforms also led to the emergence of privately-owned banks that introduced online banking services and automation of banking processes, which reduced queues in banking halls. They also provided incentives for banks to innovate, offer new products and run efficiently. In effect, the structure of banking was dramatically altered with the emergence of 'new generation' banks who contested for the existing banking market space with their 'old generation' counterparts. The new generation banks thrived with their unique value proposition, to corporate, high net worth individuals, high-income professionals, which was hinged on efficient services and higher interest rates on deposits following the deregulation of interest rates in 1987.

Unfortunately, the proliferation of banks heightened abuses in the foreign exchange market as banks sought to take advantage of arbitraging opportunities which existed between exchange rates at the official and parallel markets. Most of these banks were no more than Bureau de Changes (Uche, 2000). Also, the phenomenal growth in the number of banks overstretched CBN's regulatory capacity while the growing sophistication in the design and use of financial instruments heightened credit and operational risks.

The desired reallocation of credit from the public to the private sector did not occur because of the Federal Government huge spending that resulted in ever-increasing budget deficits after 1987. Thus, government domestic borrowing ballooned which was undermined the CBN's ability to perform effectively some of its statutory functions. Huge government borrowing, therefore, crowded out the private sector from the credit markets although the problems afflicting the real sector and the arbitraging opportunities in the foreign exchange market also made granting of credit unattractive to most banks.

One of the main objectives of the CBN is the promotion of monetary stability and sound financial system in Nigeria. The Government, however, has a considerable say in the appointment of Directors and management of the CBN. For instance, the Governor, Deputy Governors and Directors of the CBN are appointed by the President (S. 9 and 11 of CBN Decree 1991). Also the Decree only requires that the CBN shall use its best endeavour to maintain external reserves at levels considered by the Bank to be appropriate for the monetary system of Nigeria (S. 25). Doubtless, these provisions give enormous leeway for the Federal Government to influence central banking policies, especially with respect to financing government activities. This was one of the reasons why the British colonial government was reluctant to allow the establishment of a central bank in Nigeria. It was to prevent such political interference that the British colonial government ensured that the 1958 CBN Ordinance which they midwifed contained a clause specifically stating that:

'The value of the reserve. . . shall- (a) for a period of five years. . . be not less than the aggregate of an amount representing sixty *per* cent- of the Bank's notes and coins in circulation together with an amount representing thirty-five *per cent* of the Bank's other demand liabilities; (b) after five years.. . be not less than forty *per* cen*t* of the aggregate of the Bank's notes and coins in circulation and other demand liabilities' (s.26).

The 1991 Decree, however, contained provisions that if adhered to will assist in the attainment of the policy objective of monetary stability. For instance, section 33 asserts that:

'The Bank may grant temporary advances to the Federal Government in respect of' temporary deficiency of budget revenue at such rate of interest as the Bank may determine. . . The total amount of **su**ch advances outstanding shall not at anytime exceed twelve and a half per cent of the estimated recurrent budget revenue of the Federal Government for the year in which the advances are granted. . . All advances made pursuant to this section shall be repaid as soon as possible and shall in any event be repayable by the end of the Federal Government financial year in which they are granted and if such advances remain unpaid at the end of the year, the power of the Bank to grant such further advances in any subsequent year shall not be exercisable, unless and until the outstanding advances have been repaid'.

Unfortunately, this important provision is rarely heeded and the CBN has continued to finance government fiscal deficits without any inhibitions, advancing more than 50 percent of the budgeted revenue in some years. Pius Okigbo, in his yet to be published report, argued that on no account should the Governor either break or be allowed to break the law. His report therefore proposed that the breach of this provision is a sufficient condition for the removal of the CBN Governor. But will such a provision help? Not necessarily. A government that flouts one law can easily flout another. In other words, the problem is not necessarily with the law but with its implementation (Uche, 2000). The challenge was heightened because Nigeria was at that time under military rule where the necessary checks and balances that normally characterize government process were practically non-existent. Such a government was unlikely to adhere to such a stringent monetary policy requirement unless there was an incentive to do so. Since the government did not derive its powers from the electoral box, electoral considerations were of little importance. Focus might have been on policies that kept the military happy, such as preventing an insurrection within its rank and file. This was Nigeria's experience under 16 years of unbroken military rule from 1983-1999.

Apart from the electorate, another constituency that could have supported anti-inflationary pressures/policies were the banks. It has been argued that the balance sheet structure of banks (maturity mismatching of assets and liabilities and non-marketability of some assets) render them particularly vulnerable to inflation. It is thus, in the interest of such institutions, to lobby for the enforcement of policies that will help in the attainment of the monetary policy objective of price stability. As had already been mentioned, government fiscal indiscipline was one of the main causes of the banking crisis in the deregulation and post-SAP era. Unfortunately, Nigerian banks were unable to constitute an effective anti-inflation lobby group because they were largely government owned until the divestment of government holdings in the early 1990s. Thus, as earlier mentioned, a side-effect of the indigenization decree of the 1970s was that it destroyed the ability of banks to serve as a check against government fiscal indiscipline which causes inflation. The Indigenization decree greatly weakened the ability of the banking industry to protect its interests. Therefore, the strengthening of this potentially important group will therefore be critical in any attempt to enable the CBN to carry out its legitimate role fearlessly. A robust financial system will represent a strong constituency for low inflation which can side with the CBN should it choose to obey the law and disobey the government. In this regard, the divestment of government equity participation in banks during the later-SAP era was a welcome development.

SAP also demanded a change in strategy for training and recruiting regulators. What the programme did was to infuse entrepreneurial ingenuity into the various segments of the Nigerian economy. Entrepreneurs pushed against the boundaries of existing laws. In fact, in some cases, their operations lie outside the law. Bureaucracy, however, did not always allow the government (regulators) to rewrite the laws in order to keep pace with the activities of such entrepreneurs. Also, under a market economy, it is easy to accuse such governments of floating regulations that stifle competition. For instance, government found it difficult to restrict banks from collusion to manipulate the foreign exchange market. This was especially so given the imperfect nature of the Nigerian economy. Any interference with the market in form of regulatory controls could tamper with the long-term workability of such markets. Another aspect of the problem was the fact that SAP extensively promoted competition among employers with respect to wages. Partly because of bureaucracy, regulators' wages – regulators' are usually employed by the government - almost always lagged behind those of private entrepreneurs. Again, partly because of bureaucracy, the regulators were slower at adapting and responding to technologically changes. The result was that the regulators had inferior credentials and expertise compared to those being regulated. Under such a circumstance, it became easy for the regulator to be compromised or outwitted by the 'regulatees'.

**The Guided Deregulation Era (1994-1998)**

As earlier noted, despite the promulgation of the CBN Decree and BOFI Decree both of 1991 and the extensive powers granted the CBN and the NDIC, banking stability was still threatened. This period was characterized by lots of policy reversals following the change in government and perhaps a fatigue from SAP-induced reforms. The political instability, unpredictable policy changes and rising inflation resulted in capital flight and massive withdrawal of funds by depositors.

The macro-economic policy reversal through the 1994 fiscal budget worsened the already weak position of banks. By 1994/1995, 50 percent of the banks were distressed and ratio of the aggregate non-performing loans to total loans ratio stood at 43 percent. To salvage the situation, the CBN and NDIC adopted measures, including provision of liquidity support via accommodation facilities, imposition of holding action against further lending, takeover, restructuring and liquidation of terminally distressed banks.

The official and market rates, which were merged under the Inter-bank Foreign Exchange Market (IFEM) in January 1989, were separated through a policy of "guided deregulation" of the foreign exchange market in 1995. The foreign exchange market was segmented into two: official, which accommodated government transactions at a special rate of N22 to US$1 and the Autonomous Foreign Exchange Market (AFEM) for all other users at a rate of N80 to US$1. This segmentation created incentives for "rent-seeking", round tripping and other market abuses.

As the need to attract and retain (foreign) capital within the Nigerian economy heightened, it became imperative to relax market restriction on foreign equity participation. Thus, the Nigerian Enterprises Promotion Decree No. 7 of 1995 and the Nigerian Investment Promotion Commission (NIPC) Decree No. 16 of 1995 were promulgated. These abolished all restrictions on foreign shareholding and guaranteed unconditional transferability of dividends, profits, loan repayments, interests and remittance of divestiture proceeds. The immediate effect of these reforms was a capital market boom as the number of listed securities increased together with other market indices such as overall capitalization, activity levels and relative size of the Nigerian Stock Exchange (NSE) with other African Stock Exchanges. Thus, during this period, the NSE came under the searchlight of the Standards and Poor's Emerging Markets.

Another notable highlight of this period was the reform of the national payment system, following the incorporation of the Nigerian Inter-Bank Settlement System (NIBSS) and the introduction of card-based payment system in 1993. Further to this, the Magnetic Ink Character Recognition (MICR) technology for clearing cheques and the revised clearing rules became operational in 1995. Quite important too, the required capital base for both commercial and merchant banks was raised to N500 million in 1997. Prior to that time, Merchant banks and commercial banks were required to maintain a minimum capital base of N40m and N50m respectively as per BOFI Decree 1991.

**The Universal Banking Era (1999-2001)**

With the return of civilian rule in May 1999, there was an apparent return to the path of economic reforms again. Universal banking was adopted in January 2000 in response to unprecedented pressure from merchant banks clamoring for equity - a level playing field due to their disadvantaged position especially with regards to the cost of funds. The adoption of universal banking, though, has been argued as being merely a legal attempt to legislate existing practices. Prior to that period, some commercial banks owned subsidiaries that were merchant banks. Generally, many banks had subsidiaries providing investment banking services, capital market, pension, insurance, registrar-ship and other related financial services.

Consequently, the functional delineation between commercial and merchant banking, brought about by the Banking Decree 1969 was effectively removed thus paving the way for uniform licenses to be issued to all banks and for them to determine in which segment of the financial services market to operate.

The Small and Medium Enterprises Equity Investment Scheme, under which banks set aside 10% of their annual profits for equity investment in Small and Medium Enterprises (SMEs) was set up in August 2001. This initiative was followed by the establishment of the Bank of Industry Limited (BOI) in October 2001 following the reconstruction of the Nigerian Industrial Development Bank (NIDB), in keeping with Federal Government's intent to use SMEs as instruments for rapid industrialization, sustainable economic development, poverty alleviation and employment generation. In addition, it was during this era that a minimum capital base of N1billion was required for all banks.

In the five years to 2004, the CBN intensified its supervisory role over banks while making concerted efforts to shut down arbitrage windows in the foreign exchange markets. As part of this process, CBN suspended 21 banks for contravening foreign exchange regulations in 2002 and also introduced the Dutch Auction System (DAS). In addition, the CBN undertook an internal reform programme tagged *Project EAGLE*, which was designed to improve its regulatory efficiency and effectiveness.

Table 2 below provides data that allows a comparative analysis of the pre-consolidation era. The top four Nigerian banks are presented vis-à-vis big African banks operating in the Africa. From the table, the ratio of the combined capital of Nigerian top 4 banks to that of their African mega counterpart was a mere 8.3 percent. This implies that Nigerian banks were only marginal players on the African continent.

**Table 2: Capitalization of top 4 Nigerian banks pre-consolidation (2003)**

| | AFRICA'S TOP 4 | CAPITAL USD $'m | NIGERIA'S TOP 4 | CAPITAL USD $'m |
|---|---|---|---|---|
| 1 | Standard Bank | 2,971 | Union Bank | 269 |
| 2 | First Rand | 1,851 | First Bank | 201 |

| | | | | |
|---|---|---|---|---|
| 3 | ABSA | 1,715 | UBA | 117 |
| 4 | NedBank | 1,680 | Zenith Bank | 99 |
| | Sub-Total | 8,217 | Sub-Total | 686 |

Source: Ajekigbe (2009:24)

**The Consolidation Era (2004 – 2008)**

In his address to the Special Meeting of the Bankers Committee on July 6, 2004, the CBN Governor, Professor Charles Soludo, announced a 13-point Reform Agenda tagged "the New Agenda for Repositioning the CBN and the Financial System for the 21st Century", and outlined as follows:

1. Requirement that the minimum capitalization for banks should be N25billion
   - Full compliance before end-December 2005 (18-month expiry period)
   - Only banks that meet the requirement can hold public sector deposits and participate in the DAS by end 2005
   - Names of banks that qualify by 31st December 2005 will be published
2. Phased withdrawal of public sector funds from banks, starting in July 2004.
3. Consolidation of banking institutions through mergers and acquisitions
4. Adoption of a risk-focused and rule-based regulatory framework
5. Adoption of zero-tolerance in the regulatory framework, especially in the area of data/information rendition/reporting.
   - Bank MDs to sign all bank returns henceforth
   - Manipulation of accounts/ concealment of unsavoury transactions off-balance sheet will henceforth attract serious sanctions
6. Automation of rendition of returns by banks and other financial institutions
7. Establishment of a hotline, confidential internet address (governor@cenbank.org) for all Nigerians wishing to share any confidential information with the Governor of the Central Bank on the operations of any bank or the financial system.
   - Only the Governor has access to this address
8. Strict enforcement of the contingency planning framework for systemic banking distress
9. Establishment of an Asset Management Company as an important element of distress resolution
10. Promotion of the enforcement of dormant laws relating to, for instance, issuance of dud cheques, vicarious liabilities of the Board members of banks in cases of failings by the bank.
11. Revision and updating of relevant laws, and drafting of new ones relating to the effective operations of the banking system.
12. Closer collaboration with the Economic and Financial Crimes Commission (EFCC) in the establishment of the Financial Intelligence Unit (FIU), and the enforcement of the anti-money laundering and other economic crimes measures.
13. Single obligor limit of 10% of shareholders' funds as opposed to the present 25%, with aggregate borrowing pegged at 800% of shareholders' funds.

The objective of the reform programme was to create a diversified, strong and reliable banking sector, which would (i) ensure the safety of depositors' money (ii) play active developmental roles in the economy, and (iii.) become competent and competitive players both in the African and global financial systems.

The direct impact of the reform programme was shrinkage in the number of banks from 89 to 25. Only 76 out of 89 banks made it given the deadline of December 31st 2005. 76 banks either went through some form of merger or acquisition with the exception of a few banks that stood alone.

At the launching of the re-capitalization idea, a lot of criticisms grew from the practitioners and academics alike. Some observers felt the exercise was targeted at eliminating the small banks and reducing the number of banks in the country. Job security was further threatened by perceived reduction in number or elimination of small banks. Further, the exercise was criticized as an attempt to (mis)use share capitalization to force the emergence of mega banks whose constituents might be "strange bed-fellows". A policy of forced consolidation has its downsides. In fact, consolidation – as has been noted by the Central Bank in its ''Code of corporate governance for banks in Nigeria post consolidation''– poses the following grave governance risks: technical incompetence of the board and management; board squabbles due to the meshing of different corporate cultures; disputes between management and staff; increased levels of risks; ineffective integration of entities; poor integration and development of information technology, accounting and record systems; inadequate management capacity; resurgence of a high level of malpractices; insider-related lending; rendition of false returns; continued concealment; ineffective audit committees; inadequate operational and financial controls; absence of a robust risk management system; disposal of surplus assets to boost profits so as to cover operational losses and inefficiencies; and a lack of transparency. It was, therefore, difficult to applaud this policy on the grounds that its tangential effect would be to improve corporate governance. Furthermore, it was not evident that an increase in the share capital of Nigerian banks will automatically provoke any significant attitudinal change.

Further, a policy of ''forced consolidation'' is not risk free. It increases the likelihood that value destroying consolidations may have been consummated. Mergers and acquisitions are in the best of circumstances – when they are entered into because of the identification of a strategic business objective – fraught with many difficulties. Where the strategic objective is regulatory pressure, the odds against successful consolidations increase. By ''forcing'' banks to approach mergers with an eye to achieving a balance sheet consolidation, rather than on the synergies to be created, the Central Bank increased the risk that ill-fitting entities may have consolidated their balance sheets. Consolidated entities that ended up destroying shareholder value could hardly be regarded as successful mergers (Ogowewo & Uche, 2006). For instance, the experience with Spring Bank after consolidation, until its eventual acquisition by the CBN, provides strong support for these arguments.

In fact, the collapse of many alliances (formalized in Memoranda of Understanding) during the exercise indicated that many value-destroying consolidations were in fact avoided; this in no way does not eliminate the point that some value-destroying consolidations were implemented. Ogowewo & Uche (2006) argued that the risk of shareholder value destruction was heightened in the case of banks which met the minimum capitalization figure, not through a capitalization of reserves, but instead through an issue of fresh shares. For such banks, the challenge of maintaining their pre-consolidation earnings per share post-consolidation will be formidable, since there will now be more shares in issue. Furthermore, there will be post-merger integration challenges to grapple with. Contrary to the thinking of the Central Bank, as evident from its May 2006 circular to banks, the harmony of new partners cannot be decreed by fiat. Interestingly, the Central Bank did not need to use the increase in bank share capital to goad banks towards mergers. Before the announcement of the 25 billion share capital requirement, developments in the Nigerian banking arena showed that the industry was ripe for consolidations. Following the announcement of the minimum share capital requirement of 2 billion in 2004, applications for new banking licenses had all but disappeared. Furthermore, at the end of 2003, there were about a dozen or so banks that were clear candidates for restructuring. There was, therefore, ample room for consolidation to occur in the Nigerian banking sector. The important thing to bear in mind is that absent regulatory pressure, the consolidations would have been strategic and the risk of value destroying consolidations will have been reduced. A policy of encouraging strategic consolidations, whilst intellectually tasking, is superior to a policy of ‘‘forced’’ consolidations.

As expected, banks became awash with liquidity and thus an increased appetite to be global players. This era marked massive overseas expansion of Nigerian banks. Access Bank, for instance, has subsidiaries in Cote D’Ivoire, Democratic Republic of Congo, Gambia, Rwanda, Sierra Leone and Zambia while Zenith Bank has subsidiaries in Sierra Leone and Ghana. The magnitude and speed of Nigerian banking investments abroad was such that as at September 23, 2008, ten out of 24 Nigerian banks had full-fledged licensed bank in a foreign country. The banks were First Bank, Union Bank, Intercontinental Bank, Access Bank, Bank PHB, United Bank for Africa (UBA), Guaranty Trust Bank, Zenith Bank and Oceanic Bank. The last to make the list is FinBank, formerly First Inland Bank, which announced on September 22, presence in the Gambia through the acquisition of the Arab Gambian Islamic Bank. Further, banks approached the capital market between 2007 and 2008 to raise equity funds with some banks securing foreign listing in developed capital market. For instance, it was during this period that Guaranty Trust Bank secured its quotation on the London Stock Exchange.

Table 3 below shows some industry statistics during the period 1986-2017. It is worth mentioning that despite the reduction in the number of banks from 41 to 25, three key performance indicators have improved viz: branch network (market penetration), total assets (scale) and credit to the private sector (financial intermediation). The figures shown are however, nominal.

**Table 3: Some Banking Industry Statistics (1986- 2017)**

| Year | Number of Banks | Number of Branches | Total Assets (N’B) | Credit to private sector (N’B) |
|---|---|---|---|---|
| 1986 | 41 | 1,394 | 48.1 | 17.4 |
| 1987 | 50 | 1,516 | 62.1 | 25.5 |
| 1988 | 66 | 1,711 | 75.2 | 29.8 |
| 1989 | 81 | 1,909 | 86.7 | 30.9 |
| 1990 | 107 | 2,013 | 110.4 | 36.6 |
| 1991 | 119 | 2,107 | 155.5 | 45.3 |
| 1992 | 120 | 2,391 | 201.3 | 80.0 |
| 1993 | 120 | 2,382 | 279.9 | 95.5 |
| 1994 | 116 | 2,547 | 357.5 | 151.0 |
| 1995 | 115 | 2,512 | 465.1 | 211.4 |
| 1996 | 115 | 2,554 | 548.8 | 221.8 |
| 1997 | 115 | 2,477 | 694.9 | 275.0 |
| 1998 | 89 | 2,220 | 821.2 | 351.8 |
| 1999 | 89 | 2,344 | 1,196.0 | 455.2 |
| 2000 | 89 | 2,306 | 1,707.1 | 596.0 |
| 2001 | 90 | 2,306 | 2,247.0 | 855.0 |
| 2002 | 90 | 3,123 | 2,766.9 | 955.8 |
| 2003 | 90 | 3,247 | 3,047.9 | 1,301.6 |
| 2004 | 89 | 3,247 | 3,392.9 | 1,534.4 |
| 2005 | 89 | 3,357 | 4,389.3 | 2,007.4 |
| 2006 | 25 | 3,233 | 6,738.0 | 2,565.8 |
| 2007 | 24 | 4,200 | 10,431.0 | 5,056.7 |
| 2008 | 24 | 4,952 | 14,825.4 | 7,341.1 |
| 2009 | 24 | 5,436 | 17,522.86 | 9,667.88 |
| 2010 | 24 | 5,809 | 17,331.56 | 9,198.17 |
| 2011 | 24 | 5,454 | 19,396.63 | 9,614.45 |
| 2012 | 21 | 5,564 | 21,303.95 | 10,443.45 |
| 2013 | 24 | 5,639 | 24,468.37 | 11,592.08 |
| 2014 | 24 | 5,526 | 27,690.11 | 13,266.16 |
| 2015 | 25 | 5,470 | 28,369.03 | 13,658.89 |
| 2016 | 25 | 5,570 | 32,130.45 | 16,683.89 |
| 2017* | 25 | 5,630 | | 15,830.00 |

Source: Central Bank of Nigeria. Total Assets and Credit to Private Sector are in N’ Billions 2017* figures refer to September 2017 (Quarter 3).

Table 4 below presents information on the top Nigerian four banks as at the end of 2007 vis-à-vis the African mega banks. The ratio of their combined capital (of the four Nigerian banks) to the combined capital of the African mega banks has increased from 8.3 percent as seen in Table 2 to 39.8 percent in Table 4.

**TABLE 4: Capitalization of Top 4 Nigerian Banks After Consolidation (2007)**

| | AFRICA'S TOP 4 | CAPITAL USD $'m | NIGERIA'S TOP 4 | CAPITAL USD $'m |
|---|---|---|---|---|
| 1 | Standard Bank | 8,015 | Union Bank | 3,040 |
| 2 | First Rand | 5,169 | First Bank | 2,500 |
| 3 | ABSA | 5,089 | UBA | 1,696 |
| 4 | NedBank | 4,080 | Zenith Bank | 1,650 |
| | Sub-Total | 22,353 | Sub-Total | 8,886 |

Source: Ajekigbe (2009:24)

The 'new' N25 billion capitalization requirement for banks by the CBN, despite its numerous flaws, could well have turned out to have some unintended positive consequences. Mega banks will no doubt be in a much stronger position to make the point that Government's reckless fiscal policy and its attendant macroeconomic instability is the main cause of financial instability. Until the fiscal recklessness of the Government is checked, the use of monetary policies to achieve macroeconomic stability will remain nothing more than an illusion.

**The Global Financial Crisis of 2007 – 2009 and European Debt Crisis of 2010-2013 (Restructuring Era)**

The global financial crisis of 2007-2009 brought to the fore the debate as to whether the entire African financial system architecture and regulation should be re-designed. During the consolidation era, Nigerian banks became awash with liquidity to finance big-ticket transactions. In fact, some of the banks established branches and subsidiaries in other African countries. As at September 2008, 10 out of the 24 licensed Nigerian banks owned at least a full-fledged licensed bank in a foreign country. The banks were First Bank of Nigeria, FBN; Union Bank of Nigeria, UBN; Intercontinental Bank; Access Bank; Platinum Habib Bank; United Bank for Africa, UBA; Guaranty Trust Bank, GTBank; Zenith Bank; Oceanic Bank and FinBank. Several possible hypotheses rationalize the burst in cross-border investments of these banks but the proximate ones include: the *capital-abundance hypothesis* (arising immediately from recapitalization), the *specific-advantage hypothesis* (in terms of technological advantage and entrepreneurial excess capacity), the *'multinational fad' or 'bandwagon effect' hypothesis* and the *lower overheads hypothesis*. The implication of such cross border investments was the heightened risk of financial contagion and thus the need to develop a robust regional framework for the regulation of these multinational African banks in order to contain a potential financial shock.

The ensuing global financial crisis of 2007 to 2009, however, strained the gains that had been achieved during the consolidation era in the financial sector. The immediate impact of the global financial turbulence on the Nigerian financial system, particularly the banking system, mirrored global trends but was largely contained because of limited integration with the global financial system. While offshore funding of the domestic banking system was growing before the crisis, its scale was manageable and the Central Bank was able to accommodate commercial banks' foreign exchange needs in the depth of the global crisis.

Coupled with major internal management problems in some of the banks, the crisis impacted the economy indirectly through the following channels viz: significant decline in oil revenue leading to revenue attrition for all tiers of government; reduced capital inflows into the economy; significant drawdown on foreign reserves; demand pressure in the foreign exchange market; substantial decline in stock market capitalization and share prices with many banks trading below their book values; huge bank losses on margin loans and share-based facilities as well as loans to the downstream oil and gas sector; declining asset values and credit squeeze.

CBN intervention included:

1) Replacing the Chief Executives and Executive Directors of the banks identified as source of industry instability;
2) Injection of the sum of Six hundred and twenty billion naira (N620 billion) into the banks in an effort to prevent a systemic banking crisis. The injection of this fund into these banks then was considered sufficient to resolve and stabilize them to enable them continue normal business operations, with arrangements made to recover non-performing loans from the banks' debtors while guaranteeing all foreign credits and correspondent banking commitments.
3) Commencement of the process for creating an Asset Management Company (AMC), as an important vehicle for dealing with Non-Performing Loans of the banks. Asset Management Corporation of Nigeria (AMCON) was established to soak in the toxic assets of the CBN-intervened banks and provide liquidity to them while facilitating their eventual recapitalization. The total toxic assets that were absorbed by AMCON during the period (2009-2015) were estimated at N5.7 trillion.
4) Stabilizing the banking system and, indeed, the financial system and restore public confidence, the CBN also focused attention on ensuring that the financial system, in general, began to serve the needs of the Nigerian economy in order to strengthen the economy through the following:
   (i) Provision of long-term funds at affordable interest rates to drive industrial activities and infrastructural developments in the country, having identified low industrial basis and huge infrastructural deficit as

binding constraints on achieving Nigeria's economic development objectives. Such funds included the N300bn Power, Infrastructure and Aviation fund, N200bn RRF for banks' existing loan portfolios to manufacturing and small and Medium Enterprises (SMEs).

(ii) N200bn Credit Guarantee Scheme for SMEs.

(iii) N200bn Commercial Agricultural Fund for the agricultural sector.

(iv) N150bn fund to manufacturers through the Bank of Industry (BOI) and deposit money banks (DMBs).

(v) Collaboration with the Securities and Exchange Commission (SEC), Nigerian Stock Exchange (NSE), and the Ministry of Finance (MoF) to reduce the transaction costs particularly bond issues so as to diversify funding sources away from banks as well as attract more long-term foreign investors into the sector.

5) Strengthened the regulatory and supervisory framework through:

(i) Implementing zero tolerance on all unprofessional and unethical banking practices

(ii) Greater emphasis on the enforcement of Code of Corporate Governance for banks

(iii) Stand-by team of examiners for swift regulatory responses to distress signals

(iv) Establishment of the Consumer and Financial Protection Division (CFPD) to provide a platform through which customers could seek redress and directive was given to banks to establish Customer Help Desks at their head offices and branches.

(v) Enshrinement of customer-friendly Guide to Bank Charges.

(vi) Consumer education and enlightenment and CFPD also collaborated with the Consumer Protection Council on the review of the Consumer Protection Act No. 66 of 1992 to enforce discipline in the market.

**6)** Financial Reporting and Disclosure (through IFRS Adoption) in order to enhance market discipline and reduce uncertainties which limit the risk of unwarranted contagion.

**7)** Modification to the Universal Banking (UB) model of 2001. The ensuing abuses following consolidation and unbridled risk appetite compounded with conflict of interests led to significant capital losses as banks undertook unnecessary speculation, provisions and bets on asset prices.

To address the obvious challenges, the CBN reviewed the Universal Banking model with a view to steering the banks towards core banking businesses. Under the new model, banks were no longer allowed to invest in non-bank subsidiaries while banks which, hitherto, had such investments were required to either divest or spin-off the businesses to holding companies that were licensed by the CBN as other financial institutions. The argument posed in support of this move was to discontinue the incentives of banks to use depositors' funds for insurance, stock broking, and other non-banking activities. This is in fact the main thrust of the banking system restructuring.

8) Strengthened the institutional co-ordination through the Financial Services Regulation Coordination Committee (FSRCC).

9) Adoption of a common accounting year end for all banks, aimed at improving data integrity and comparability.

10) Conducting own risk assessments and relying less on rating agencies.

11) Limited the tenor of Chief Executives/Directors of banks to 10 years and Non-Executive Directors to 12 years.

12) Limited the tenor of a bank's auditing firm to 10 years.

13) Implemented improved transparency in structured credit instruments for easy assessment of associated risks.

**Current Banking Reforms 2014 - 2018**

In the aftermath of the 2007-2009 crises, there was heightened vigilance by both the Central Bank of Nigeria (CBN) and the Nigerian Deposit Insurance Corporation (NDIC) in banking system examination to detect possible signs of distress and resolution strategies. The Nigerian economy witnessed growth of 6.3 percent in the year 2014 but that growth was sustained largely by the prevailing high oil prices in the international market. The year 2015, however, was a momentous year as crude oil prices declined massively. For instance, in January 2015, the price of crude oil in the international market was $46.59 per barrel, representing a year-on-year decline of 55.55 percent. It was also an election year for Nigeria thus huge government spending was imminent. The economy posted an average GDP growth of 3.05 percent for the first three quarters of 2015. The weak performance was attributed to steeply declining oil prices; fall in investor confidence owing to delay in appointing a cabinet by the new Buhari-led government and the refusal to devalue the naira. Following the country-specific challenges faced by the oil sector even before oil price decline began (in June 2014) in the international oil market, the non-oil sector became the main growth driver of the Nigerian economy. The continuous decline in government revenue and shortage of foreign exchange to finance manufacturing businesses import requirements led to significant slowdown in economic growth and redundancies in many firms with the attendant job losses.

In response, the CBN deployed a vast range of policy interventions with the view to reducing foreign exchange demand and avoiding naira devaluation. The interventions included:

1) The harmonization of cash reserve ratio (CRR) on public and private deposits to 31 percent.
2) The outright ban on banks from accepting FX cash deposits from customers
3) Restriction on accessing FX from the official market for 41 items.

In spite of the measures put in place, the external reserves declined to USD$29.04 billion in December 2015 from a value of USD34.47 billion in the preceding year (15.75% decline). This outcome lent credence to the argument against CBN's continuous defense of the naira. Another factor in favour of naira devaluation was the wide gap that existed between the official rate of N197/dollar and the parallel market rate of N282/dollar in December 2015. Thus, it was generally believed that free market doctrine could be allowed to reign in order to resolve the FX shortage in the economy. The CBN had insisted on holding the official rate at N197/dollar since the naira was devalued from N168/dollar in February 2015. In sum, the CBN intervention in 2015 included:

1) Review of FX trading position for banks to 0.1% and back to 0.5% in January 2015
2) Introduction, in February 2015, of incremental averaging for the computation of CRR on a fortnightly basis.
3) CBN closed the RDAS window, conducted a special auction at the interbank forex market (at N197/dollar) resulting in a tacit devaluation of the naira in February 2015.
4) Introduced trading curbs around the naira.
5) In March, the implementation of the Treasury Single Account (TSA) commenced. It automated funds from Ministries, Departments and Agencies (MDAs) into a consolidated revenue fund (CRF).
6) In April, the CBN released a circular to address the rising trend of currency substitution and reiterated that the Naira currency remains the only legal tender in Nigeria. Also, the CBN reviewed the limit on the usage of naira-denominated cards for international transactions from USD$150,000 to USD$50,000 per person per annum.
7) CRR harmonization at 31 percent for both public and private sector deposits occurred in May.
8) In June, the CBN banned 41 items from all Nigerian FX markets. It also extended the deadline for BVN registration from June 30th to October 31st 2015.
9) In July, it instituted a limit of USD$300 international daily ATM withdrawals. Cash-less policy was rolled out in the remaining 30 states of the federation.
10) In August, CBN suspended acceptance of FX cash deposits by deposit money banks. It also prohibited foreign currency lending to customers without foreign currency receivables.
11) In September, the Monetary Policy Committee (MPC) reduced the CRR from 31 percent to 25 percent. Also, in September, the deadline for the TSA remittance was observed to have witnessed partial compliance by banks. As at September 2015, the banking industry Non-performing loan ratio was estimated at 4.6 percent of all loans and advances.
12) In October, the CBN permitted sale of FX for LCs approved before the exclusion circular of 41 items. Also, the CBN released a circular making BVN mandatory for all FX transactions. Further, there was inclusion of more items to the exclusion items labeled not valid for FX.
13) In November, the MPC reduced the MPR from 13 percent to 11 percent as well as a conditional decrease of CRR from 25 percent to 20 percent. Also, the CBN increased General Loan Loss Provision from 1 percent to 2 percent.
14) Mandating banks to brace up for the full implementation of Basel II which implies that only cash equities and fixed income securities would be eligible as qualifying mitigants.

## 4. THE MANDATE AND ORGANIZATION OF THE CBN

The primary mandate of the CBN, as spelt out in the CBN Act of 2007, is to maintain price and exchange rate stability. Consequently all policies and programs of the central bank of Nigeria are in pursuance of this core mandate as per the initial CBN Act of 1958. There was no revision of CBN's mandate until 1990 following the deregulation exercise brought on by the Structural Adjustment Program SAP. The evolution of the financial landscape in Nigeria highlighted the need to strengthen the capacity of the central bank. Lending credence to the changes in the Nigerian Banking Industry, Ademola et al (2013) posit that SAP led to a proliferation of financial Institutions observing that "….at the beginning of the SAP reforms in 1986, there were a total of 29 commercial banks and 12 merchant banks…. by 1994, there were a total of 66 commercial banks and 54 merchant banks." The emergence of many more banks was a wakeup call that the CBN was not 'adequately mandated' to handle all aspects of banking in Nigeria. Noting increased competition and the deliberate 'side-stepping' of prudent banking practice by banks, the regulatory authorities realized there was need for the CBN to adopt an enhanced regulatory framework (Ademola et al, 2013). This was the immediate cause for the enactment of the Banks and Other Financial Institutions Act (BOFIA) No. 24 and 25 of 1991 which among other things gave the CBN the power to vary or revoke a bank's license. With time, there would be even more amendments as evidenced by further revisions - 1993,1997,1998,1999 and 2007 made to the Act of the Central Bank of Nigeria. Through all these revisions, CBN's main policy thrust has revolved around its role as agent of monetary policy, maintenance of Nigeria's external reserves and provision of lender of last resort support for commercial banks needing urgent support in the face of insolvency (Olubisi, 2014). In addition, the CBN is expected to provide sound financial advice and generally serve as banker and financial adviser to both governments and banks. The list is by no means exhaustive of the current role of the CBN.

With the successive bouts of bank distress and poor-performance, the CBN has been blamed as being somewhat responsible albeit remotely for some of the triggers that destabilized the banking sector (Babalola, 2011). This explains why the CBN's mandate has been revised to improve in its capacity as apex banking institution. In line with the periodic mandate reviews, there have understandably been changes in its structure and operations with the most recent being in 2010.

Presently the central bank has a Board of Directors being the highest decision body. This board is naturally chaired by the governor and has the deputy governors as members as well as non- executive members who are appointed by the federal government of Nigeria. The flow of authority is from the Board to the Governor who in turn has the five deputy Governors of the bank reporting to him. Each deputy governor mans a directorate. In all, there are 28 departments under the five directorates. The structure of the Central Bank is not entirely unique as the structure is in line with international best practices.

## 5. THE MAIN FUNCTIONS OF THE CBN

The functions of the CBN can be categorized into three namely: Fundamental functions, regulatory role and developmental functions.

The *fundamental functions* include the issuance of currency notes; banker and financial adviser to the government; bankers' bank; monetary policy authority for achievement of price stability and safeguarding the international value of the local currency naira; lender of last resort function; and other related functions.

The *regulatory functions* include the control and supervision of the activities of deposit money banks and other non-bank financial institutions such as development banks, finance houses, discount houses and Bureaux *de* Change. These regulatory functions are typically carried out from the initial establishment through licensing to the monitoring of operations through issuance of prudential guidelines and a mix of both off- and on-site examination to monitor compliance to regulatory requirements.

The *development functions* include mobilizing resources for economic development, for instance, through the issuance of government bonds/development stock and treasury securities to finance Federal government development plans; management of national debt; appealing to and incentivizing commercial banks on preferred sectors for credit allocation; encouraging money and capital markets development through the issuance of treasury bills and development stock; custodianship of the external reserves; and related functions.

### 5.1 Performance Assessment of the CBN Vis-à-vis Its Mandate.

Here, a quantitative analysis is attempted to appraise the monetary policy performance of the CBN in the promotion of price stability with respect to three indices namely: inflation, exchange rate stability and interest rate viability. The principal objectives of monetary policy are price stability, maintenance of a controlled inflation rate, exchange rate viability, full employment, sustained increase in output or economic growth and balance of payments equilibrium or viability. These objectives can be summed as economic stabilization (growth, price stability and full employment) and external balance (sustainable BOP and exchange rates).

**Inflation**

The Consumer Price Index CPI is the tool of choice for measuring inflation. It measures changes in the price of representative items that average Nigerians spend their money thereby assessing the annual percentage change in the living cost of an average consumer. Generated data for inflation analysis are computed averages not for end of period but rather for end of year. The CPI is an important variable which the CBN must pay attention to in keeping to its core mandate of ensuring price stability.

Given the direct relationship between Money supply and Inflation, the principal strategy adopted by the CBN has been to deploy the Monetary Policy Rate MPR and Open Market Operation (OMO) more frequently than other tools. The former is used to control credit expansion while the latter is the tool of choice in mopping up excess liquidity.To boost investment, the CBN was largely expected to reduce the MPR thereby making it cheaper and more attractive for businesses to invest. The CBN has however chosen to maintain MPR at 14% throughout 2016 and 2017. And so while much of the developed world has maintained low(er) interest rates, the CBN has steadily increased the MPR over the years. Other monetary policy tools like the CRR and Liquidity ratios have remained in place and remained fairly constant at 22.5% and 30% respectively. A contractionary monetary policy is the most accurate description of the inflation control techniques of the CBN. The inflationary rates for the past 21 years are presented below:

**TABLE 5: Nigeria - Average consumer prices inflation rate**

| YEAR | INFLATION RATE (%) |
|---|---|
| 1996 | 29.3 |
| 1997 | 10.7 |
| 1998 | 7.9 |
| 1999 | 6.6 |
| 2000 | 6.9 |
| 2001 | 18.9 |
| 2002 | 12.9 |

| | |
|---|---|
| 2003 | 14.0 |
| 2004 | 15.0 |
| 2005 | 17.9 |
| 2006 | 8.2 |
| 2007 | 5.4 |
| 2008 | 11.6 |
| 2009 | 12.5 |
| 2010 | 13.7 |
| 2011 | 10.8 |
| 2012 | 12.2 |
| 2013 | 8.5 |
| 2014 | 8.0 |
| 2015 | 9.0 |
| 2016 | 15.7 |
| 2017 | 16.3 |

SOURCE: https://knoema.com/atlas/Nigeria/Inflation-rate

Available data shows that Nigeria's inflation rate has fluctuated over the years. Between 2013 and 2015, inflation rate remained consistently below 10%. CPI for 2016 and 2017 was rather high with rates in the mid teens. The barrage of monetary policy tools deployed to combat inflation are several and so the inability to maintain a somewhat steady inflation rate below 10% for upwards of 5-10 years is worrisome and suggests that there is in fact room for improvement.

There are some experts who argue and perhaps with good reason that the CBN's efforts in the monetary policy arena are counter productive and go so far to lay the blame for low or non existent economic growth squarely at the foot of the CBN(Boyo, 2017). A case in point is the handling of treasury bills. CBN's main strategy has been to use treasury bills and other instruments sold at the OMO to mop excess liquidity. Essentially what the CBN does in a bid to contain the volume of liquidity in the economy (being a known driver of headline inflation) is to "borrow and sterilize" funds the Deposit Money Banks would have deployed for their use and advantage. This action of keeping money supply in check is commendable. The problem lies however with the subsequent actions of the CBN who having withdrawn excess liquidity goes on to provide the same banks with liquidity through the standing lending facilities made available by the apex bank. The withdrawal via the sale of treasury bills denied DMBs much needed funds and this explains the constant liquidity drained position of banks. A cursory analysis clearly shows a persistent increase in bank requests for lending from the Standing Lending Facilities made available by the Central Bank (Boyo, 2017). For example, in the week starting December 11th 2017, DMBs borrowed N671bn. This seemingly high amount of borrowing was less than the 1.019tn borrowed by DMBs the previous week (starting 4th December). Experts believe the higher borrowing from the Central Bank is directly attributable to liquidity scarcity. Expectedly, banks (with bigger liquidity challenges) are seen to frequent the SLF window more than others. (Abioye, 2017).

In agreement that not all CBN policies are well received, Boyo (2017) points out:

> "….in 2016, for example, the federal budget was about N6tn, but the CBN, simultaneously also, embarked on borrowing about N6Tn in the same year, to remove perceived excess funds, primarily held by banks, to curtail liberal consumer demand and hold back inflation. Furthermore, despite the misguided hope of Nigerians, that the bigger N7.298Tn 2017 budget will improve economic welfare, the CBN, may have also, simultaneously borrowed over N7Tn before December 31st 2017, ostensibly to reduce excess money supply to restrain inflation. Consequently, If CBN's strategy for restraining the inflationary impact of systemic excess money supply, correlates with tradition, then the N8.6Tn proposed in the 2018 budget will, invariably also attract additional easy money to the banks, from the interest payments probably in excess of N700bn they will charge on Treasury bills that CBN would compulsively auction to reduce money supply and halt the threat of inflation spiraling out of control".

Boyo (2017) maintains that CBN's strategies are self harming, reckless, counterproductive and may instigate systemic excess money supply. Supporting Boyo's position, Salami (as cited by Abioye, 2017) questions CBN's rationale for acting the way it has. Salami observes the sharp increase in the lending to Government noting that "CBN's claims on the government had risen "20-fold" to N814bn from the end of 2016, while its purchases of government treasury bills increased by 30 per cent to N454bn." Salami cautions that the CBN is essentially providing the federal government with 'piggy-bank services'.

All this withdrawing via treasury bills and then support for banks through the SLF to enable them adjust their liquidity positions appropriately while simultaneously providing the federal Government's funding needs suggests that the CBN might need, going forward a re-strategized plan. Summarily, the CBN does have its work cut out for it. How does the CBN achieve price stability while fostering a conducive business environment? What is the best way to 'contain' inflation without harming the producing units in the economy?

**Interest rates**

It is impossible to discuss CBN's strategy for inflation control without the Monetary Policy Rate (MPR). This is because the MPR is the rate at which the CBN lends to banks- it is the rate at which the CBN rediscounts all first class bills and hence has the singular effect of affecting the determination of all other interest charges by banks and financial institutions. Simply put, it is the benchmark interest rate in Nigeria. An increase in the MPR will expectedly lead to an increase in interest charged by banks. Would-be borrowers are often deterred by higher interest rates. Conversely a decrease would automatically signal borrowers to take advantage of the decreased rates and thus encourage more people to borrow.

Now, informed rational savers keep an eye simultaneously on interest rates and Treasury bill rates. During periods of monetary policy tightening, the Central Bank seeks to reduce money in circulation and so in addition to a hike in interest rates; there is often an accompanying sale of treasury bills. The sale of treasury bills enables the CBN to 'withdraw' funds that would have increased money supply by effectively sterilizing and making it impossible for DMBs to utilize such funds as they would have preferred. So in periods of tightening, the CBN ensures that the Treasury bill rates are higher. Savers knowing that there is more to be gained from buying treasury bills would choose to buy them rather than earn the lower interest banks offer. On the other hand, when government seeks to expand money supply, the CBN (in its capacity as agent of monetary policy) would adjust the MPR to be lower than interest rates-the result is that more people are encouraged to keep their funds in banks. Of course we all know that going by the economic maxim that S savings =I investment, all saved funds are automatically invested as they become loans to business firms. Summarily, one can say that there exists a most interesting relationship between the interest rates, Treasury bill rates and the overall health of the economy. And who could be better placed than the CBN to measure the pulse of the economy and subsequently determine which policy tool might work best?

To this end, the CBN has continued to keep its eye on the ball. The table below presents the MPR and Treasury bill rates from 2006. Indeed the relationship between interest rates and Treasury Bill Rates is an interesting one. These rates are computed and presented monthly. For ease in presentation, we only provide the rates for January and July for the period 2006 to 2017. We believe that the relationship between these two variables can still be inferred.

**Table 6: Monetary policy Rates Vs Treasury Bill Rates (2006-2017)**

| PERIOD | MPR (%) | TBR(%) |
|---|---|---|
| 01-01-2006 | 13 | 13.68 |
| 01-07-2006 | 14 | 9.79 |
| 01-01-2007 | 10 | 7.10 |
| 01-07-2007 | 8 | 5.98 |
| 01-01-2008 | 9.50 | 8.58 |
| 01-07-2008 | 10.25 | 9.21 |
| 01-01-2009 | 9.75 | 3.88 |
| 01-07-2009 | 6 | 3.93 |
| 01-01-2010 | 6 | 3.72 |
| 01-07-2010 | 6 | 2.94 |
| 01-01-2011 | 6.5 | 7.49 |
| 01-07-2011 | 8.75 | 7.08 |
| 01-01-2012 | 12 | 14.85 |
| 01-07-2012 | 12 | 13.86 |
| 01-01-2013 | 12 | 11.17 |
| 01-07-2013 | 12 | 11.56 |
| 01-01-2014 | 12 | 10.81 |
| 01-07-2014 | 12 | 9.88 |
| 01-01-2015 | 13 | 11.2 |
| 01-07-2015 | 13 | 10 |
| 01-01-2016 | 11 | 4.12 |
| 01-07-2016 | 14 | 12.34 |
| 01-01-2017 | 14 | 13.95 |
| 01-07-2017 | 14 | 13.46 |

SOURCE: CENTRAL BANK OF NIGERIA (https://www.cbn.gov.ng/rates/mnymktind.asp)

From the table above, we see a gradual and consistent increase in interest rates starting from 2011. Treasury bill rates are not as consistent as interest rates in this same period. From the first quarter of 2009, interest rates drop. This period coincides with the global recession witnessed and it is understandable that the CBN keeps interest rates lower so as to boost the economy and encourage businesses to seek loans. The interest rates as well as the Treasury bill rates are at their respective lowest levels in the period under study here (2006-2017).

**Exchange Rate Stability**

In seeking to maintain price stability, the central bank has to preserve the relative value of the Naira while going further to ensure that the country maintains an external reserve position that is not 'in the red'. Unfortunately like every other market across the globe, the foreign exchange market is volatile and responds to the whims and caprices of supply-demand dynamics. And so there is need for the central bank to remain pro active if it is to remain in control when dealing with the market fundamentals unique to the foreign exchange market. It is of utmost importance that the country's internal balance as well as macroeconomic stability is not compromised by the nation's foreign exchange policy. Over the years, the CBN has adopted several mechanisms in its bid to achieve relative stability of the exchange rate. Initially a fixed exchange rate regime was used until it became apparent that fixity was not sustainable.

The CBN understanding that non availability of foreign exchange would naturally push prices higher thereby reducing the value of the naira has become quite responsive to the foreign exchange market showing a readiness to do all that is necessary to keep the naira stable. The CBN has continued to change its position to reflect the realities of the market. To this end, CBN's increased responsiveness has resulted in the following:

1. The removal of restrictions on foreign exchange purchases by widening the scope of transactions that can be funded by official foreign exchange
2. Before June 2018, the 2 major operators (commercial banks and Bureau de Changes (BDCs) had different prices. The commercial banks were able to buy at slightly lower prices. The BDCs kicked against this and insisted on a level playing ground if the naira was going to remain stable. The difference in price is believed to further fuel competition between banks and the BDCs as well as increased speculative tendencies among major dealers.
3. Banks are now mandated to make foreign exchange available over the counter to both customers and non customers

In summary, the demand for foreign exchange remains high and appears among other things to be driven by high demand for dollars during travel season, rising foreign exchange demand to fund retail end purchases, rising naira liquidity and the demand of foreign exchange to pay school fees. All these pose a serious challenge to foreign exchange stability. The current market structure of a floated exchange rate has indeed helped to ease the volatility of the market as the current price appears to be to a large extent the product of demand and supply and not the previous era where the price of foreign exchange was arbitrarily fixed by the CBN.

Indeed the principal objective of exchange rate management has always been to make the naira firmer against other currencies. Speculation, hoarding, illegal cash border transfers and rent seeking are some activities that undermine the efforts of the CBN. To counter these, the CBN must remain at the top of its game and remain highly sensitive to foreign exchange operations.

A major challenge expected as Nigeria heads in to the election season, is how politicians will influence the demand for foreign exchange having seen from the 2011 and 2015 general elections that the dollar appears to be the currency of choice. The CBN must therefore ensure exchange rate stability by not allowing the demand for foreign exchange outrun supply.

## 6. Conclusion

In this paper, we set out to provide an exploratory review of the development of central banking in Nigeria, the operations of the apex bank as well as projecting what the future may hold.

First, a review of the West African Currency Board system was done in order to appreciate the forces leading to transition to central banking in Nigeria. The WACB, branded as a money changer, had as its main function that of the abolition of awkward native exchange standards and replacing them with the more convenient British standards represented by the WACB's pound, shilling and pence. The West African pound currency note, which was the common currency for the British West African colonies exchanged at par with the British pound at the rate of 1:1 throughout the period 1912 to 1959 following the establishment of the CBN.

Second, despite the amendments to the Central Bank of Nigeria (CBN) Act over the decades of its existence, monetary policy has always met with challenges in different stages of economic development.

Third, in order to meet the objectives of price stability and sound and stable financial system, the CBN does not operate a single intervention tool but rather a combination of policy instruments including price-based, quantity-based and administrative policy measures.

Fourth, the CBN has been promoting financial reforms and playing a key role of regulation during various episodes which may further strengthen the financial system and contribute to economic growth and help balance growth in different economic sectors.

Going forward, the CBN must maintain its pro active stance.

## References

**[1]** Abioye, O. (2017), Banks borrow N671bn from CBN in five days, Retrieved online 19/12/2017 from https://punchng.com/banks-borrow-n671bn-from-cbn-in-five-days/

**[2]** Ademol a, O.G., Olusegun, J.O., & Olorunfemi, K. (2013), Bank Distress in Nigeria and the Nigeria Deposit Insurance Corporation Intervention, Global Journal of Management and Business Research, Finance, Volume 13, Issue 8, Online ISSN: 2249-4588 & Print ISSN: 0975-5853, retrieved online from https://globaljournals.org/GJMBR_Volume13/6-Bank-Distress-in-Nigeria.pdf

**[3]** Ajayi, S. I. & Ojo, O. O. (2006) Money and Banking: Analysis and Policy in the Nigerian Context, 2nd Edition, Ibadan: Daily Graphics Nigeria Ltd.

**[4]** Ajekigbe, J. M. (2009) The Nigerian Banking Industry: Changes, Challenges and Prospects (1977- 2008); First Valedictory Lecture of the Chartered Institute of Bankers of Nigeria (13th Jan 2009).

**[5]** Allen, F., Gu, X., & Qian, J.Q.J. (2017) People's Bank of China: History, Current Operations and Future Outlook, Available online on SSRN Library (October 10, 2017).

**[6]** Allen, F., Qian, J.Q.J. & Gu, X. (2015) China's Financial System: Growth and Risks, Foundations and Trends in Finance, 9(304): 197-319.

**[7]** Babalola Adeyemi (2011). Bank failure in Nigeria: a consequence of capital inadequacy, lack of transparency and non-performing loans?, Banks and Bank Systems, Volume 6, Issue 1, 2011

**[8]** BOFIA and CBN Acts, Laws of the Federation of Nigeria, 2004

**[9]** Boyo, H., (2017), Is Emefiele's promise of under 10% inflation rate credible?, Opinion Nigeria. Available online at http://www.opinionnigeria.com/is-emefieles-promise-of-under-10-inflation-rate -credible-by-henry-boyo/#sthash.KMZ9hWqX.dpbs, retrieved 12th February, 2018

**[10]** Brown, C. V. (1966) The Nigerian Banking System, London: Allen and Unwin.

**[11]** Emefiele, G. (2017) The Dilemma of Monetary Policy and Exchange Rate Management in a Recession: Potential Options for Nigeria, Lecture delivered at the second Homecoming Series of the Economics

Department of the University of Nigeria, Nsukka (UNN) on Saturday, July 22, 2017.

**[12]** Knoema (2018), World GDP Ranking 2017 | GDP by country | Data and Charts, retrieved online from https://knoema.com/nwnfkne/world-gdp-ranking-2017-gdp-by-country-data-and-charts#

**[13]** Loynes, J. B. (1974) A History of the West African Currency Board, London: The West African Currency Board.

**[14]** Mohammed, I. (1985) The Nigerian Enterprises Promotion Decrees (1972 and 1977) and Indigenization in Nigeria. PhD Thesis, University of Warwick

**[15]** Newlyn, W. T. & Rowan, D. C. (1954) Money and Banking in British Colonial Africa, Oxford

**[16]** Obasi, N. N. (2015) Foreign Direct Investment Policies and the Sectors of the Nigerian Economy, International Journal of Academic Research in Business and Social Sciences, 5(11): 94-109.

**[17]** Obienusi, I & Obienusi, E.A. (2015) Banking Reforms and the Nigerian Economy, 1990 –2007, Historical Research Letter, www.iiste.org, ISSN 2224-3178 (Paper) ISSN 2225 – 0964 (Online),Vol.21.Retrieved online from http://www.iiste.org/Journals/index.php/HRL/article/viewFile/23131/23636

**[18]** Ogowewo, T. I. & Uche, C. U. (2006) (Mis) Using Bank Share Capital as a Regulatory Tool to Force Bank Consolidations in Nigeria; Journal of African Law, 50 (2): 161-186.

**[19]** Ogwu, S.M., (2017) The efficacy or otherwise of new foreign exchange policy, available online at https://www.dailytrust.com.ng/news/business/the-efficacy-or-otherwise-of-new-foreign -exchange-policy/189957.html, retrieved on 15th June 2018

**[20]** Olakanpo, O. (1965) Central Banking in the Commonwealth, Calcutta

**[21]** Olubisi, F. O., (2014), The Central Bank Of Nigeria: A Critical Appraisal, Academia Arena, 2014;6(12):7-13]. (ISSN 1553-992X). Available online at http://www.sciencepub.net/academia

**[22]** Pakenham, T. The Scramble for Africa (Random House, 1991), pp. 197–199

**[23]** Paseda, Oluseun, Banking Regulation in Nigeria: A Review Article (October 2012). Available at SSRN: https://ssrn.com/abstract=2900252 or http://dx.doi.org/10.2139/ssrn.2900252

**[24]** Schenk, C. R. (1993) The Origins of a Central Bank in Malaya and the Transition to Independence, 1954 -59, The Journal of Imperial and Commonwealth History, 21:409-431.

**[25]** Teriba, O., Edozien, E. C. & Kayode, M. O. (1981) The Structure of Manufacturing Industry in Nigeria, Ibadan: Ibadan University Press.

**[26]** Uche, C. U. (1997a) Bank of England vs the IBRD: Did the Nigerian Colony Deserve a Central Bank? Explorations in Economic History, 34:220-241.

**[27]** Uche, C. U. (1997b) Does Nigeria Need an Independent Central Bank? African Review of Money Finance and Banking, 1/2 : 141-158.

**[28]** Uche, C.U. (2000) Banking Regulation in an Era of Structural Adjustment: The Case of Nigeria, Journal of Financial Regulation and Compliance, 8 (2): 157-169.

**[29]** Uche, C. U. (2009) Banks and the West African Currency Board, Money in Africa: 49-53.

**[30]** Uche, C. U. (2012) British Government, British Businesses and the Indigenization Exercise in Post -Independence Nigeria, Business History Review, 86(4): 745-771.

**[31]** Uzoaga, W. O. (1986) Legislating Bank Capital in Nigeria, in Oyejide, A. & Soyode, A. (eds.) Commercial Banking in Nigeria, Ibadan: University of Ibadan Publishing.