Zenith Economic Quarterly

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Global Financial Crisis: The Roles and Challenges of Corporate Governance

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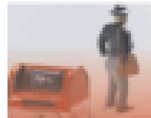
Economic Meltdown: One Year After, Some Flickers of Hope

Zenith Economic Quarterly

C O N T E N T S

EDITORIAL



FROM OUR MAILBOX
This contains some acknowledgement letters of the past editions of this journal sent in from across the globe. Pg.4

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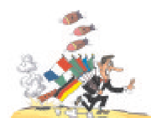

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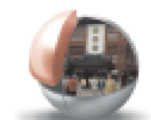

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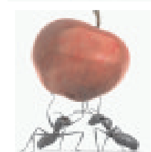

FOREIGN INSIGHTS (1)
The link between the roles of non-governmental organizations and associations and transparency and good governance in public and private establishments is explored and established. Pg. 60-67

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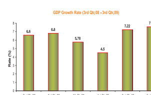

FACTS & FIGURES
This is a statistical and diagrammatically illustrated update on various economic indicators during the quarter under review. Pg. 76-80

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Some Silver Lining

It came like a volcanic eruption, with the lava and ashes spreading at a terrific speed, scorching all economies across the world in varying degrees. That was the global economic meltdown that erupted in the U.S. (officially) in September last year. It is now exactly a year down the road—carcasses of corporate casualties—financial and nonfinancial institutions, dot virtually every economic jurisdiction, especially in the industrialized economies. Since the onset of the rare phenomenon, nations (individually and collectively) have tinkered with a number of measures to contain, attenuate or fully reverse the biting effects of the untoward development.

In many climes, the crisis is yet lingering, apparently defying rescue measures; in some others, the journey downhill seems to have come only to a screechy halt. Yet, in a few others, light is already at the end of the tunnel. Call it some silver lining, some flickers of hope. On or about the first anniversary of this crisis, we took a panoramic view of the phenomenon under the title: "Global Financial Crisis: Flickers of Hope, One Year After". Here, the author concludes that "uncertainty has reduced while confidence has improved", warning, however, that "these gains must be locked-in with cautious optimism…to avoid inadvertently laying the foundation for another crisis in the euphoria of recovery".

> In many climes, the crisis is yet lingering, apparently defying rescue measures; in some others, the journey downhill seems to have come only to a screechy halt.

From yet another perspective, we explored and analyzed the pivotal place of corporate governance in the whole saga. In the discourse, the global financial crisis is situated in the context of the failings of corporate governance in many otherwise great and apparently successful institutions across the world. The principles and practice of corporate governance in diverse economic regions and jurisdictions are also put under scrutiny—in a search for their strengths and weaknesses. All these are encapsulated in the piece: "Global Financial Crisis: Roles and Challenges of Corporate Governance", where it is summed up that "while there is an urgent need to extend corporate governance standards and codes to cover risk management, shareholders must rise to the increasingly demanding role of moderating errant CEOs and boards".

The ever contentious issue of corporate social responsibility is also put in focus, under the title: "Nigerian Financial Institutions and Non-financial Reputation: Disconnection or Convergence". In this scholarly treatise, the authors raise posers regarding the relationship between financial institutions and non-financial reputation. One of them being: "should financial institutions be concerned with non-financial reputation when the business is financial?" And, as their findings indicate, the authors assert that "although non-financial performance and reputation is an area that has witnessed only limited regulation, modern corporations are targets of increasing external pressures on non-financial matters". The series on quality and internal control challenges in banks also continues in this edition with a focus on "the collective guilt"—showing the role of each stakeholder in the fraud phenomenon. The piece explores the overt and covert means through which internal and external 'interests' aid and abet fraud in banks.

In our section—Foreign Insights—the article on "Leading Through Good Governance" is an incisive treatise on commitment to transparency in corporate and public governance based on accurate and reliable information. In an organization, according to the author, "the more clearly understood the roles of staff and governance are, the easier it becomes to represent the best interests of the members, donors and supporters of the organization". Also in this section is piece on Nigeria—Korea relations, where the similarities and dissimilarities of the two giant-nations of their regions are x-rayed. With the skewed levels of economic development in favour of Korea, the author sums up that "it will be interesting to see increased Korean investments in infrastructure development, power generation, auto plants, computer engineering…etc, in Nigeria".

As always, your choice journal is complete with all the sections and details to keep you abreast of very crucial issues of the moment. Enjoy your reading!

Marcel Okeke

from our mailbox

I write with respect to your letter dated 30 October 2009, to His Excellency, Mr. President, regarding the above-mentioned subject matter. I am delighted to inform you that His Excellency, Mr. President, has taken due cognizance of the contents of the July 2009 Edition of the Zenith Economic Quarterly. Please accept assurances of my highest consideration and esteem.
David Edevbie
Principal Secretary to the President
State House, Abuja, Nigeria

I acknowledge with thanks your letter dated 30th October 2009 and the copy of the July 2009 edition of the Zenith Economic Quarterly (ZEQ). Do accept my appreciation of your kind consideration to avail me access to the copy of the publication. It is quite intellectual, informative and educative. While imploring you to keep up the good work please accept the assurances of my warmest regard always.
Engr. Segun Oni
Governor, Ekiti State

I am directed to acknowledge with thanks, receipt of your letter dated October 30, 2009 with attachment of the above mentioned matter. Accept the assurances and esteemed high regards of His Excellency, the Governor of Imo State.
Okey U. Anyanwu
Principal Secretary to the Governor
Office of the Governor, Imo State

This is to acknowledge, with deep appreciation, the receipt of a copy of the July, 2009 edition of the Zenith Economic Quarterly (ZEQ), forwarded to the FITC Library. We are convinced that this publication will assist in our strategic business policy decisions. It will also make a good addition to our library collection, and we look forward to subsequent editions. Thank you for the kind gesture.
Yours truly,
Sunday Adenipekun
Head, FITC Research

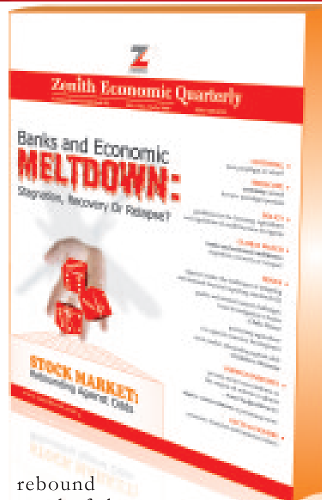
On behalf of the Vice Chancellor, University Librarian, Staff and Students of Babcock University, we hereby acknowledge with thanks your donation of a copy of the July 2009 edition of the Zenith Economic Quarterly (ZEQ). This journal will be processed and placed on the shelf for our students and staff use. Thank you for your kind gesture.
Yours faithfully,
Madukoma, Ezinwanyi (Mrs.)
Serials Librarian
Babcock University

On behalf of the Department of Accounting, College of Development Studies, Covenant University, Ota, I express our most profound appreciation for the continues supply of copies of the various editions of your most interesting quarterly economic journal, the Zenith Economic Quarterly. We wish to add thankfully that we are now in receipt of the July 2009 edition with its beautiful good of good features. The journal has been of immense value to both our students and staff and has supplied a lot of our research materials on contemporary economic issues in Nigeria and the world at large. More grease to your elbows!
E. P. Enyi. PhD, FIIA, FAAFM, MBA, ACA, MFP, RFS
Chartered Accountant & Software Engineer
Head, Department of Accounting
Covenant University, Ota, Nigeria

I am directed to acknowledge receipt of a copy of your Zenith Economic Quarterly (ZEQ) magazine and also to relay the appreciation of the Honourable Commissioner for Local Government & Chieftaincy Affair for the esteem accorded him. Please accept his high regards for your organization.
Agunloye Babatunde Faruk
For: Honourable Commissioner
Lagos State Ministry of Local Government and Chieftaincy Affairs

I am directed to acknowledge, with thanks receipt of the July 2009 edition of your publication, the ZEQ. The Embassy will surely find it useful. Please accept the assurances of the Ambassador's highest consideration.
C.O. Okon-Zacheus (Mrs)
For: Ambassador
Embassy of the Federal Republic of Nigeria
Amman, Jordan

We write to acknowledge receipt of a copy of the July, 2009 edition of the Zenith Economic Quarterly (ZEQ), which focuses on "banks and the global economic meltdown and efforts at recovery" with also an assessment of the travails and



rebound trend of the stock market which you kindly donated to the University Library. We do appreciate the interest shown in the development of our collections and wish to once again express our sincere thanks for the gesture.
Yours faithfully,
E. CABUTEY-ADODOADJI, (University Librarian)
Umaru Musa Yar'Adua University

I acknowledge with thanks, the receipt of your letter dated 30th April, 2009, of which you were kind enough to have forwarded a copy of your Zenith Economic Quarterly which centers on the challenges of adopting the International Financial Reporting Standard (IFRS) in Nigeria as well as an assessment of the stimulus packages in the efforts to contain the present global economic downturn. On behalf of the Director-General, I wish to communicate to you that the Chamber appreciates your kind gesture and hope for a continued fruitful working relationship with your organization.
Yours truly,
Dele F. Ogunjobi
For: Director-General
The Lagos Chamber of Commerce & Industry

I am directed to acknowledge receipt of a copy of the April edition of the Zenith Economic Quarterly (ZEQ) and to appreciate the effort of Zenith Bank Plc in addressing the critical economic issues in Nigeria through this. Please accept the assurance of the Honourable Minister's highest consideration.
Musa, B. O.
For: Honourable Minister of Finance
Federal Ministry of Finance

We wish to acknowledge with thanks, the receipt of a copy of the Zenith Economic Quarterly (ZEQ) for April, 2009 edition dated 30th April 2009 which was sent to us in the Embassy of Nigeria, Athens, Greece. We thank you for the invaluable service your bank is rendering to the Nigerian Economy through the incisive analysis of the economic climate in our dear country.
Regards.
Mrs. L. O. Alaribe
For: Ambassador
Embassy of Nigeria (Greece)

I am directed to acknowledge, with thanks, receipt of a copy of the April 2009 edition of your Zenith Economic Quarterly (ZEQ) and to inform that the Consulate appreciate the regular supply of the journal which is indeed enriching our Library. Please accept, Dear Editor, the Consul General's highest consideration and best wishes.
Joe U. Oyi
Vice Consul (Consular & Information)
For: Consul General
Consulate General of Nigeria (South Africa)

We wish to acknowledge, with thanks, the receipt of the above mentioned document, which we have read as usual with considerable interest. There is no doubt that it will help Nigerians especially those involved in business activities to achieve success, as well as help salvage the economy of this country. Let us, therefore, hope that the laudable measures set-up in the policy guideline will be followed in to-to. Please accept the assurance of our highest consideration and esteem.
Yours sincerely,
Ambassador (Chief) V.N Chibundu, IOM, FCIS, FNIM
Founder/Chairman, Hon. DG (IBC)
Nigeria-China Friendship Association

I am directed to acknowledge with thanks the receipt of your January and April Edition of Zenith Economic Quarterly and to inform that the information given therein was quite useful and has been found relevant to our local requirement.
Warm Regards
B.O. Yinka-Adewale
For: Ambassador
Embassy of the Federal Republic of Nigeria (Romania)

Economy: Some Brightening PROSPECTS

*** By Marcel Okeke**

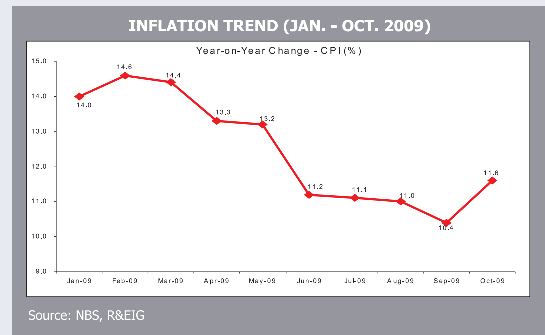
ike a number of developed economies and emerging markets, the Nigerian economy showed prospects of pulling out of the debilitating effects of the lingering global economic meltdown all through the third quarter 2009. Although the country had not been in full recession like most of the industrialized nations, it has been experiencing some of the direct and indirect impacts of the global economic meltdown. Thus, the recovery trend that set in during the third quarter was driven essentially by events in the domestic and external environment, including consistently high and rising crude oil prices (in the range of $60 to $75 per barrel), relative peace in the Niger Delta sequel to the Federal Government's amnesty initiative for militants, some mix of monetary and fiscal policies (including stimulus packages). There were also reforms in the banking sector (including special auditing of the banks by the Central Bank of Nigeria), the lingering volatility in the stock market and 'boom' in the bond market.

Specifically, because of the relatively high price of oil (at an average of $70/barrel) vis-à-vis the 2009 budget benchmark of $45/barrel, revenue inflow into the Federation Account remained high and somewhat stable during the quarter (July to September). This translated into some accretion to the 'excess crude account', the external reserves and improved Federation Account Allocations (FAA) to the various tiers of government. Thus, the total FAA (shared among the three tiers of government) which stood at N262 billion in January, rose to N299 billion in June, N310 billion in August, and closed the quarter at N317 billion. External reserves which stood at $52 billion at the beginning of the year, and was expected to drop significantly, closed the third quarter at $43.34 billion.

A key driver of this cheery trend was the declaration of amnesty for the Niger Delta militants by the Federal Government of Nigeria. The amnesty deal under which the militants surrendered their arms and ammunitions at designated centres in the oil-rich region lasted for 60 days—from August 6 to October 4, 2009.

Nigeria also experienced improved activity in cocoa export, following the leap in the price of the commodity—which hit a 24-year high during the quarter—according to the International Cocoa Organization (ICCO).

The modest recovery trend also showed in the consistent decline in the rate of inflation: from the 15.1 per cent (year-on-year) at end-December 2008 to 11.2 per cent in June 2009, and further down to 10.4 at end-September 2009. Although this is yet above the 8.2 per cent envisaged in the 2009 Appropriation Act, the third quarter trend was a clear tendency towards the single-digit budgetary target. Also, so much volatility that was expected in the foreign exchange market owing to the vagaries of the international oil market and the shocks of the global financial crisis did not fully materialize in the local market. Rather, although the local currency got weaker against key world currencies during the quarter under review, there was relative stability in the exchange rate. Specifically, while the naira exchange rate against the dollar at end-June 2009 was N147.70/$, it declined to N154/$ at the end of August, but closed the quarter stronger at N147$.



A major contributory factor to the flickers of hope of economic recovery during the quarter was consistent rise in the price of crude oil in the international market. While the OPEC reference basket price was $41.5 per barrel at end-December 2008, it rose sharply to $58.25 per barrel in June, hitting $71.30 per barrel in August before closing the third quarter at $68.1 per barrel. Crude oil production also recorded improvement as it rose from about 1.69 million barrels per day in July to 1.75 million bpd in August and further to 1.94 million bpd in September. A key driver of this cheery trend was the declaration of amnesty for the Niger Delta militants by the Federal Government of Nigeria. The amnesty deal under which the militants surrendered their arms and ammunition at designated centres in the oil-rich region lasted for 60 days—from August 6 to October 4, 2009. Some upshots of the 'successful' amnesty initiative have been relative peace in the region, improved crude oil exploration and production as well as resettlement and rehabilitation activities for the repentant militants.

Nigeria also experienced improved activity in cocoa export, following the leap in the price of the commodity—which hit a 24-year high during the quarter—according to the International Cocoa Organization (ICCO). The average monthly price of cocoa surged to about $2,956 per ton in August 2009, from $2,494 per ton in March this year. The price jump was driven by speculation that cocoa production will fall in Ivory Coast—the largest grower of the commodity. Despite this, a report by the World Cocoa Foundation shows that total global production is expected to increase by about 14 per cent to 3.985 million tons over the next four

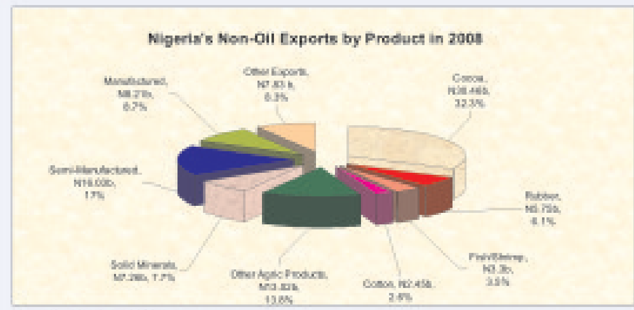
years. In Nigeria, cocoa production is projected to increase by about 10 per cent, from 220,000 tons in 2008-2009 growing season to 214,000 tons by 2012-2013.

These wholesome developments have translated into real growth for the economy, which in GDP terms stood at 7.58 per cent at the close of the quarter, according to National Bureau of Statistics (NBS) provisional estimates. NBS figures for first and second quarters were 4.5 per cent and 7.22 per cent respectively.

THE CAPITAL MARKET

The third quarter saw persistent volatility in the capital market, with all the indices trending downwards—accentuated by continued share price decline. Volume and value of traded stocks equally kept declining. However, on the primary segment of the market, a number of companies' shares were listed on the floor of the Nigerian Stock Exchange (NSE); most of them supplementary listing. The only three new listings were by way of introduction; they include African Alliance Insurance plc, E-Transact International plc and Portland Paints & Products Nigeria plc. Some of the companies that made supplementary listing were First Bank of Nigeria plc, Access Bank plc, Afribank plc, Oceanic Bank plc, Regency Alliance Insurance plc, Staco Insurance plc, etc.

On its part, Cadbury Nigeria plc embarked on a rights issue to raise about N22 billion, the proceeds of which is to be "used to pay off the company's indebtedness and improve its production capacity". Also during the quarter, H.F.P Engineering Limited made a private placement to raise some N2.45 billion to "finance the completion of its industrial works yard project and Fountain Spring Estate" as well as pay its debts and also support working capital.



Source: Central Bank of Nigeria

The NSE All-share Index (ASI) which stood at 2, 861.55 points at the opening of the quarter, came down to 22, 507.08 at end-September 2009. Similarly, market capitalization dropped from its level of N6.18 trillion during the first week of the quarter to N5.23 trillion in the last week of September. This trend was driven essentially by the slump in the share prices of banks, the sector which accounts for about sixty per cent of the NSE market capitalization. Reforms in the banking sector during the quarter under review were such that prompted massive share price adjustments for the quoted banks (see section on 'banking and finance'). Some equities also experienced price adjustments for dividends while others lost value following poor financial performance as contained in their audited annual reports.

The third quarter saw persistent volatility in the capital market, with all the indices trending downwards—accentuated by continued share price decline.

State governments and corporate organizations continued their move into the bond segment of the capital market, in search of long term debt fund. The move by a number of state governments is predicated on the urge to augment funds from the FAA and the meager internally generated revenue (IGR). Statistics show that Lagos, Kwara, Imo, Niger, Bayelsa, Ogun and Bauchi states are at various stages of perfecting arrangements for raising huge sums from the bond market. A few are already through.

A number of corporate organizations are equally approaching the bond market for funds, apparently due to the subsisting challenges of the equities market. The Debt Management Office (DMO) during the quarter under review continued to boost activities in the bond market as it did in the previous quarters. The agency issued bonds worth N180 billion altogether: sixty billion naira in each of the three months July to September. Of the total sum, N60 billion was for three-year tenor, N54 billion for five-years and N66 billion for 20-year tenor.

The apex capital market regulator—the Securities and Exchange Commission (SEC)—on its part, ordered all capital market operators to stop periodic registration. This is with a view to enhancing its monitoring capacity. It also scrapped the policy of 80 per cent underwriting

of public offers, owing essentially to the failure of many underwriters of such offers in the past to honour their financial obligations. SEC also commenced a new rule requiring all quoted companies to furnish it with their audited quarterly results as against the erstwhile practice whereby these companies send in unaudited reports between the first and third quarters of the year.

BANKING AND FINANCE

The avalanche of policies issued by the Central Bank of Nigeria in the third quarter 2009 shaped activity in the banking and finance sector during the period. Specifically, the apex bank conducted a special examination of the 24 deposit money banks (DMBs) in the industry and sequel to the outcome, relieved the executive management of eight of them of their jobs, and appointed new executive directors and chief executive officers for the affected banks. It also injected a total of N620 billion 'Tier Two' capital as a 'bail out' loan into those banks, citing "weaknesses in risk management, corporate governance and heavy liquidity constraint" as reasons for the action. In the aftermath of all these, the apex bank's leadership embarked on "town hall meetings' in London and a few other metropolitan centres across the globe, interacting with investors, correspondent bank representatives, analysts, brokers, etc. Further to this, the CBN also issued a full disclosure directive to the DMBs, a measure which implementation has engendered stronger financial reporting transparency –as evidenced in the huge write-offs by the banks as provisions for loan losses and doubtful debts. This has led to net loss position for many of the banks—as reported in their interim and/or audited annual financial statements.

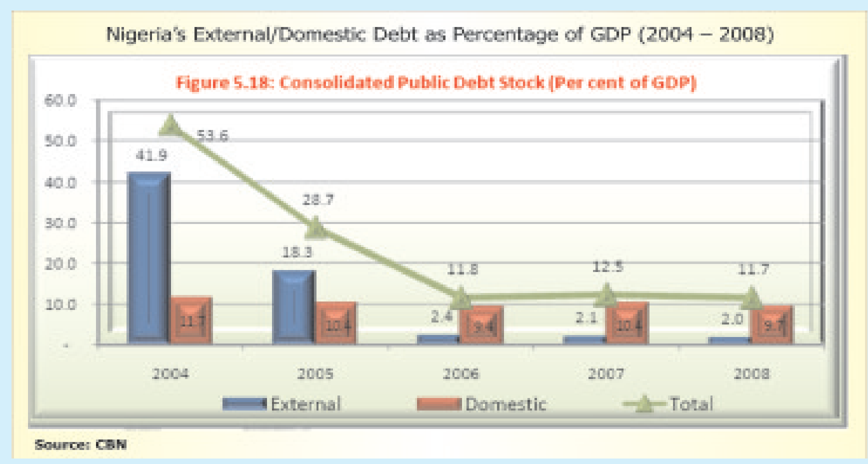
The apex bank has also put everything in place to enforce its December 31, 2009 common year-end policy as well as ensure that all banks get set for the full implementation of the International Financial Reporting Standard (IFRS) next year. It also approved in principle, the establishment of an Asset Purchase Fund (APF) to house hanks' 'toxic assets' as well as effect liquidity injection and credit easing. The CBN and the Federal Ministry of Finance have commenced the process of setting up of the AMC, first, by seeking the necessary legislative approvals/ legislation.

The CBN also during the quarter under review, and as part of its mandate to promote efficient payments system, introduced N50, N10 and N5 polymer currency. Old notes of these denominations shall cease to be legal tender in March 2010. The new polymer notes are part of the apex bank's currency reform to address the convenience, security, durability and cost-effectiveness of the naira; thus, making them more secure, increase their circulating life as well as prolong their durability, among others. The apex bank also extended to March, 2010, the deadline for the redeployment of Automated Teller Machines (ATMs) by banks, away from public places. It also commenced the process of achieving cross-border supervision of Nigerian banks with subsidiaries in the United Kingdom. In this regard, the CBN has sent a proposal to the Financial Services Authority (FSA).

The CBN also during the quarter under review, and as part of its mandate to promote efficient payments system, introduced N50, N10 and N5 polymer currency.

In the face of the heightened regulatory and supervisory activity in the banking industry, a number of DMBs have begun raising fresh funds through the issuance of bonds. And to encourage this new trend, the apex bank also initiated measures to remove the 10 per cent cap it earlier placed on banks' participation in sub-national and corporate bond offers. Available statistics show that Zenith Bank, First Bank of Nigeria, GT

Nigeria's External/Domestic Debt as Percentage of GDP (2004 – 2008)



Source: CBN

Bank, UBA and Diamond Bank among others, are at various stages in the process of raising huge sums through the bond market. Other blue chip companies like Oando plc and May & Baker plc are also in the process of utilizing the bond option in raising funds.

In addition to the moves to raise fresh funds, banks also engaged in other strategic initiatives to ensure their continued viability and growth. For instance, Zenith Bank opened a subsidiary in The Gambia, First City Monument Bank opened one in London while UBA commenced operations in such places as Gabon, Tanzania and Kenya.

GAS, OIL AND POWER

Surprisingly, the price of crude oil in the international market maintained the surge it experienced during the second quarter, driven, apparently, by a combination of improving economic signals along with crude stock-draws in the US. There were also the issues of US dollar depreciation, increasing equity prices and improving demand projections due to some economic recovery. At the local level, the implementation of an amnesty programme for the Niger Delta militants, under which the 'warring' youths surrendered their arms and ammunition, had started impacting positively on oil exploration and production activity.

The upshot of all these is that the Organization of Petroleum Exporting Countries (OPEC) production rose steadily all through the quarter under review: from 28.74 mb/d in July to 28.86 mb/d in August, and 28.90 mb/d in September. In the same vein, Nigeria's production which stood at 1.66 mb/d in July, rose to 1.70 mb/d in August, and closed the quarter at 1.84 mb/d. Although levels of crude oil production were still below the 2009 Federal Government of Nigeria's budget target (of 2.292 mb/d), quantum leap in oil price ensured improvement in revenue from the commodity. It is noteworthy that oil price which opened the year at about $38.2 per barrel (January 02, 2009), rose to $70 per barrel in June; it came to $66.60 per barrel at end-July before hitting $70.20 per barrel and $69.15 per barrel at the end of August and September respectively.

As with crude oil, gas production also started picking up with the successful implementation of the amnesty initiative of the Federal Government of Nigeria. In fact, the oil giant—Shell Petroleum Development Company of Nigeria—commenced re-entry into many of its oil/gas plants and facilities (Utorogu, Oben, Sapele, Ugheli, Otumara, etc.) in the Niger Delta. According to a local newspaper, Shell's African Executive, Ann Pickard, had said that the Soku gas plant, shut down after sabotage, was restarted on October 15. "We are trying to bring back as much capacity as we can as quickly as we can," Pickard said.

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On the amnesty deal to militants offered by the Federal Government, Picard said: "The amnesty has been well supported. So far, so good; not a single militant-related incident has occurred since the cease-fire". SPDC has also resumed oil production at its 115,000 bpd East Area (EA) oilfield, one of the fields shut in due to militant attacks. The field was shut down in 2006 following a series of attacks on the facility and abduction of oil workers. The field was reopened in July this year only to be shut in again in early-September. Like Shell, other oil/gas operators are fast resuming production in their various locations earlier on vacated on account of militant activity. The Federal Government has approved 200 billion naira (about $1.34 billion) in federal funding to build roads, hospitals and schools in the oil-producing Niger Delta. And according to the Minister of Information and Communication, "the projects will include the construction of bridges, roads, hospitals and

schools."

In the power sub-sector, the Nigerian Electricity Regulatory Commission (NERC) has released a tariff schedule for consumers of electricity. According to the schedule which took effect from July 2009, consumers are classified into four: residential, commercial, industrial and special, plus street lighting. Residential is further subdivided into five (R1, R2, R3, R4, R5), commercial into four, industrial into five and special into four. NERC has also issued a draft Regulation for License and Operating Fees, 2009, and another for Regulation on Application for Licenses 2009.

During the quarter under review, NERC also issued license to Notore Power Limited to generate 50 megawatts of electricity. This brought to 29, the number of private sector operators so far licensed in the power sector within the last three years. Notore Power Limited will operate with facilities of the defunct National Fertiliser Company of Nigeria (NAFCON), Onne, Rivers State, and would essentially supply power to Notore Chemical Industries Limited, formerly NAFCON and the national grid. The Federal and state governments during the quarter under review, commenced the consideration of scrapping of the national grid concept—and replacing it with 'independent grids'. By this policy, power generated in respective states will no longer compulsorily go through the distribution network. The new policy will also amount to the removal of power from the 'exclusive list'—managed only by the Federal government. It is also expected to encourage the execution of Independent Power Projects (IPPs) in the power sector.

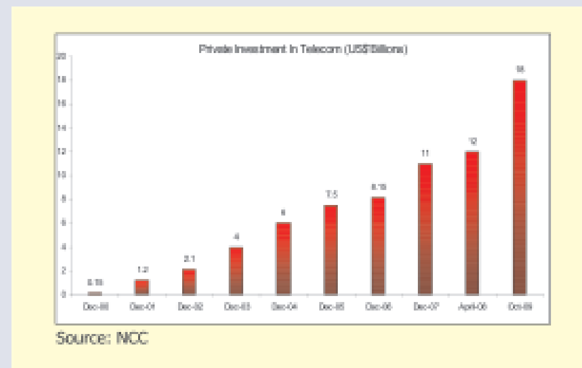
Africa's Top 10 Generator Importing Countries

	Units			
Country	**Up to 75 KVA**	**75 – 375 KVA**	**Above 375 KVA**	**Total**
Nigeria	29,527	15,393	4,381	49,301
South Africa	39,004	6,431	1,234	46,669
Angola	20,832	2,157	1,559	24,548
Algeria	3,177	2,052	1,679	6,908
Egypt	2,641	1,608	909	5,158
Sudan	4,555	1,199	523	6,277
Congo Rep.	7,966	568	95	8,629
Kenya	3,218	328	162	3,708
Madagascar	3,506	329	49	3,884
Ethiopia	6,110	380	464	6,954

Source: Africa Oil and Gas Report

TELECOMMUNICATIONS

Efforts by the Federal Government to sell the Nigerian Telecommunications Limited (NITEL) and its mobile subsidiary (Mtel) after their earlier sale to Transcorp plc was revoked last June remained a dominant issue in the telecoms sector during the third quarter 2009. Government had after the revocation, set up a technical committee to manage the affairs of the two establishments. This is even as the Bureau for Public Enterprises (BPE) continued with its efforts at arriving at the 'best' mode of sale for the two organizations.



Source: NCC

On the whole however, activities were upbeat in the sector, as new entrants and other operators embarked on fresh initiatives to expand their market share and improve quality of service. Thus, Sudatel, the Sudanese mobile operator during the quarter sealed its plan to invest about $500 million in the Nigerian telecoms industry over the next two years. Towards this end, its international investment arm, Expresso Telecom that acquired Nigeria's Intercellular is set to re-launch the CDMA operator. Sudatel had in 2007 sealed a deal under which it bought 70 per cent stake in Intercellular.

Another telecoms industry player, Mobitel, has also unveiled its plans to return to the market with the acquisition of a WiMAX license slot at N1.3 billion. It has also entered a contract for the rollout of new generation networks to offer services in a few states in the initial phase. On its part, Globacom, during the quarter, launched its multi-million dollar international submarine optic fiber cable. Named Glo-1, the facility runs from Bude in the United Kingdom to Lagos, through the West Coast of Africa. It is expected to expand market opportunities for broadband service providers as well as boost Nigeria's internet usage.

(* Marcel Okeke is the Editor Zenith Economic Quarterly)

DEBT MANAGEMENT OFFICE
NIGERIA

SUB-NATIONAL BORROWING GUIDELINES

2008 - 2012

INTRODUCTION [1]

During the 1990s, the Nigerian economy recorded low growth rates averaging less than 3 percent per annum, low domestic investment, high unemployment and wide balance of payments deficits. Nigeria was in a situation of debt overhang, i.e. its debt stock exceeded its future repayment capacity. This situation discouraged investment in the Nigerian economy and created difficulties in accessing funds from the international capital market, not only for the government but also by the private sector.

After about three decades of military rule, the civilian government which was elected in 1999 launched a home-grown development strategy, namely the National Economic Empowerment and Development Strategy (NEEDS). This was complemented by State (SEEDS) and Local Government (LEEDS) strategies. NEEDS aimed at value reorientation, poverty reduction, wealth creation and employment generation.

The economy responded positively to these policy reforms. The average annual real GDP growth rate was 6.5 percent between 2003 and 2007, reflecting the strong annual growth of the non-oil sector. The regime of fiscal prudence, tighter monetary policy and low deficit/GDP rates during this period resulted in single digit inflation.

Although the above achievements did not directly impact on the country's external debt sustainability, the reforms enabled Nigeria to resume dialogue with creditors on debt relief. Through high level diplomatic initiatives, the government garnered the support of the international community and was eventually able to get the Paris Club, Nigeria's leading creditor, to agree to a historic debt relief deal that allowed the country exit from all its Paris Club debt obligations between October 2004 and April 2005. This was followed by the exit from its London Club debt obligations in 2006.

In addition to the progress made on the external debt front, the government began the restructuring of the domestic debt portfolio, which was dominated by short term instruments, resulting in a portfolio with a substantial long-tenored component. Furthermore, it started working on recognising and settling contingent liabilities that emerged from unfunded pension arrears and local contractors' debts through the issuance of sovereign bonds.

Given the country's recent experience with an unsustainable public debt portfolio, it is important that measures are taken to prevent a relapse into debt unsustainability. This challenge is quite demanding because the Federal and State

[1] This Sub-national borrowing guideline was culled from the National Debt Management Framework. Details of the guidelines can be accessed at the DMO website: www.dmo.gov.ng

Governments need to mobilize substantial resources, in order to fund the growth and development of the economy.

In this context, it is necessary to have Sub-national borrowing guidelines in addition to the existing borrowing provisions, so that the States could be assisted to be prudent in their borrowing and debt management activities. The following guidelines complements the existing provisions as contained in the constitution of the Federal Republic of Nigeria, The Debt Management Office (Establishment) Act, 2003, Act no 18, The Local Loans (Registered Stock and Securities Act), The Treasury Bills Act, The Treasury Certificate Act, The Government Promissory Notes Act, CAP 164, Central Bank of Nigeria (CBN) Act 2007, and The Fiscal Responsibility Act 2007.

2.0 BORROWING GUIDELINES

2.1 Domestic Borrowing:

The following general provisions will apply to all categories of loans to be contracted by the Sub-nationals:

- Any borrowing by a Sub-national shall be the obligation solely of that particular Sub-national unless explicitly guaranteed by the sovereign;

- The obligations of the Sub-national in any contractual loan shall be as stipulated in any agreement in respect of the loan; All Sub-national borrowings shall be subject to public disclosure and periodic updates to any original disclosure and the disclosure of material facts shall be the affirmative duty and specifically assigned function of appointed officials, lenders and lenders' representatives, issuing houses, underwriters and other market participants;

- Sub-nationals shall device or put in place a collateral arrangement such as a sinking fund to hedge against potential default to protect investors; and,

- All Sub-nationals shall be subject to the rulings of a court of competent jurisdiction in the event of a violation or default in part or whole of the agreement governing any loan obligation of the sub-national.

2.2 Categories of Sub-National Debt:

The various categories of Sub-national domestic debt includes the following:

2.2.1 Domestic On-lending from the FGN: The Treasury Bills Act, the Treasury Certificates Act and the Local Loans (Registered Stock and Securities) Act, empower the Minister of Finance to raise money through the issuance of debt instruments and on-lend all or part to the States, subject to the satisfaction of conditions precedent as prescribed by the Minister of Finance.

The following guidelines apply to on-lending by the Federal Government of Nigeria (FGN):

- The FGN, either from its internal sources or by borrowing from the market (either domestic or external) can on-lend funds to the Sub-nationals.

- On-lending is a direct responsibility of the Federal Government and all the projects and programs financed under this modality will be properly monitored by the Federal Government, through the DMO, in collaboration with MoF, to avoid fiscal and other imbalances.

- DMO, in order to ensure an effective on-lending policy will establish measures for the thorough assessment of projects and programs for which funds are requested, to ensure the rejection of all those projects that are judged non-viable.

- DMO would undertake a project assessment prior to processing the on-lending loan request and at regular intervals, thereafter. The main purpose of such assessment is to evaluate the prospects of the borrower's ability (the Sub-national) to generate sufficient income to repay the loan. Should a project be considered critical for social development purposes, it shall be financed from concessional sources of funding and shall not need to be revenue generating.

- The following risks associated with the level and nature of on-lending must be evaluated by the DMO:
  - credit risk – the debtor may not have sufficient funds to meet its obligations.
  - legal risk - it may not be possible to enforce the right of recourse against the debtor.
  - market risk - changes in interest rates that will result in losses if loans have to be refinanced at higher rates in the future.
  - operational risk - due to inadequate internal control systems, human error, management failure or fraud.

- Research and information is needed regarding the extent, if any, of contingent liabilities of the States.

2.2.2 Guarantees by the FGN: The government would normally extend guarantees to financially promote projects that are deemed to be in the public interest. This serves as an economic incentive for the capital markets and other lenders to finance the projects. Loans guaranteed by the government constitute contingent liabilities and are, therefore, a potential source of credit risk, if those obligations enter into default by the final recipients of the loans.

In the Nigerian context, there are two important factors that guide the
management of guarantees at the Federal and Sub-national levels:

i. In the DMO Act, all external loans will either be contracted directly by the Federal Government or by Sub-Nationals through the Federal Government which must guarantee such loans. Therefore, the limit for guarantees is the total amount of foreign debt to be contracted, which is included in the budget approved by the National Assembly. Consequently, the legislation and Guidelines for External Borrowing are particularly relevant.

ii. All FGN guaranteed loans to public corporations (Parastatals, Agencies and Departments) would require them to issue Irrevocable Standing Payment Orders (ISPOs) tied to the allocations to their supervisory ministries, and in the case of Sub-national Governments to their Federal Account allocations. The ISPO will be for servicing both the principal amount and interest on the loans.

The following guidelines would therefore, apply to the FGN Guarantees:

- The Federal Ministry of Finance would be responsible for issuing guarantees on behalf of the FGN;
- DMO will from time to time establish limits on borrowings with official guarantee, i.e. establish limits or benchmarks for external indebtedness and guaranteed domestic loans;
- DMO will from time to time set portfolio limits, single obligor limits, sector limits, etc, for guarantees to Sub-national Governments and and public enterprises;
- DMO will compare costs and risks of issuing a guarantee vis-à-vis on-lending and advise on the preferred option;
- Guarantees would be treated as on-lending as they become instant credit upon crystallization;
- DMO would manage each guarantee from the time it is issued until it is extinguished and would advise and ensure that the beneficiary applies proper management, accounting and administration practices in managing the guarantee;
- A Sub-national requesting for guarantees will provide Approved Resolutions from its State House of Assembly and the State Executive Council;
- Beneficiaries will provide audited annual financial statements for the past five (5) years, financial forecasts for the tenor of the loan for which the guarantee is being sought and a feasibility study on the project to be funded with the loan for which the guarantee is being sought;
- Beneficiaries would provide relevant financial information on use of funds, disbursements, accounting, and degree of implementation of the project financed, and conduct regular consultations with DMO;
- The DMO will determine and charge a guarantee fee, as approved by the Board;
- The DMO would monitor the use of the loan to ensure that it serves the intended purpose and is repaid in accordance with the loan agreement; and,
- The DMO would ensure that the loan and guarantee documentation are clear and unambiguous.

Required agreements would have to be executed for government guarantees to be issued. They include:

- the loan agreement between lender and the borrower
- the guarantee agreement between the lender and the Federal Government; and,
- the agreement between the FGN and the borrower, which sets out conditions under which the guarantee is issued.

2.2.3 Borrowings from the Capital Market:

The Investments and Securities Act (ISA) 2007, No. 29 provides for borrowing by raising of internal loans through issuance of securities in the form of Registered Bonds or Promisory Notes by States, Local Governments and other Government Agencies.

Section 222 of ISA defines the bodies to which ISA provisions apply, to include:
- State Governments and the Federal Capital Territory, Abuja
- Local Governments
- Any company which is wholly or partly owned by a State or Local Government

The provisions of the Act include the following:

- The total amount of loans outstanding at any particular time including the proposed loan shall not exceed 50% of the

- Any internal loan to be raised from the Capital Market must conform to the requirements of ISA and as may from time to time be directed by the Securities and Exchange Commission (SEC);

- Before any application is made for contracting a loan from the Capital Market, such a body making the application must obtain the Approved Resolution of the State House of Assembly and the State Executive Council in the case of States and Local Governments; and,

- All applications to raise funds from the Capital Market shall, amongst other documents, be accompanied by an original copy of an irrevocable letter of Authority giving the Accountant General of the Federation the authority to deduct at source from the statutory allocation due to the body, in the event of default by the body in meetings its payment obligations under the terms of the loan and the relevant Trust Deed.

Other required documentations under the ISA include:

- Duly completed Form SEC 6;
- Copies of resolution of the State Legislative Assembly authorizing the issue;
- A resolution on and gazette by the State Executive Council containing particulars of the proposed Issue;
- Audited accounts of the State for the preceding five (5) years;
- Draft prospectus, abridged particulars of the prospectus and the Trust Deed;
- Vending Agreement, i.e. mandate/engagement letter, appointing the Issuing House/Underwriter to the Issue;
- Underwriting Agreement between the State and the Issuing House;
- Reporting Accountant's report on the audited financial statements and the financial forecast;
- Schedule of claims and litigations involving the State;
- Bridging loan agreement (if any);
- Material contracts of the State;
- Letters of consent of all the professional parties to the Issue;
- Letter of confirmation from the Accountant General of the Federation of receipt of the Irrevocable Letter of Authority to deduct the principal and interest from the statutory allocation of the State;
- Feasibility report on the proposed project to be financed with the loan;
- Brief profile of key personnel of the issuer including members of the Executive arm of the issuer, Accountant-General, Auditor-General, Permanent Secretaries etc.
- Any other document/information as may be required; and
- The particulars of each loan to be raised pursuant to this Act shall be published in the Gazette or any other official document by the body raising the loan and shall include all the terms of the security.

2.2.4 Borrowing from Commercial Banks:

As part of their domestic capital raising options, the Sub-nationals may borrow from commercial banks. Such borrowing should be in line with the following:

- Without prejudice to the provisions of the Nigerian Constitution "All banks and financial institutions requiring to lend money to the Federal, State and Local Governments or any of their agencies, shall obtain the prior approval of the Minister of Finance" in accordance with Section 24 of the DMO Act, 2003 and the Fiscal Responsibility Act, and shall state the purpose of borrowing and the tenor. The monthly debt service ratio of a sub-national, which includes the commercial bank loan being contemplated, should not exceed 40% of its monthly Federal Allocation of the preceding 12 months.

- All commercial banks lending to a sub-national must make a provision (currently 50%) on all such loans in line with the Prudential Guidelines of the CBN.

- Sub-nationals should immediately, upon contracting a commercial bank loan, furnish the DMO with details of the loan. The lending bank should furnish DMO and the borrowing Sub-national's DMD (where in existence), on a periodic basis with reports on a various stages of drawdown on the facility and utilization of same by the borrower.

Debt Management Office,
THE PRESIDENCY
NDIC Building (1st Floor)
Plot 447/448, Constitution Avenue, Central Business District,
P.M.B 532 Garki, Abuja – Nigeria. Tel: 234-9-6725629. Fax: 234-9-5237396
Email: corporateaffairs@dmo.gov.ng.
Website: www.dmo.gov.ng

Global Financial Crisis: Flickers of Hope, One Year After

*** By Sunday Enebeli-Uzor**

One year after the world got hit by an economic meltdown, there are still varied opinions as to whether the crisis has bottomed out or not. Although there is still no consensus concerning the origin of the crisis, there is a somewhat unanimity amongst economic analysts that the taking over of the mortgage giants—Fannie Mae and Freddie Mac—by the United States Treasury and the collapse of Lehman Brothers signaled the beginning of what has come to be the worst economic crisis since the Great Depression. While some analysts believe that the foundation of the crisis was laid in the 1970s when mortgage-backed securities were developed, others opine that its genesis dates back to the late 1980s when collaterised debt obligations were created. Yet, another school of thought believes that the development of derivatives and the use of mathematical models to simulate, measure and hedge risks in the 1990s laid its foundation. Be that as it may, after one year of tinkering with measures to stem further deterioration, it is pertinent to assess the performance of the global economy with a view to ascertaining if the

worst is over.

The crisis unarguably first became obvious in the United States, the world's largest economy, following the bursting of its housing market bubble and rise in incidences of foreclosures. It however spread swiftly in unexpected ways and its contagious effects wreaked widespread and unprecedented havoc on markets and institutions across the globe. In its wake, some of the largest and most vulnerable financial institutions (banks, investment houses, and insurance companies) have either declared bankruptcy or received lifelines from governments to stay in business. By the last quarter of 2008, credit flows across the world had virtually frozen and lender confidence dropped toward zero as some of the world's biggest financial institutions crashed like packs of poorly arranged cards. Across the globe, economies were racing headlong into recession or depression, exposing fundamental weaknesses in the global financial system.

As the crisis raged, national governments responded with concerted and coordinated monetary and fiscal policies, with unprecedented fiscal injection of trillions of dollars (fiscal stimulus packages) into the global economy. While most industrialised countries (except for Iceland) were able to finance their own rescue packages by sourcing funds domestically and from international capital markets, many emerging market and developing economies resorted to the International Monetary Fund (IMF), World Bank, or from capital surplus nations, such as Japan, and the European Union. Despite these measures however, the crisis reached monumental proportions.

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Industrialized economies no doubt were the major victims following losses from sub-prime mortgage debts resulting from excessive leveraging of investments, and inadequate capital backing and credit default. The contagion however spiraled to emerging market and developing economies thereby inducing panic divestment from these countries, even those hitherto perceived as risk free investment havens. These emerging markets and other economies that may be classified as "innocent bystanders" to the crisis became susceptible because they also have less resilient economic systems that could easily be hit by actions in the global arena as a result of globalisation. In the heat of the crisis, values of stocks and domestic currencies plunged to record low levels, exports and commodity prices also plummeted to compound the woes and further pushed economies worldwide either into recession or slowed economic growth.

Hope on the horizon

After a period of gloom and grim (the worst since the Second World War), the global economy has started some recovery and financial conditions across various regions have improved somewhat. Emerging market and developing economies are leading the way to the recovery as they have remained resilient. The cheering news from these climes is complimented by the return of the U.S economy to positive growth after contracting for four consecutive quarters since the third quarter of 2008. In the third quarter of 2009, the U.S economy grew by an impressive 3.5 percent, signaling an end to its deepest downturn since the Great Depression. The figures from the U.S Commerce Department indicate that the growth was bolstered by spending on durable manufactured products which soared at an annualised rate of 22.3 percent, the highest quarterly growth since 2001. Also, the housing market is improving with spending on housing products up 23.4 percent, its largest quarterly rise in 23 years while exports went up strongly, increasing 21.4 percent, the biggest rise since 1996.

Japan, the world's second-largest economy, has also emerged from its worst recession since the end of the Second World War, after recording its first quarter of growth for more than a year. Japan's recovery saw Gross Domestic Product (GDP) rise at an annualised rate of 3.7 percent from April to June, and by 0.9 percent from the previous three months. The country's exports rose 6.3 percent from three months earlier, the first increase since the start of 2008 and the biggest gain since the second quarter of 2002. The Asian region has also rebounded fast from the depth of the crisis after output in most countries shrunk more than even those of nations at the epicentre of the crisis. Beginning in February this year, the region began to revive as exports and industrial production returned to the growth path, and gathering momentum. The Asian bloc is expectedly leading as the global economy emerges from recession and China's performance has been resoundingly impressive, having grown at 7.1 percent in the first half of the year, and 7.7 percent in the third quarter.

Germany and France returned to positive growth in the second quarter of the year, pulling out of recession much earlier than many had expected.

Germany and France returned to positive growth in the second quarter of the year, pulling out of recession much earlier than many had expected. Both countries' GDP rose by 0.3 percent in the second quarter, fueling optimism about the outlook for the euro zone. Germany had suffered a calamitous 3.5 percent contraction in the first quarter of this year, capping four quarters of decline while the French economy shrank by 1.3 percent in the first quarter. Many analysts described the end of recession in the euro zone's two biggest economies as pleasantly surprising as it indicates that the worst of the damage wrought by the global financial crisis is now over.

Some banks in the U.S, where the crisis originated have returned to profitability nearly a year after receiving hundreds of billions of dollars from the government rescue plans. Eight of the biggest banks that received government lifelines have fully repaid their obligations totalling about $4billion, or the equivalent of about 15 percent annually. The return to profitability by these banks has spurred hopes that the worst days

are over for the banks at the epicentre of the crisis. The U.S government received profits of about $1.4billion on its investment in Goldman Sachs, $1.3billion on Morgan Stanley and $414million on American Express. Goldman Sachs posted third-quarter profits that are more than three times the earnings it made at the same time last year, earning an impressive $3.03billion in the July-September period. Morgan Stanley reported a profit of $757million in the third quarter, the first time it reported profit in a year. The five other banks that fulfilled their obligation to the government — Northern Trust, Bank of New York Mellon, State Street, U.S. Bancorp and BB&T — each raked in between $100million and $334million. The government has also earned about $35million from its investment in 14 other smaller banks that have paid back their loans. The U.S government invested heavily in these and other financial institutions at the peak of the crisis in 2008 as part of its stimulus packages to restore sinking confidence and return the banks to profitability.

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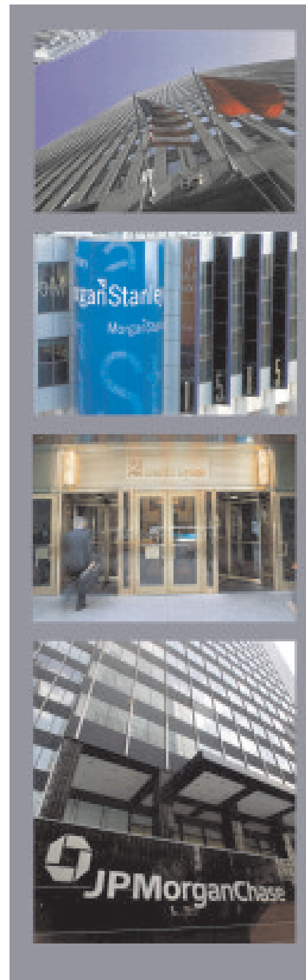
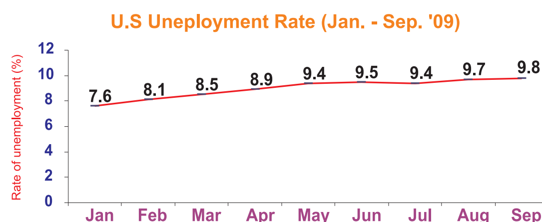
By August 2008, financial institutions across the globe had written down their holdings of sub-prime related securities by over $501billion with not less than 100 mortgage firms either closed, suspending operations or were sold. Northern Rock, a UK mortgage-lending bank was nationalised after receiving UK taxpayers' £87 billion. Bradford & Bingley was also nationalised after the UK government assumed control of the bank's £50billion mortgage and loan portfolio. U.S Bears Stearns was acquired by J. P. Morgan Chase for $1.2billion, while Merrill Lynch was acquired by Bank of America for $50billion. U.S Mortgage institutions — Freddie Mac and Fannie Mae were nationalised while Lehman Brothers collapsed. In Scotland, Scottish banking group, HBOS was acquired by its UK rival, Lloyds TSB, after a major decline in HBOS' share price arising from fears about its exposure to British and American mortgage institutions.



The crisis did not spare commodity prices as they plunged due to weak demand. For instance, crude oil price crashed from an all time high of $147 per barrel in July 2008 to less than $40 per barrel in December 2008. Capital markets across the globe plummeted as investors lost confidence in bourses. For instance, the Dow Jones Average fell 777 in a day, the largest one-day point drop in history, sending out aftershocks and

reverberating across the globe. London's FTSE 100 index, Tokyo's Nikkei 225 index, Hong Kong's Hang Seng index all dipped as investments continued to be eroded. Rate of unemployment soared across the world as many small businesses closed and larger corporations trimmed their workforce to cut cost and remain afloat. Unemployment rate has remained high across the globe as employers have continued to trim jobs from payrolls with that of the U.S reaching 9.8 percent in September 2009. Since December 2007, the number of unemployed persons in the U.S has increased by 7.6 million to 15.1 million, according to the U.S Labour Department. Household wealth declined by about $14trillion at the trough of the crisis, an amount nearly equal to the country's GDP. In the UK, unemployment rate reached 7.9 percent in August 2009 while Spain's hit 17.9 percent in the third quarter, the highest in the European Union.



Source: U.S Bureau of Labour Statistics

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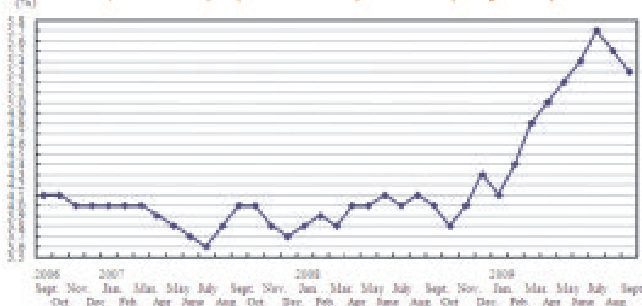
At the onset of the financial crisis, it was believed that the impact of the crisis on Africa would be minimal due to the low integration of the region into the global economy. Also, African countries were thought to be somewhat immune as a result of their relative small inter-bank markets and lack of sophisticated financial sector which should shield them from the direct effects of the global financial crisis. However, there has been a negative contagious effect of the crisis on the continent but the region appears to be weathering the storm resiliently. So far, bank failures have been rare in the region, due largely to the fact that African banks do not have any significant exposure to the sub-prime mortgage market and asset-backed securities. African countries have surprisingly been able to withstand the 'pass through' effects of the crisis on the region. There is also no evidence yet to suggest that official development assistance (ODA) for the financing of government programmes in some of the region's countries will reduce.

Commodity prices especially crude oil which declined from the second half of 2008 has risen significantly from its 2008 year-end low level, bolstering revenue for oil-exporting countries and fueling optimism on the region's outlook.



Source: Japan Statistics Bureau

A crossing in Ginza (Tokyo), on a sunday afternoon.

The plethora of measures adopted by governments across the globe, ranging from fiscal injection or quantitative easing to monetary policy regulation, indicates that no single strategy is in itself sufficient to manage a crisis of this proportion.

Jumpstarting the global economy with stimulus packages

The plethora of measures adopted by governments across the globe, ranging from fiscal injection or quantitative easing to monetary policy regulation, indicates that no single strategy is in itself sufficient to manage a crisis of this proportion. Rather, a mix of measures to suit country-specific conditions is the sure way to navigate the storm. The 'Economic Stimulus Act of 2008', an Act of the U.S Congress enacted in February 2008 and initiated by President George W. Bush, was the first government response to the financial crisis. The Act provided for several kinds of economic stimuli to boost the U.S economy and possibly avert a recession, or ameliorate economic conditions. It essentially offered tax rebates created and backed by law to be paid to individual U.S. taxpayers in 2008 in a bid to boost consumer spending. This was followed by the 'Emergency Economic Stabilization Act of 2008' enacted in October 2008, authorising the United States Secretary of the Treasury to spend up to $700billion to purchase distressed assets, especially mortgage-backed securities, and make capital injections into banks. This measure saved a number of U.S financial institutions from imminent collapse.

The 'Troubled Asset Relief Program' (TARP) was also packaged in the U.S in an effort to strengthen the financial sector. It is the single largest component of the government's measures in 2008 to address and mitigate the effects of the sub-prime mortgage crisis that later metamorphosed into a global financial crisis. TARP allows the Treasury to purchase illiquid, difficult-to-value assets from banks and other financial institutions in a bid to improve the liquidity of these assets by purchasing them using secondary market mechanisms, thus allowing participating institutions to stabilise their balance sheets and avoid further losses. In January 2009, the U.S congress passed yet another $819bil-

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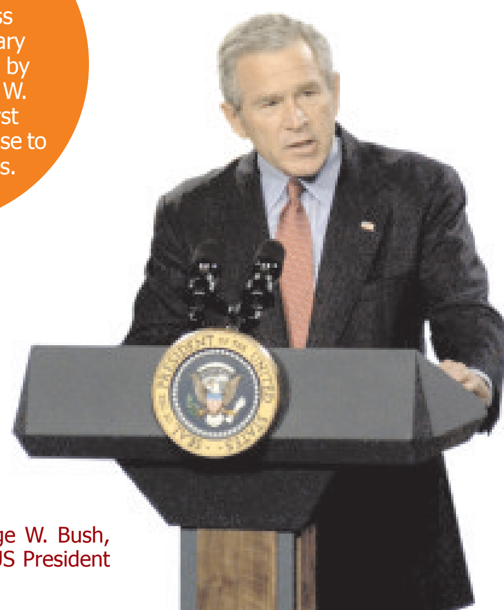


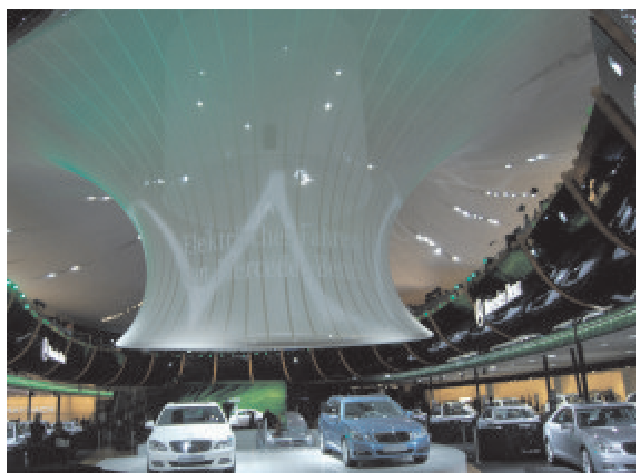
George W. Bush, former US President

lion economic stimulus package proposed by President Barack Obama to help create a favourable climate for American businesses to thrive. The package provided for tax cut for people and businesses by $275billion, while pumping more than $540billion into a range of initiatives including road and bridge repairs, increased unemployment benefits, investment in new technology and renovations to 10,000 schools.

In other climes, several stimulus packages were initiated to save economies from gravitating towards the precipice. For instance, in November 2008, the UK announced a £20billion fiscal stimulus package or 1 percent of GDP to help businesses and the economy weather the worst recession which the country has seen for decades. The package involved motley of tax-breaks, handouts, and a freeze on previously announced tax increases, amongst others, in a bid to spur consumer spending and save businesses from going under. In Germany, a stimulus package of €50billion was announced in January 2009 to tackle the country's deepest economic crisis since the Second World War. The package involved a new borrowing level of €36.8bbillion, more than twice the amount planned for 2009. The package which was equivalent to 1.6 percent of GDP is the biggest of its kind in Germany (Europe's largest economy). It included €17.3billion of investment in the country's infrastructure, as well as tax cuts, a one-off €100 child bonus, and an increase in some social benefits. There was also a package to boost the nation's auto industry by offering people the opportunity to trade in cars more than nine years old and to receive a €2,500 bonus towards a new or slightly used car. The German auto industry was severely hit as exports, especially to the U.S nosedived, culminating in a record slump in German manufacturing orders as industrial index declined.

In January 2009, the U.S congress passed yet another $819billion economic stimulus package proposed by President Barack Obama to help create a favourable climate for American businesses to thrive.

In February this year, France (euro zone's second largest economy) initiated a series of measures worth €26billion designed to revitalise the French economy. The package included €11billion to help businesses boost their cash flows, while a further €11billion was provided for direct state investment and the remaining €4billion was for the improvement of rail infrastructure, postal service and energy services. In November 2008, the European Union took steps to mitigate the effects of the crisis with a coordinated €200billion (1.5 percent of the EU's GDP) stimulus package in measures to enhance purchasing power and drive growth. A major chunk of the money - €170billion – was to come from national budgets while the remaining €30billion was expected from the budgets of the EU and the European Investment Bank. The thrust of the plan is to protect workers, households and entrepreneurs as the impact of the financial crisis bites harder. The plan proposed more support for vulnerable groups, including investment to boost job skills and help people stay in jobs or find new ones. Several European countries (France, Italy, Austria, Netherlands, Portugal, Spain, and Norway) announced rescue plans for their countries totalling as



The "International Motor Show" or "Internationale Automobil Ausstellung" (IAA) is the world's largest motor show and is held biennially in Frankfurt, Germany.

much as $2.7trillion. The plans were largely similar to the U.K. model that included concerted action, recapitalisation, state ownership, government debt guarantees, and improved regulations.

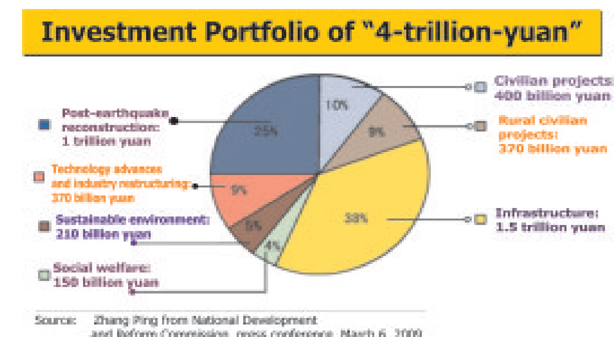
Japan, the world's second-largest economy, announced its biggest-ever economic stimulus package in the region of ¥15.4trillion in April this year, to help pull it out of a deflationary spiral brought on by the crisis. The package, Japan's fourth stimulus package in about eight months, outlined an ambitious economic strategy to avoid a return to the "lost decade" of the 1990s when it got stuck in a deflationary spiral from which it only recently emerged. The stimulus package included emergency steps to create jobs and help corporate finance, and strategies to reinforce Japan's competitiveness. It also included reduction in taxes on gifts of financial assets to encourage seniors to give some of their savings to their children and grandchildren for the purchase of big-ticket items such as homes. In November last year, China announced a Four trillion Yuan stimulus package to upgrade its infrastructure particularly roads, railways, airports and the power grid. The package also sought to raise rural incomes via land reform and social welfare. In addition, China adopted a paradigm shift to a moderately easy monetary policy and lifted limits on commercial banks' lending.

African countries also took several steps to mitigate the impact of the crisis on their economies depending on availability of fiscal space as well as the level of vulnerability and actual exposure to the crisis. Oil-exporting countries with more fiscal space to conduct counter-cyclical policies due to their huge foreign reserves amassed during the recent oil boom embarked on fiscal injections to spur their economies. On the other hand, non-oil exporting economies did not have the ability for huge fiscal injections but nevertheless took steps like interest rates cut to contain the crisis. In Egypt, a fiscal stimulus package of 15 billion Egyptian Pounds was instituted while Nigeria initiated a $2billion stimulus package in addition to monetary policy initiatives. Gabon, Morocco, Namibia, Sao Tome and Principe, South Africa and Tunisia also adopted fiscal stimulus measures mostly consisting of plans to develop their infrastructure. The South African stimulus package entails a $69.4million three-year public investment programme; expansion of public sector employment opportunities; increase in social spending; and assistance to the private sector. Morocco's stimulus package includes measures to improve access to credit, tax incentives, and vocational training for workers. Cape Verde's package projects a 17 percent rise in public spending to provide fiscal stimulus to the economy in the 2009 budget.

Despite the avalanche of rescue measures by governments all over the world to safeguard their economies, one after another, major economies

Source: National Bureau of Statistic of China

China announced a Four trillion Yuan stimulus package to upgrade its infrastructure particularly roads, railways, airports and the power grid.



Source: Zhang Ping from National Development and Reform Commission, press conference, March 6, 2009

Some Major Rescue Packages Across The Globe

Country	Date	Value	Policy Thrust
United States	February 2008	Economic Stimulus Act of 2008	The Act provided for several kinds of economic stimuli to boost the U.S economy and possibly avert a recession, or ameliorate economic conditions. It essentially offered tax rebates created and backed by law to be paid to individual U.S. taxpayers in 2008 in a bid to boost consumer spending.
United States	October 2008	Emergency Economic Stabilization Act of 2008	The Act authored the United States Secretary of the Treasury to spend up to $700billion to purchase distressed assets, especially mortgage-backed securities, and make capital injections into banks.
United States	2008	The Troubled Asset Relief Program (TARP)	The program allows the United States Treasury to purchase illiquid, difficult-to-value assets from banks and other financial institutions in a bid to improve the liquidity of these assets by purchasing them using secondary market mechanisms, thus allowing participating institutions to stabilise their balance sheets and avoid further losses.
United States	January 2009	$819billion economic stimulus package	The package provided for tax cut for people and businesses by $275billion, while pumping more than $540billion into a range of initiatives including road and bridge repair, increased unemployment benefits, investment in new technology and renovations to 10,000 schools.
United Kingdom	November 2008	20 bn pounds fiscal stimulus package	The package involves motley of tax-breaks, handouts, and a freeze on previously announced tax increases, amongst others, in a bid to spur consumer spending and save businesses from going under.
Germany	January 2009	€50billion stimulus package	The package involved a new borrowing level of €36.8bbillion. It included €17.3billion of investment in the country's infrastructure, as well as tax cuts, a one-off €100 child bonus, and an increase in some social benefits. There was also a package to boost the nation's auto industry by offering people the opportunity to trade in cars more than nine years old and to receive a €2,500 bonus towards a new or slightly used car.
France	February 2009	26billion stimulus package	The package included €11billion to help businesses boost their cash flows, while a further €11billion was provided for direct state investment and the remaining €4billion was for the improvement of rail infrastructure, postal service and energy services.
European Union	November 2008	(€200billion) stimulus package	The thrust of the plan is to protect workers, households and entrepreneurs as the impact of the financial crisis bites. The plan proposed more support for vulnerable groups, including investment to boost job skills and help people stay in jobs or find new ones.
Japan	April 2009	¥15.4 trillion economic stimulus package	The stimulus package included emergency steps to generate jobs and help corporate finance, and strategies to reinforce Japan s competitiveness. It also included reduction in taxes on gifts of financial assets to encourage seniors to give some of their savings to their children and grandchildren for the purchase of big-ticket items such as homes.
China	November 2008	Four trillion Yuan stimulus package	The package includes measures to upgrade its infrastructure particularly roads, railways, airports and the power grid. The package also sought to raise rural incomes via land reform and social welfare.

Sources: Several Sources, R & EIG

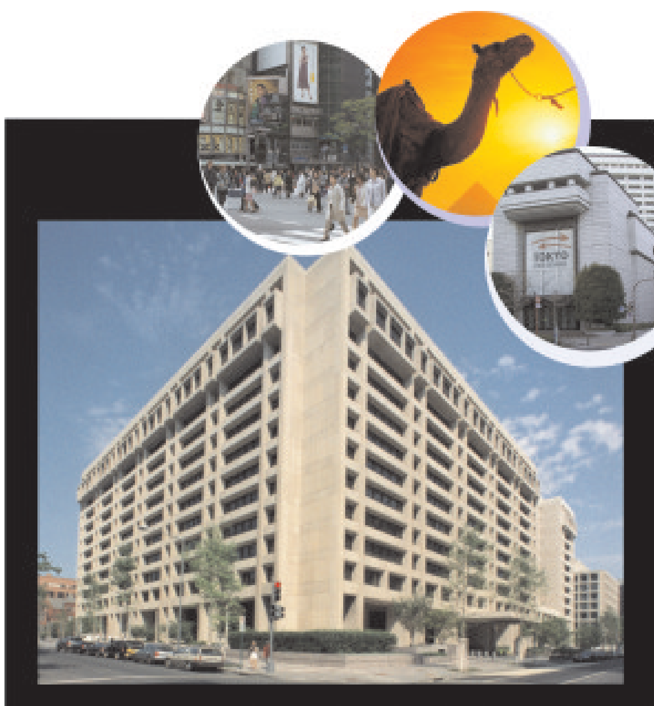
The International Monetary Fund projects economic activity to shrink by about 1 percent this year and expand by about 3 percent in 2010. However, downside risks still exist as labour markets have continued to deteriorate with widespread layoffs in many climes.

of the world slipped into recession. The U.S economy was officially declared to have slipped into recession in December 2008 having contracted in the last two quarters. The UK economy shrank at its fastest pace in nearly three decades at the end of 2008, sending the economy into recession for the first time since 1991 as the financial crisis hit harder than expected. The economy entered recession in the fourth quarter of 2008 having contracted by 1.5 percent in the fourth quarter, and 0.6 percent in the third.

Germany entered recession in the third quarter of 2008 after its economy contracted by 0.5 percent. It was the second consecutive quarters that the economy shrunk after a 0.4 percent contraction in the second quarter. The last time Germany experienced recession was in the first half of 2003. The 15 countries that share the single European currency entered recession for the first time in the 10-year history of the eurozone having contracted by 0.2 percent in the third quarter of 2008, the second successive quarter of negative growth.

Going Forward: Cautious Optimism

Available evidence from various regions of the world suggests that the worst days are over as the global economy has started to grow again and financial conditions are improving. Over the last six months, the Dow Jones Industrial Average has risen about 45 percent, indicating that financial market sentiment and risk appetite in the world's largest economy have rebounded. The run up in share prices shows that investors are optimistic that good times are here again. Banks across the globe have raised additional capital and wholesale funding markets have reopened while emerging market risks have eased as consumer spending is also increasing across the globe. Some of the worst hit banks which hitherto recorded monumental losses have returned to some levels of profitability. Commodity prices especially crude oil have remained resilient as economic recovery is heightening the hedging appeal of commodities.



IMF Headquarters, Washington DC

The International Monetary Fund projects economic activity to shrink by about 1 percent this year and expand by about 3 percent in 2010. However, downside risks still exist as labour markets have continued to deteriorate with widespread layoffs in many climes. Although the pace of job losses has eased, unemployment rates are still high. In the U.S, unemployment rate still stood at a 26-year high of 9.8 percent in September. It has however eased to 5.3 percent by end-September in Japan after hitting a 6-year high of 5.7 percent in July. The high rate of unemployment calls for efforts by governments to rev up economic activities and ease the strain on businesses in order to generate employment and get people back to jobs.

The plethora of measures implemented by governments in developed, emerging markets and other economies have so far triggered a rebound and allayed panic about systemic financial collapse. Uncertainty has reduced while confidence has improved as banks are now lending, even if minimally. However, these gains must be locked-in with cautious optimism. It is also pertinent to avoid inadvertently laying the foundation for another crisis in the euphoria of recovery. It is also the appropriate time to reform the financial systems and rethink the global financial architecture to address the fundamental and deep-seated weaknesses that this crisis has exposed.

(Sunday Enebeli-Uzor is an Analyst, Zenith Economic Quarterly)*

Global Financial Crisis: ROLES AND CHALLENGES OF CORPORATE GOVERNANCE

*** By Emeka Nwadioke**

The quest for good corporate governance has become the dominant theme in global economic discourse. The reason is simple: much of the adverse consequences wrought by the global financial crisis are direct fallouts of sloppy corporate governance regimes. Four variables have been identified as "most immediately linked" to the financial crisis (OECD 2009), namely weaknesses in remuneration systems, perfunctory risk management regimes, questionable board practices, and the exercise of shareholder rights. This expository analysis attempts to define and contextualize corporate governance, espouse its legal and regulatory frameworks chiefly in Nigeria, the United Kingdom and United States, and x-ray the nexus between corporate governance and the global financial crisis. It also attempts to analyze the prospects for resolving the crisis of corporate governance.

Shifting Paradigms in Corporate Governance

Corporate governance is widely viewed as a nebulous concept. The Sir Adrian Cadbury Report on the Financial Aspects of Corporate Governance (1992) defined corporate governance as "The system by which companies are directed and controlled". Richard Smerdon (2007) asserts that the use of "system" to define corporate governance is "striking," arguing that it emphasizes that much of the activity of corporate governance is about "structure" (make-up of boards, numbers of and

Many of the failed companies have not benefited from qualified board oversight and robust risk management, while the remuneration of boards and senior management remains a thorny issue.

types of non-executive directors, board committees etc.) and "process" (provision of information, internal control, financial reporting, terms of service agreement) as distinct from "values" or other behavioural matters or societal/economic obligations of companies. Alastair Ross Goobey (2003) however asserts that corporate governance "is only about reducing the cost of capital: if we can't establish that beyond peradventure then we are wasting our time. This is not a moral crusade." The principal stakeholders in corporate governance practice are the shareholders (or "members" in not-for-profit organizations), management, and the board of directors. Others include labour (employees), customers, creditors (e.g., banks, bond holders), suppliers, regulators, and the community at large.

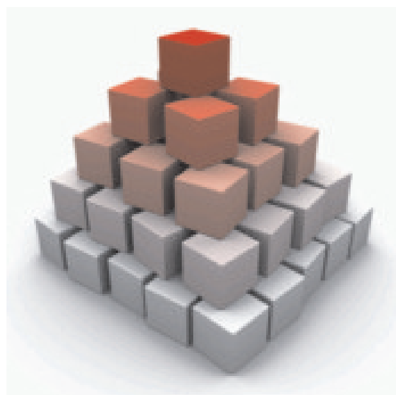
The Legal, Regulatory and External Frameworks for Corporate Governance

Following damages wrought by financial scams in various jurisdictions at different times, several governments, regulators and stakeholders have devised sundry stratagems ranging from laws to voluntary codes and standards to contain the debacle. For example, in 2002 the United States passed the Sarbanes-Oxley Act, viewed as "the most comprehensive restructuring of the regulatory system governing the US capital markets since the enactment of the Exchange Act in 1934" Smerdon (2007). In the United Kingdom, the Financial Reporting Council (FRC) and the Financial Services Authority (FSA) play key roles in promoting corporate governance. The same is true of the statutes – chiefly the UK Companies Act 2006 – and common law applicable to their interpretation, as well as regulations (Listing Rules) and quasi-regulatory, principles-based codes of best practice, including the Combined Code.

In Nigeria, the Companies and Allied Matters Act No. 46 of 1991 (CAMA) is the main legislation governing mandatory corporate governance standards among all companies. Other legislations which contain codes and/or standards for governance of companies include the Central Bank of Nigeria Act No. 24 (1991); Banks and Other Financial Institutions Act No. 25 of 1991 (BOFIA); Failed Banks (Recovery of Debts) and Financial Malpractices in Banks Act No. 18 of 1994; Investment and Securities Act No. 45 of 1999 (ISA); Insurance Act No. 2 of 1997; the National Insurance Commission Act No. 1 of 1997, and the Nigerian Accounting Standards Board Act No. 22 of 2003.

In line with the new wave of issuing corporate governance-specific codes and standards, the United Nations gave the ***"Guidance on Good Practices in Corporate Governance Disclosure."*** Both the guidelines on corporate governance issued in September 1999 by the Basel Committee under the Bank for International Settlements (BIS) and in particular the OECD ***Principles of Corporate Governance*** have become widely accepted as benchmarks for measuring good corporate governance. Nigeria's SEC in 2003

released the ***"Code of Best Practices for Public Companies in Nigeria."*** The Central Bank of Nigeria also issued the "***Code of Corporate Governance for Banks in Nigeria Post-Consolidation"*** (which became effective on April 3, 2006) to deal with issues of transparency, equity ownership, criteria for the appointment of directors, board structure and composition, accounting and auditing, risk management and financial reporting. The CBN recently issued its elaborate ***"Guidelines for developing risk management framework for individual risk elements in banks"*** in line with its risk-based supervision model, and to close the widespread lacuna in most codes and standards with respect to risk management. The National Pension Commission (PENCOM) also issued the "***Code of Corporate Governance for Licensed Pension Operators"*** as well as the "***Code of Ethics and Business Practices for Licensed Pension Operators***." Some external, industry-driven and voluntary initiatives aimed at fostering good corporate governance include those by the Bankers Committee (the committee in 2003 issued the "***Code of Corporate Governance for Banks and Other Financial Institutions"***), Institute of Directors (IoD) and the Financial Institutions Training Centre (FITC).



Global Financial Crisis and the Failure of Corporate Governance

Corporate governance became a dominant theme in corporate discourses in the 1970s, with the debate led by the American Bar Association (ABA). The new push towards good corporate governance could however be traced to 2001 following the collapse of Enron Corporation and WorldCom, and more recently to the sub-prime mortgage crisis in the United States, leading to the global financial crisis.

The saying that "recessions reveal what auditors did not" has not been more true than during this period of financial crisis. This was evidently borne out by a recent seminal study by the OECD which alluded to the significant impact of failures and weaknesses in corporate governance on the global financial crisis. The study was categorical that failures and weaknesses in corporate governance arrangements encouraged excessive risk taking in a number of financial services companies. "Accounting standards and regulatory requirements have also proved insufficient in some areas," the OECD observes, even as "remuneration systems have in

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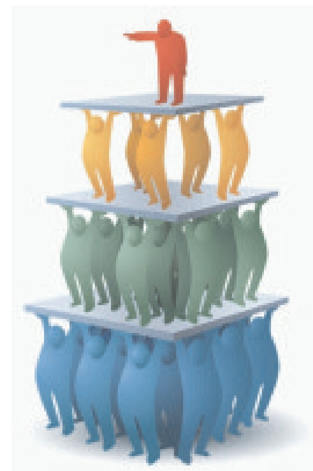

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a number of cases not been closely related to the strategy and risk appetite of the company and its longer term interests." Many of the failed companies have not benefited from qualified board oversight and robust risk management, while the remuneration of boards and senior management remains a thorny issue.

The CBN alluded to these reasons recently when it dismissed the managements of some Nigerian banks. It said that its action was informed by "excessively high level of non-performing loans in the five banks which was attributable to poor corporate governance practices, lax credit administration processes and the absence or non-adherence to the bank's credit risk management practices." At the end of the day, total toxic loan portfolio of the eight banks which had their management teams dismissed was put at N1.2 trillion.

• The Crisis of Board Governance

The financial crisis has shown that the notion of boards as capable of objective independent judgement - and therefore an effective monitor of management - is misplaced. While board member competence is important, there is no trade-off between independence and competence. The financial crisis has shown that boards in many cases "appear to remain captured by their own histories and by management so that they may be reactive rather than proactive. Individual members are seldom changed by being voted out of office by shareholders (with the exception of jurisdictions and companies characterized by block shareholders), indicating significant path dependency" (OECD 2009). This has led to the clamour by some observers for assigning a sufficient number of non-executive board members capable of exercising independent judgement to tasks where there is a potential for conflict of interest. Indeed, the OECD contends that "in the banking sector, there is a good public policy case for strengthening risk reporting lines to the board and for extending the 'fit and proper person' test to cover the skills and independence of a potential board member." It has also been suggested that the time has come for full-time independent directors in the banking sector. But this was shot down by the apparent contradiction between full-time employment dependent on the company and independence.

While board member competence is important, there is no necessary trade-off between independence and competence.

While the OECD makes a case for separating the CEO from the Chairman position, it warns against a one-size-fits-all approach. Where the positions are not separated, companies should explain the reasons for choosing such leadership structure while disclosing the corporate governance arrangements put in place to ensure the effective-

ness and independence of the board. The same is true where a controlling shareholder holds the post of chair. It is even being debated whether a retiring CEO should be allowed to take up the post of chair.

It has emerged that the incidence of board failures has manifested both in results (remuneration without performance and poor risk management) as well as in board structures. "In the US, some important banks that failed have been characterized by long terms of service with the same chair/ CEO (Nestor Advisers, 2009) and there are a number of reports from other countries suggesting clubby boards," the OECD asserts. General Motors, it observes, was one board failure that festered for a long period. In the wake of the failure of banks and other financial institutions, it has been argued that more emphasis should be placed on competence than independence. According to the OECD, "In view of excessive risk taking, there is a case for the criteria to be expanded to technical and professional competence and especially skills such as general corporate governance ones and risk management."

The role of shareholders in the board saga has at best been questionable. The organization found that even in countries where there is access to the proxy and majority voting for board members, "it appears to be very difficult to unseat a sitting member raising questions about institutional investors." However, even bad boards can redeem themselves ex-post by changing the CEO, although in the case of financial institutions some left under the additional pressure of regulators and with "generous golden handshakes." Shareholder activism is therefore imperative to safeguard shareholders' rights and well-being and to keep boards on their toes.

• The Hazards of Risk Management

If there is one area that really opened the underbelly of most companies: it is the risk management fiasco. The OECD was quite succinct in characterizing the debacle when it said: "Perhaps one of the greatest shocks from the financial crisis has been the widespread failure of risk management in what were widely regarded as institutions whose specialty it was to be masters of the issue." The emerging scenario is one in which either risk was not managed on an enterprise basis but rather by product or division, or risk managers were separated from management and "regarded as a hindrance and not as an essential part of the company's

Dancing With the Stars participant Stacy Keibler walks the runway alongside the Cadillac STS at the 5th annual General Motors ten fashion show that pairs the hottest names in entertainment with GM's pristine concept and production vehicles - all for a good cause. The GM TEN event, held Tuesday, February 28, 2006 in Hollywood, supports a variety of charities nationwide. (United States). *Source: globalgiants.com*

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strategy." Adequate status was also not accorded risk managers, as they often lacked clout to enforce policy and "red flags did not accumulate on the way to the top." Even more worrisome is the fact that boards were in a number of cases ignorant of the risk facing the company. Analysts have alluded to excessive focus on regulatory capital ratios and on rate of return on equity as the reasons for the malaise.

Following the unique challenge of borrowing short and lending long (maturity transformation), the financial crisis "has exposed gaps in risk management in this area with a number of firms relying on marketability of securities for liquidity needs, which with all trying to sell at the same time led to market failure," the OECD study notes. While threats to companies' reputational risk were staved off through borrowing and deposit guarantees, perhaps the time has come for boards to give more operational aspects of enterprise risk management to another committee that should interface with the audit committee. This is given vent by strong indications that audit committees were already overburdened with their basic financial reporting risk responsibilities.

While the board must bear responsibility for strategy and for associated risk management, the hazards of shirking such responsibility have seemingly increased. Consequently, companies with effective risk management systems may be treated more leniently during sentencing in certain jurisdictions, while "court rulings appear to indicate that directors who have not overseen an enterprise risk management system might leave themselves open to charges of breach of fiduciary duties," the OECD asserts.

It has been found that remuneration and incentive systems tend to whet the appetite of CEOs for risk taking, thus the need to ensure that such systems are in tandem with the risk management system. A separate channel of risk reporting to the board such as via a chief risk officer has also become imperative to ensure that risks are captured as they emerge.

• For A Sustainable Reward System

One area that has scandalized many watchers of the financial crisis is the evidence of over-pampered CEOs (and boards) making a killing sometimes on the carcasses of their firms. A few examples will suffice. In the five years ending in 2004 some 60 companies at the bottom of the Russell 3000 index lost $769 billion in market capitalization. This did not deter their directors from disbursing more than $12 billion to top managers. In a number of countries, "golden handshakes" or "rewards for failure" became the routine for departing failed executives. In other cases, extremely generous and long lasting pensions have been a source of worry, while in China, it has been reported that the ratio of CEO salaries to average urban worker salary is around 345 times (The Wages of Sin, *China Daily*, 11/05/09).

Noting that remuneration schemes are often "overly complicated or obscure in ways that camouflage the

In other cases, extremely generous and long lasting pensions have been a source of worry, while in China, it has been reported that the ratio of CEO salaries to average urban worker salary is around 345 times (The Wages of Sin, *China Daily*, 11/05/09).

situation," the OECD study asserts: "In many cases it is striking how the link between performance and remuneration is very weak or difficult to establish. For example, companies have often used general measures of stock price rather than the relative performance of the individual firm. Factors not within the control of the CEO have often been emphasized."

The governance of remuneration/ incentive systems has often failed because decisions and negotiations are not carried out at arm's length. According to the study, "Managers and others have had too much influence over the level and conditions for performance based remuneration with the board unable or incapable of exercising objective, independent judgement". The incentive system is also asymmetric with limited downside risk, "thereby encouraging excessive risk taking" among CEOs. To curb these hiccups, the United Kingdom (since 2003) and Australia (2005) require publicly listed companies to submit an executive remuneration report to a non-binding shareholder vote ("say on pay") at the annual general meeting. Also in the United States, United Kingdom, Germany and France some legal action to curb executive pay has been initiated as a "side measure" to the financial support for financial institutions. In the United States, the American Recovery and Reinvestment Act now prohibits bonuses, retention awards, and incentive compensation to certain top executives, other than grants of long-term restricted stock. The Act also prohibits severance payments for top executives and directs the Treasury to review past compensation for the 25 highest paid employees. In Nigeria, the CBN Code states that a committee of non-executive directors should determine the remuneration of executive directors while the Pencom Code aligns with the emerging global pattern, stipulating that the board should report to the shareholders each year on remuneration.

While financial institutions are encouraged to follow the "***Principles for Sound Compensation Practices***" issued by the Financial Stability Forum, remuneration policies should also be submitted to the annual meeting and subjected to shareholder approval, even as companies must explain the main characteristics of their performance related remuneration programmes "in concise and non-technical terms." To realign incentives, some shareholders are also demanding more independence of boards together with more incentive based remuneration.

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• Shareholders: From Docility to Activism?

It is agreed that incompetent boards, suspect risk management regimes and warped remuneration systems adversely impacted the financial services sector and led to the current financial crisis. Instructively, the verdict is not less damning on company owners or shareholders. The Dutch Minister of Finance was unsparing when he said: "We cannot avoid asking ourselves what you, shareholders, have done to prevent and manage the crisis. Unfortunately, and I know you don't like to hear this, the answer is almost nothing".

While Investment Managers Association, in defence of shareholders, contended that institutional investors (i.e. their members) began to exit the banking sector as early as 2005 because of concerns about strategic direction (IMA, 2009) and many investors engaged the banks in meetings to express their worries, a study by Manifest (2009) shows no

evidence of greater shareholder dissent at banks than in other companies until 2008, "and that was due to a very small number of resolutions against one specific bank. The level of dissent against the remuneration report, which should have been a flash point, from 2002 was around 9 per cent, the same as for other companies. In 2008, after the damage had occurred the dissent was much greater, amounting to 10 per cent at a number of banks, still very low". But the study found that shareholders, especially institutional ones, had been quite active at some banks (HSBC, Standard Chartered) and in large companies such as BP and Siemens, although in the latter cases after the event. Ogbechie also notes that Nigerian shareholders, shareholders' associations and regulatory bodies "are increasingly demanding that boards demonstrate leadership and control. The role of the board has therefore changed from management support to organizational leadership".

The OECD Principles advocate a wide range of shareholder rights. However, the experience has been that in some companies, major decisions were made by only a small number of shareholders, even as some firms sometimes structure shareholders for defensive reasons. Some institutional investors also rely on proxy advisors, occasionally obscuring informed voting behavior. Some shareholders may also not be willing or able to bear the cost associated with being a concerned and constructive shareholder. Shareholders have tended to be reactive rather than proactive and seldom challenge boards in sufficient number to make a difference. An ineffective monitoring by shareholders has been experienced both in widely held companies and in the companies with more concentrated ownership, says the OECD. "In some instances, shareholders have been equally concerned with short termism as have managers and traders, neglecting the effect of excessive risk taking policies."

> Shareholders have tended to be reactive rather than proactive and seldom challenge boards in sufficient number to make a difference.

The share of institutional investors continues to increase, observes the study, but their voting behaviour suggests reluctance on the part of many to play an active role. When compelled to vote the reaction often appears to be mechanical. One of the reasons for inactivity appears to be important conflicts of interest and incentive structures linked to some structural weaknesses in the corporate governance of these investors. The OECD therefore encourages institutional investors and other shareholders to act in concert where necessary, "both through consultation before the meeting and the presentation of common proposal, provided that they do not intend to obtain the control of the company," while all institutions involved in the voting chain (issuers, custodians, etc) should take measures to remove remaining obstacles and to encourage the use of flexible voting mechanisms including electronic voting.

As the study has further shown, effective enforcement of shareholders' rights is still a source of debate both in systems with strong private litigation traditions and in systems more based on public enforcement mechanisms. Accordingly, "stronger complementarity between private and public enforcement instruments could contribute to create a more favourable framework for active informed shareholders".

The Future of Corporate Governance

The gains of good corporate governance are well documented. In a widely referred study ('Global Investor Opinion Survey') of over 200 institutional investors first undertaken in 2000 and updated in 2002, McKinsey & Co. found that 80% of the respondents would pay a premium (ranging between 11 per cent for Canadian companies to around 40 per cent for companies where the regulatory backdrop was least certain) for well-governed companies.

As studies have shown (Ogbechie; Sanda et al, 2005; Nmehielle and Nwauche, 2004; Inyang, 2009), the quest for good corporate governance has taken firm root in Nigeria. While Ogbechie observes that Nigerian companies are "at different levels of

adoption of the various corporate governance issues," Nmehielle and Nwauche (2004) contend that the "fundamental problem" of corporate governance in Nigeria seems to be the gulf between precepts and practice". For example, it is instructive that virtually all the banks recently restructured by the CBN have elaborate corporate governance tenets. Curiously, these principles seemingly failed the banks, leading to CBN's intervention. Ogbechie has canvassed for the implementation of a "robust and successful" board and director evaluation as a way to gauge board effectiveness, even as Sanda *et al* (2005) contend that the strengthening of governance mechanisms in firms has become imperative. Atedo Peterside (2009) warns against the prescription of one-size-fits-all codes. He asserts that such approach to corporate governance is "often counter-productive" as it attempts to "force" people in dissimilar situations to carry out the same set of actions.

Conclusion

There is evidence for the view that corporate governance has gained currency globally. Poor corporate governance has been at the root of recent failures rocking the global financial sector. The key variables in the corporate governance debacle were incompetent and ill-informed boards, woeful risk management regimes, reward systems that occasionally rewarded incompetence, and shareholders that lacked the will and information to proactively check their agent-managers when the latter went on a frolick. Accordingly, several governments have overhauled their corporate governance regimes to contain emerging realities and challenges. Some analysts have however questioned the severity of some of these mandatory regulatory regimes, arguing that they may dampen companies' risk-taking appetites and thus become counter-productive. An adjunct debate is whether voluntary codes and standards should replace mandatory codes.

As the debates rage, former Federal Reserve Bank chairman Alan Greenspan has observed that banks in particular may not ideally discharge the mandate of self-regulation. "I made the mistake in presuming that the self-interests of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and the equity of the firm," he said. Accordingly, the quest for specific corporate governance policy interventions has become even more urgent. But the OECD is not too optimistic. It argues that it is perhaps impossible to find a "silver bullet" in the form of laws and regulations to improve board performance. "This leaves the private sector with an important responsibility to improve board practices through, *inter alia*, implementing voluntary standards," the organization admonishes. Further, while there is an urgent need to extend corporate governance standards and codes to cover risk management, shareholders must rise to the increasingly demanding role of moderating errant CEOs and boards.

In the end, perhaps the most obvious lesson is, as OECD's Mats Isaksson put it, "that corporate governance matters." Accordingly, "Company executives, policy makers, regulators and shareholders need to pay more attention to corporate governance. When times were good, it seems that many took their eye off the ball and now we see the consequences. A firm's rising share price is not necessarily a sign of good corporate governance. History tells us that it could actually be the opposite."

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As the debates rage, former Federal Reserve Bank chairman Alan Greenspan has observed banks in particular may not ideally discharge the mandate of self-regulation.

Quality and internal Control Challenges: The collective guilt

By Chuks Nwaze

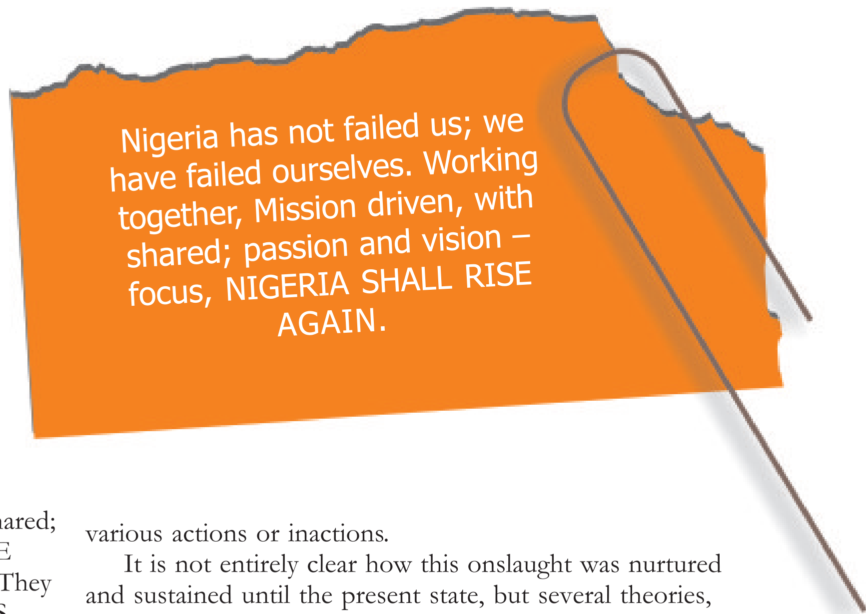
In the last part of this serial, we dwelt extensively on remedial measures to be adopted when fraud has actually taken place, otherwise called fraud investigation. As was promised in the concluding part of that piece, the current edition will focus on a social and economic prognosis of the banking industry malaise known as fraud.

It should be noted that the concept of bank fraud currently has a much wider connotation than was previously defined. For instance, top executives in the banking system who are not committed to the principles of full disclosure, sound corporate governance and risk management can be conveniently classified as fraudulent in the current dispensation.

'WORKING THE WORKS'

We shall kick-start this discussion by presenting the thought provoking landmark by the renowned management expert, Lugard Aimiuwu on the imperative for us to look inwards and do what we preach by 'working the works':

"First we blamed the colonial masters. Next, military blamed politicians; then military blamed military. Then politicians blamed military. Now, party blames party, legislature blames executive; executive blames legislature. Tribe blames tribe, zone blames zone. Private sector blames public sector; public sector blames private sector. Followers blame leaders, leaders blame followers. Who blames self? Now, we turn round and say 'Nigeria has failed us'. But who makes up Nigeria? Nigeria has not failed us; we have failed ourselves. Working together, Mission driven, with shared; passion and vision – focus, NIGERIA SHALL RISE AGAIN. Things work only if we make them work! They work only as well as we make them work! So, LET'S WORK THE WORKS!!".



WHO IS TO BLAME?

The fraud that seem to have eaten deep into the fabrics of the banking system did not happen overnight; it is a culmination of several years of both organized and unorganized assault by several stakeholders within, around and outside the banking industry through their various actions or inactions.

It is not entirely clear how this onslaught was nurtured and sustained until the present state, but several theories, allegations and counter allegations have reared their heads in an attempt to explain or rationalize the rot.

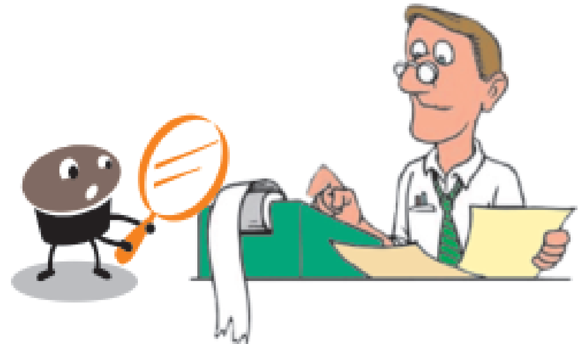
While some of the allegations are patently systemic, and hence plausible, others appear wild, bizarre, unthinkable. While I am inclined to treat most of them as hogwash, fit only for the dustbin, the cardinal objective of the write-up would be defeated if the reader is denied the opportunity of knowing that such allegations exist.

"First we blamed the colonial masters. Next, military blamed politicians; then military blamed military. Then politicians blamed military. Now, party blames party, legislature blames executive; executive blames legislature. Tribe blames tribe, zone blames zone. Private sector blames public sector; public sector blames private sector. Followers blame leaders, leaders blame followers. Who blames self?

REGULATORY EXAMINERS:

It is alleged that the various regulatory examiners who visit the banks from time to time are fully aware of the dubious activities of some banks but that they are simply unable to resist the massive corrupting influences of the board and management of these banks who go out of their way to do anything to ensure that they get a clean bill. The scenario prior to consolidation was particularly disturbing.

It was, indeed, a sight to behold: The red carpet reception of a typical examination team, the faultless planning and implementation of daily entertainment, and the grand departure arrangements at the end of the exercise. In fact, everything is usually coordinated by a special committee raised by management for that purpose. But these examiners are mortals with blood flowing in their veins. What can they do if they ask for inspection reports and they are given dummies or at best photocopies of specially edited reports generated for that purpose by the whizz-kids with bulging cheeks and bloated pay packets in the banks who are under strict instruction that "nothing should go wrong".



What can they do even if they are aware that the computer processing system to which they have been hooked on is off-line and not on-line or that the print-outs before them are not the "real thing". They simply complete their assignment, go back to their offices and prepare for the next one. They cannot change Nigeria.

Even if they make any impact in one bank, they cannot make any in the next one. The forces are formidable and the 'hawks' are many. They are also careful not to be sanctioned by their bosses for "stubbornness" or "insubordination" while on site. Remember that the bank-owners are powerful and well-connected.

The usual allegation that external auditors do not discover fraud or that they do not smell bank distress even when the odour is pervasive, is a manifestation of a global practice which presents itself differently in our own environment.

ECONOMIC AND FINANCIAL CRIMES COMMISSION (EFCC)

This is the high-brow omnibus outfit established to fight fraud and other financial crimes in the country. But what kind of assignments do they perform for the banks? The EFCC has gone beyond cosmetic harassment and intimidation of loan defaulters and high-heeled fraudsters. In other words, there is a lot of barking and biting; demonstrated in some period of detention, and refund of 'fraud money' by the bank customer, fraudster or loan defaulter.

It is therefore fitting to credit the EFCC with considerable successes in the area of loan recovery and incarceration of fraudsters and other shadowy operators within the banking system. But it is usually not easy to determine how much money they have recovered from the fraudsters referred to them on a daily basis by the banks. Potential fraudsters will not be deterred unless they are aware of

what happened to their predecessors in crime.

THE NIGERIA POLICE

There is nothing new that anybody can say about the police; everything has been said before, even though a lot of the allegations leveled against them are not entirely of their own making.

However, there is a category of allegations that is particularly worrisome because of its tendency to oil the engine of fraud in the banking system. This has to do with the concept of "highest bidder" in fraud investigations especially when a bank has lost money to a fraudster. That is, while the fraudster is willing and able to dole out a percentage of his loot to exonerate himself, the bank is unwilling to dish out good money to pursue the one that is clearly going down the drain.

In other words, the bank can never pay as much as the fraudster is willing to pay; the outcome of such police investigations are predictable and the fraudster smiles home to go and plan his next target.

> The global problem which I believe the accountancy profession world-wide should look into, has to do with the permanent tenure which an external auditor enjoys once appointed by a particular organization.

EXTERNAL AUDITORS

The usual allegation that external auditors do not discover fraud or that they do not smell bank distress even when the odour is pervasive, is a manifestation of a global practice which presents itself differently in our own environment. The global problem which I believe the accountancy profession world-wide should look into, has to do with the permanent tenure which an external auditor enjoys once appointed by a particular organization. Since he needs the annual audit fees as well as the income from other miscellaneous consultancy services rendered to the bank, it is not in his interest to "rock the boat" even if he is aware that all is not well with that institution. Hence, by the time the danger looms, whatever report he makes becomes belated.

It is also alleged that external auditors enter into various business and non-business alliances with client banks and their board members which tie their hands and make it difficult for them to assert their professional judgment and independence.

As long as the external auditor finds it difficult to "qualify" his audit reports in times of need because of the above reasons, the general public will continue to grumble about failed expectations.

THE COURTS

Our judicial system operates on the fundamental assumption that everyone, including a fraudster, is deemed innocent until proved guilty. Although this principle is hailed by all and sundry, nobody cares to look closely into the damaging and disruptive effects this has on the banking industry in particular.

It is alleged that fraudsters set aside large sums of money with which they procure long and persistent adjournments, hence avoiding conviction until the bank becomes weary, especially with the negative publicity that always accompanies such cases.

Another area that causes heartache is the issue of evidence which is a sine-qua-non for prosecution in court. It is a well-known fact that only a few fraud cases can be proved with hard copy evidence as this is not usually easy; fraudsters are too smart to leave such obvious trails. In fact, the vast majority

of executive frauds cannot be authenticated with physical evidence, irrespective of the legal razzmatazz or the duration of the case in court.

Of course, the courts are also accused of granting frivolous and unwarranted injunctions against the disposal of property (e.g. house) that was used as security to obtain loan, hence frustrating the banks and putting depositors' money in jeopardy to the advantage of the fraudulent borrower who had no intention of repaying the loan ab-initio.

THE PROFESSIONALS WITHIN

There is a strong allegation that it is the professionals who are employees of the various banks that provide the much needed intellectual base, technical support and professional cover that make it possible for some of the banks to render incorrect returns, declare fictitious earnings and

> Another area that causes heartache is the issue of evidence which is a sine-qua-non for prosecution in court.

profit figures and churn out dummy reports, documents and printouts to regulatory examiners as well as various other controversial practices adopted by their employers, in the euphemism of "window-dressing"

Who are these professionals who are alleged to have mortgaged their conscience at the altar of bread and butter? They are mostly found in the control, finance, legal, infotech and other departments of the bank where specialized services that are instrumental to the survival of the bank are provided.

The question is: What choices are open to these lesser mortals if they must continue, like others, to put food on the table for themselves, their immediate and extended families? To either 'cooperate' or resign. It is immaterial whether you left on your own or you were asked to leave; the bottom line is that you must leave the bank if you are no longer in a position to support whatever survival strategies that have been mapped out by management.

This is the dilemma that professionals find themselves in some of these banks. Of course, the preferred and popular choice is clear enough: Stay put, do whatever you are asked to do, make some money while the music is still playing and feed your family. When the party is over, everybody will go home. It is sad but that is the reality. Where does this lead us to? Your guess is as good as mine.

THE PROFESSIONAL BODIES

What of the various professional bodies to which these individuals belong? Are they aware of what is happening? Officially no; but unofficially yes. What are they doing about the apparent bastardization of professional etiquette and integrity by their members in these banks? Of course, nothing. It is alleged that they are deliberately refusing to discipline their erring members.

It is not difficult to rationalize or understand the palpable inertia by the professional bodies to take action against their members in the employment of these erring banks. The reasons should include the following:

- It is not only the members in employment of those banks that are misbehaving; those in other organizations have also been found wanting in several respects.
- What is the evidence that these members in employment are involved in professional misconduct? After all, nobody has petitioned them in this respect. You cannot initiate action against somebody without evidence of wrongdoing!.
- These executives in employment are the lifewire of their professional bodies. It is well-known that they constitute the vast majority of financially active members, including attendance at the yearly conferences, dinner, general meeting, continuing

professional training, as well as payment of annual subscriptions. All these costs are borne by their employers. If you harass them, you are indirectly threatening your financial base.

Once again, we must ask: where does this lead us to? Each reader must answer for himself.

JUNIOR STAFF OF BANKS

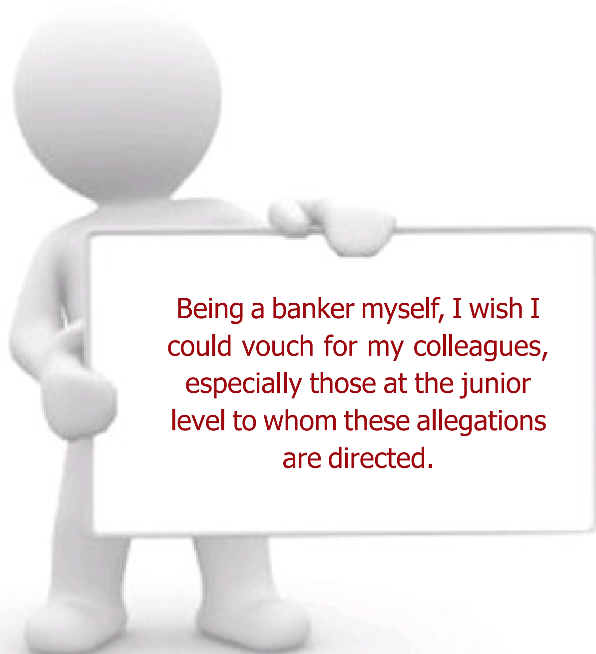
There is a myriad of allegations against the neatly dressed ladies and gentlemen who usher you warmly into the banking halls and provide both the relationship and operational platform for your financial transactions.

These include, but not limited to the following:

• That bank staff give valuable and confidential operational details to the men of the underworld which facilitate the successful execution of their activities. It cannot be by accident that armed robbers are often aware when there is a large volume of cash in the vault, the denominations, the key holders, cash movement details etc.

• That bank staff are easily recruited by external fraudsters to join syndicates, knowing full well that no fraud can succeed without an internal collaborator. Since the staff understands how the bank operates and where the loopholes exist, he does all the "dirty" jobs that ensure a soft landing for the external mastermind.

• That the paying cashier behind the counter would always ask customers to write their name and address at the back of a cheque or any withdrawal slip before releasing cash to them. He immediately passes this information to a thief or armed robber who proceeds to trail, intercept and attack or even maim the helpless customer and dispossess him of his hard-earned money.



Being a banker myself, I wish I could vouch for my colleagues, especially those at the junior level to whom these allegations are directed. However, it has already been agreed at the onset that the reader should be the judge on these issues.

SENIOR GOVERNMENT OFFICIALS

There is also an allegation to the effect that a lot of the corrupt influence and fraud in the banking sector are engendered by the greed and perfidy of some senior government officials and others who pull the levers of policy and indulge in the arbitrary dispensation of favour for their personal benefit.

The following are few examples:

• Accounting officers, treasurers and other custodians of fund in the ministries and parastatals insist on 'brokerage" before moving deposits to a bank; of course, the bank executive seizes the opportunity to 'pad' it with his own share, especially if he is the only one that maintains interface with that office. In fact, once the initial demand is made and obliged, even when no such request is made subsequently or on rollover, the banker can initiate it, obtain approval for a non-existing request and collect the 'brokerage'. Remember that such payments are never receipted!

• 'Powerful' people in government and parastatals ask for and receive gratification before approving that a bank should collect certain types of revenues on behalf of government such as rates, taxes, NEPA Bills, NITEL Bills, School fees, JAMB Forms, WAEC Forms, etc. The list of approved banks are updated from time to time and any bank that stops 'behaving well' gets delisted without notice. It is easy to see that the need for regular "returns" provides a fraudulent gold-mine

for the bank executive who is the liaison officer between the bank and such offices .

RELIGIOUS LEADERS

The situation we find ourselves in is so serious that even the hallowed chambers of worship and adoration i.e. the churches and mosques have not escaped criticism either for the things that they have done or the ones that they have failed to do that have encouraged in one way or the other the fraud in the banking system in particular and the entire society in general.

The churches and mosques are being asked to throw some light on the following issues:

• Why is it only the high and mighty that are recognized as true worshippers? There is no poor man in the hall of fame in any church or mosque.

• Why is there a sudden shift of emphasis from the traditional doctrine of salvation to the apparently more attractive and appealing subject of prosperity? The issue now appears to be: "Money now on earth", in place of "Everlasting life later in heaven".

• Why are miracles becoming convenient substitutes for hardwork? Miraculous healing of the sick can be tolerated and even encouraged, but miraculous wealth is controversial and subject to several interpretations. If you tell a man who has no visible means of livelihood and who has arrears of rent to pay on his one-bedroom apartment that this is his year to own his own house, that is an indirect invitation to commit fraud or robbery!.

I have no doubt in my mind that religious leaders have a role to play in the crusade against fraud by redirecting the mind of adherents and worshippers towards hardwork and the dignity of labour as the only source of long-term happiness instead of a blind expectation of reaping where they have not sown.

'POWERFUL' PEOPLE IN THE SOCIETY

Accusing fingers have also been pointed in the direction of the powerful men of valour, the very influential people in the society and the 'high and mighty' as being responsible for most of the difficulties and avoidable distortions prevailing in the banking system by their actions or inactions.

Most of these individuals are either in the corridors of power themselves or are strongly connected to people within the corridors of power, hence they are "untouchables". Allegations against them include the following:

• They have no genuine interest in the growth or survival of the financial system and have no intention of begetting any legacy. For instance, some of them owned banks in the past which failed (i.e. they drew out the entire deposit through questionable loans and other guises) and were liquidated by government even though they themselves still cruise around town in convoys of exotic cars. The argument is that the bank, like every corporate body, is distinct from its ownership. Meanwhile, some innocent Nigerians are in distress having lost their deposits and life savings while others died of heart attack for the same reason.

• Some of these "big men" who are very wealthy are heavily indebted to several banks in Nigeria with little or no collateral apart from their name. They wine and dine with the chairmen/CEOs of these banks, hence it is a matter of conjecture when and how these depositors' funds will be returned.

Why is it only the high and mighty that are recognized as true worshippers? There is no poor man in the hall of fame in any church or mosque.

There are instances where the same collateral has been pledged for several loans in different banks. Recent revelations by the regulatory authorities concerning some banks confirm this assertion.

• The influential people being referred to include politicians who borrowed money from banks to contest elections which they lost, while the money remains unpaid, that is, lost facility. Depositors believe that their money is safe in banks as long as they do not know what their money is used for. Meanwhile, the banks are declaring huge profits at the end of every financial year, hence all is well that ends wells.

(* Chuks Nwaze is the Managing Consultant/CEO, Control & Surveillance Associates Limited)

Nigerian Financial Institutions and Non-Financial Reputation: Disconnection or Convergence?

*** By Onyeka K. Osuji**

The adjective 'financial' relates to the management or supply of money and monetary instruments. In other words, financial institutions engage in the management or supply of money and monetary instruments. In contrast, non-financial reporting and reputation relate to social and other issues apparently 'not directly connected' to the business of managing money or making profit.

One form or the other of non-financial reporting is now "fashionable and strongly encouraged"[1] by corporations. The question is whether financial institutions should engage in and be concerned with the adequacy and quality of non-financial reporting. What is the relationship of a financial institution with non-financial reputation? Should financial institutions be concerned with non-financial reputation when the business is 'financial'? In particular, what is (or ought to be) the relationship between these issues and Nigerian financial institutions?

Regulatory Approaches in Financial Services

The previous position in several jurisdictions indicated reluctance by regulatory, judicial and other authorities to extend liability- criminal and civil- to financial institutions for financial services that may be regarded as harmful or criminal.[2] For example, a US Military Tribunal declined to impose criminal liability on a private German commercial bank's official for lending money to business and other organisations using slave labour.[3] The military tribunal reasoned that no liability attached to lenders for illegal activities undertaken or contemplated by borrowers. Such attitude had also been displayed by judicial authorities in claims against Swiss banks for their business relationships with Nazi German organisations, businesses and individuals.[4]

A US Military Tribunal declined to impose criminal liability on a private German commercial bank's official for lending money to business and other organisations using slave labour.[3] The military tribunal reasoned that no liability attached to lenders for illegal activities undertaken or contemplated by borrowers.

Berlaymont building, headquarters of the European commission

However, the trend has changed. Several international and domestic legal instruments now appear to recognise the liability of financial institutions for rendering financial services to activities of a criminal or illegal nature.[5] Striking examples are in rules against terrorism, organised crimes, money laundering and official corruption. This trend is reflected in Nigerian[6], UK[7] and US[8] laws. The wider concept of responsibility and liability approach in financial regulation appears to have been followed in general expectations of corporate conduct and non-financial practices.

...the European Commission recognised the internal component of CSR with its observation that "within the company, socially responsible practices primarily involve employees and relate to issues such as...health and safety"[11].

Non-Financial Issues and Financial Institutions

One of the clearest manifestations of the role of non-financial reputation in modern corporations is the practice of corporate social responsibility (CSR). CSR emphasizes the social responsibility of corporations. It consists of relevant corporate social activity and the reporting of such activity. The subjects, audience and contents of, and motivation for corporate social reporting are potentially wide.[9] From the corporation's perspective, CSR[10] has both internal and external dimensions. For example, the European Commission recognised the internal component of CSR with its observation that "within the company, socially responsible practices primarily involve employees and relate to issues such as…health and safety"[11].

Corporate Social and Environmental Reporting (CSER), or "social audit"[12] as preferred by some commentators, has been defined as "the process of communicating the social and environmental effects of

organisations' economic actions to particular interest groups within the society at large"[13]. Publication of CSR reports now appears to be widespread.[14] Such reporting is based on the acknowledgement of wider corporate responsibilities and accountability for corporations than just profit.[15] CSER usually concerns the effects of corporate activities on areas such as the natural environment, employees, consumers, and the local community, and on such social issues as race and gender.[16] The quantity of environmental reporting rose in the 1990s, while there was a decline in reporting on community, ethical and employee issues.[17] At present, environmental reporting appears to be the most common form of reporting.[18]

CSER usually concerns the effects of corporate activities on areas such as the natural environment, employees, consumers, and the local community, and on such social issues as race and gender.

Various interest and campaign groups have recognised the role of financial services in CSR and other non-financial activities. This strategy is similar to the current regulatory approach in financial issues. Protests are frequently carried out against transactions and projects with allegedly adverse effects on human rights, labour standards, the environment and similar issues. This is a marked change from the previous position of limiting responsibility in non-financial issues to particular businesses operating in the relevant areas. Campaigners, to hold businesses responsible for or complicity in human rights and other abuses, have applied the concept of indirect responsibility.

Evidence indicates that this concept of indirect responsibility has now been extended to the financial services sector. It appears that financial institutions are no more in a position to claim that in the business of lending money or performing other financial services, one may not be interested or be able to control the actual or contemplated purpose for the borrowed money. This approach first adopted in financial regulation is the current strategy in external pressures and influences on non-financial issues. Why is this the case? The following reasons may apply:

It appears that financial institutions are no more in a position to claim that in the business of lending money or performing other financial services, one may not be interested or be able to control the actual or contemplated purpose for the borrowed money.

(a) Financial institutions are corporations- Financial institutions are also corporations. Consequently, financial institutions are regulated by rules and expectations generally applicable to corporations. This is in addition to specific regulatory issues peculiar to the industry. For example, in addition to the requirement of banking licence from the Central Bank of Nigeria, section 2 of the Banks and Other Financial Institutions Act 1997 restricts bank and

...financial institutions are regulated both under general company law and by specific statutes on such financial services. Similarly, public expectations on the conduct and reputation of corporations generally apply to corporations irrespective of the industry.

banking business to corporations incorporated under Nigerian law. Consequently, financial institutions are regulated both under general company law and by specific statutes on such financial services. Similarly, public expectations on the conduct and reputation of corporations generally apply to corporations irrespective of the industry.

(b) Profit is not the exclusive aim of modern corporations- Scholars have been debating the role profit maximization in modern corporations. The debate has generated wide-ranging literature from legal and other scholars.[19] Some commentators argue that non-financial activities and reputation of a corporation have no effect on the corporation's profitability.[20] But this position appears unfounded. Evidence indicates that negative public attitude may present threats to profitability through direct market relations or indirectly through influence on regulators and regulatory policy.[21] The prevailing view is that modern corporations are not exclusively profit-making organisations. In the 1953 case of *A. P. Smith Mfg. Co. v Barlow*[22] a United States court found that modern operational and other "conditions require that corporations acknowledge and discharge social as well as private responsibilities"[23]. The conclusion is that "the modern corporation …is at the very least a legal, political, social and economic institution"[24].

There have been moves in several jurisdictions towards "extending the corporate constituency"[25] with the aim of rendering "the conduct of the enterprise institutionally responsive to interests beyond those encompassed in corporate law"[26]. The United Kingdom is an example. Prior to the UK Companies Act 2006[27], mandatory social-related issues covered in annual reports included charitable donations, employment data, pension fund adequacy, consultation with employees, employee share ownership schemes, employment of the disabled, contingent liabilities and provisions for health and safety or environmental remediation.[28] Some companies' annual reports in addition voluntarily make disclosures on issues such as environmental protection, energy saving, consumer protection, product safety, community involvement, value-added statement, health and safety, racial and sexual equality, redundancies, employee training, mission statement/ statement of social responsibility.[29]

The UK Companies Act 2006 now requires directors' report of companies, with the exception of small companies, to contain a business review.[30] For a quoted company, the business review must contain information on environmental, employee[31] and social and community issues.[32] Consideration of these issues is also part of the newly codified directors' duties.[33] The UK Pensions Act[34] also requires fund trustees to disclose the influence of social, ethical and environmental considerations in their investment policies and decisions. Similar disclosure obligations have also been proposed for large charities in the UK.

Non-financial reputation is an important asset to corporations and corporate officers.

Reputation is capable of influencing decisions on "whom to employ or work for, whom to promote, whom to do business with

(c) Non-financial reputation is part of modern public relations-
The modern concept of public relations has moved from traditional marketing process to the identification and satisfaction of the needs and interests of customers, and other stakeholders including the local community. Research found that initial decisions to engage in social and environmental reporting as part of the annual accounting process were usually driven by the need to show transparency in social reporting, and also internal management of environmental risk.[35] However, stakeholder pressure was also found to drive stand-alone reports.[36]

Modern public relations recognises the importance of both financial and non-financial reputation. Reporting of corporate non-financial activities and performance reflects this view. Such reporting is now an "essential [public relations] tool, with the potential to stave off bad publicity and [promote] good reputational risk management"[37]. Reputation management is evidently "essential"[38] to modern corporations. Modern corporations place a high value on "their reputations and fear any damage to them"[39]. Research indicates that negative ethical publicity can adversely affect other areas of corporate activity including earnings and employee morale.[40]

"Reputational capital" is "a fragile, intangible asset" that "complements- and sometimes surpasses- the material and financial assets"[41]. Reputation has a link with "brand equity" and makes "real" but not always "directly quantifiable" contribution to the value of corporations[42]. Non-financial reputation is an important asset to corporations and corporate officers. Reputation is capable of influencing decisions on "whom to employ or work for, whom to promote, whom to do business with or to vote for"[43]. For instance, a false or misleading report about a company's labour standards is capable of hindering the company's ability to attract employees.[44] Such reports may also deter "respectable persons"[45] from having dealings with the company. The goodwill of the company is generally affected.[46]

Consequently, non-financial reputation has emerged as an aspect of corporate competition environment. As both economic entities and social institutions,[47] "a competitive structure that encompasses social responsibility agendas"[48] has now emerged among corporations. Corporate competition exists in "cause related marketing" and over "social awareness and responsiveness"[49] in addition to the traditional areas of competition such as price, production costs and product development.

(d) Customers are interested in corporate non-financial reputation-
Evidence suggests a growing tendency for people to boycott products of, or speak out against or condemn, "irresponsible compa-

The UK Pensions Act[34] also requires fund trustees to disclose the influence of social, ethical and environmental considerations in their investment policies and decisions. Similar disclosure obligations have also been proposed for large charities in the UK.

nies"[50] in the areas of human rights, environment protection, labour practices and other matters.[51] Consumers have also been practising "ethical purchase behaviour" by selecting "ethical products", and avoiding suppliers on "reputational grounds", or "actively seeking out those with a positive reputation".[52] Surveys show consumers make judgements and select or reject products based on the non-financial reputation of manufacturers.[53] In some cases, consumer response may be in the form of boycotts. Organised consumer boycotts have been described as "the most visible and acute form"[54] of response from consumers. Evidence of the financial effect of organised consumer boycott is limited[55], but reactions of targeted businesses indicate that the consequences may be substantial and serious.[56]

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One possible argument against recognizing an important role for non-financial reputation in the financial services industry is the impact of non-financial reputation on the sector. It is true that some sectors are more sensitive or more likely to be exposed to risk of adverse public opinion than others. For example, consumer goods manufacturers are more likely to subscribe to corporate codes of conduct than other industries.[57] Consumer goods manufacturers have relatively direct 'contact' with the public. Again, issues such as environmental and social concerns may be more visible in some sectors[58] such as the extractive industries.

However, financial institutions are not immune from criticisms of non-financial performance. Financial institutions are targets of criticisms where lending relates to projects that may lead to, for example, human rights abuses or environmental degradation. Financial institutions are not excluded from "compelling public opinion surveys" indicating that people want corporations to consider "corporate integrity, rather than the pursuit of profits as end in itself"[59].

(e) Investors are interested in corporate non-financial reputation-

Research has shown that shareholder concern has expanded beyond profit. Cases occur of shareholder attempts to influence corporate social or ethical policy, through both formal and informal methods.[60] Evidence shows that investors are increasingly concerned about the social reputation of target corporations. In the investment market, "ethically screened funds" are on the increase while "ethical investment is a growing phenomenon".[61] Evidence also points to the existence of a growing "socially responsible investment" (SRI) industry.[62] SRI has been defined as "a body of investors who take a direct interest in the social, ethical and environmental performance of the companies in which they hold shares"[63]. Also growing around the SRI industry are fund managers and support organisations such as analysts, rating agencies and research organisations, and even ethical indices in some of the major stock exchanges.[64] Notwithstanding that earlier research had found inconclusive evidence of the extent of the influence of non-financial reports on financial investors[65], current evidence shows

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reliance on such reports by SRI funds[66] and even other funds.[67]

(f) Reputation includes Reputation of 'business partners' and 'business partners' are interested in corporate non-financial reputation-

In *BCCI (Overseas) Ltd v PriceWaterhouse*[68], the court held that auditors of a subsidiary company in a banking group owed a duty of care to the parent company on the ground that "the banking operations of various companies within the BCCI group were run as a single business"[69]. The principle in this case is also applied in non-financial matters in practice. Non-financial reputation may affect all the members of a corporate group irrespective of their distinct legal personalities. Public expectation of non-financial conduct does not only concern the particular corporation. It also extends to the supply chain of the company, particularly in cases of consumer goods.[70] Some corporations even include labour standards in contracts with their suppliers[71], sub-contractors, licensees and customers.[72]

The perceived poor social standards of a company may affect a connected business. For instance, in August 2005[73], British Airways was forced to cancel its flights for three days as a result of a secondary strike action embarked upon by its staff. The strike was in protest against the treatment of employees of British Airways' sole catering supplier by their employer. In the United States, Sonoma Foie Gras, a California foie gras producer, sued Whole Foods, the country's "biggest natural-foods grocer" for alleged "intentional interference with contract".[74] The cause of action concerned Whole Foods decision not to proceed with purchasing its food supplies from another company, Grimaud Farms of California if Grimaud continued processing foie gras for Sonoma. Whole Foods opposed the food industry's practice of foie gras- "stuffing food into ducks and geese to make their livers both grotesquely huge and mouth-wateringly delicious"[75].

(g) Non-financial reputation is important in employee recruitment and retention-

Some surveys suggest that corporate reputation is a more critical factor in employer selection than financial or other benefits[76]. Illustrating with his company, Marc Benioff, "head of salesforce.com, a strikingly successful internet-based business services company"[77] in his book *Compassionate Capitalism*[78] concluded that positive reputation attracts and retains best workers and customers.

Some judicial decisions point to the increasing importance of non-financial reputation in employment situations. In *Malik v Bank of Credit & Commerce International*[79] the House of Lords held that corporations owe an implied duty of good corporate reputation to their employees and that an employee action for false representation of corporate reputation is sustainable in principle.[80] The effect of the decision is that employees may have right of action against employers for negative corporate reputation where such reputation is capable of diminishing prospects of employment.[81] Australian courts tend to follow *Malik* with the additional requirement of necessity.[82] According to Australian courts, the implied duty of positive

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corporate reputation in *Malik* is necessary, if from the employee's perspective, the contract of employment would be "rendered nugatory" and "deprived of its substance, seriously undermined or drastically devalued in an important respect"[83]. Incidentally, the claim in *Malik* was against a financial institution.

(h) Globalisation has raised the level of awareness of non-financial issues-
Among other descriptions and definitions, globalisation may also be described as "the transnational extension and habituation of local ideas and practices"[84]. The domestic sphere does not exist in isolation from global infuences. It is clear that "transnational influences can and do condition relations of power, conventions, and shared cultural constructions in the domestic sphere"[85]. Non-financial reputation is one area that has witnessed cross-national influences.

One of the effects of globalisation is increased awareness of non-financial issues. Globalisation has placed such issues "at the centre of public policy debates"[86]. The reason is the trans-boundary implications of most non-financial issues. For example, mobility of capital might have "serious disadvantage"[87] for labour, while the preamble to the ILO Constitution[88] acknowledges that labour conditions in one country may have negative effects on measures to improve labour standards in another country.

(i) Non-financial issues are subjects of serious campaigns-
According to a commentator, "[t]he era in which nations rule the world is over [since] three groups have joined nations as important global players: transnational corporations, international organisations, and special interest groups"[89]. Some private actors take "functional responsibility for seeing that regulations- both national and international- are adhered to by both public and private actors"[90]. Civil society and interest groups at local, national and international levels are increasingly influential.[91] Non-financial performance is one such area of influence.

Pressure groups may be defined as "organised groups of people who seek to influence political decisions"[92]. Pressure groups appear to have shifted their focus from government lobbying to direct or indirect confrontation with businesses. Some pressure groups are involved in non-financial matters and other issues of general concern. Corporations, particularly large enterprises and multinational enterprises, are sometimes under pressure to produce non-financial reports due to the activities of some 'independent' organisations such as Friends of the Earth, Greenpeace and Council on Economic Priorities, which attempt to report on particular corporations' social and environmental performance.[93]

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(j) Non-financial issues are increasingly litigated-
Cases, threatened suits[94] and claims against corporations especially in the areas of human rights, labour standards and the environment are increasing. In particular, threats of mass tort actions are also on the rise.[95] The cases usually concern corporate activities in host countries. Corporations have been subjects of actions in developed jurisdictions for their labour and human rights records in developing countries. For instance, cases have been instituted in both the United Kingdom[96] and the United States[97]. In the United States, a 200-year old statute, the Alien Tort Claims Act ("ATCA")[98] has attracted foreign litigants.[99] A commentator describes this practice as "the inventive use by litigants

relying often on the class action mechanism"[100].

Nigerian Financial Institutions and Non-Financial Reputation

For the reasons stated in section 3, Nigerian financial institutions ought to be aware of non-financial issues and the importance of non-financial reputation. In addition, the following reasons also apply:

(a) Size of Nigerian financial institutions-

Most Nigerian financial institutions are not content with small-sized operations. Incidentally size also matters in corporate non-financial reputation. For instance, the concept of profit for small companies may be different for large companies, which may think more of long-term planning and position.[101] Size may also determine corporate responses to issues. The larger the size of a corporation, the more likely that its "[s]ize extends business decisions from the purely economic into fields of social movement…"[102]. Moreover, large companies and consumer goods companies are more likely to be affected by public interest in non-financial issues than small companies or producers of unbranded goods.[103]

Evidence suggests that small companies are less conscious of corporate (social) image.[104] In particular, a connection has been made between company size and the level of embrace of CSR.[105] Survival appears to be the major objective of small companies.[106] Even where survival is not in issue for a company, CSR appears to have relatively lower degree of influence on small companies.[107] Where there is awareness of CSR principles, no substantive change in the operational systems of small companies is usually affected.[108] Large companies cannot afford such attitude. For example, large companies tend to adopt codes of labour standards

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since they are more sensitive to criticisms of poor practices.[109] In fact, the European Court of Human Rights has acknowledged that the "limits of acceptable criticism [of business practices] were wider in the case of large public companies"[110].

(b) Global stage require awareness of non-financial issues-

Some Nigerian financial institutions aspire towards (or have achieved some level of) involvement in the global financial market. Some have been listed in some major stock exchanges outside Nigeria. Some Nigerian financial institutions have acquired substantial interests in businesses outside Nigeria, particularly in other parts of Africa. Such activities elevate Nigerian financial institutions to the status of multinational enterprises.

Incidentally, multinational enterprises are expected to play a special role in non-financial matters. This may be discerned, for example, from the United Nations Global Compacts with Multinational Enterprises and the International Labour Organisation's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, 1977 (Tripartite Declaration)[111]. Such enterprises practically attempt or are expected

• The European Parliament building

to be "good corporate citizens" and "adapt to the political realities" of the different countries of their operation.[112]

Incidentally, major global financial institutions particularly multilateral and governmental financial institutions now consider non-financial issues as part of lending policies. Also, 'discriminating consumers'[113] and 'informed consumers'[114] of or investors in a particular multinational enterprise may be found in different countries at the same time. Moreover, positive non-financial reputation is also a factor in attracting 'good' employees from different locations.

(c) Nigeria is a developing country-

Non-financial matters are of particular concern in developing countries. Some international corporate codes of conduct reflect this position. For example, the European Parliament in 1999 recommended the adoption of a model code on human rights, environment and labour standards for European enterprises operating in developing countries.[115]

Moreover, litigation in developed countries usually (non-financial) activities undertaken by corporations in developing countries, including Nigeria. In *Bowoto v Chevron*[116], one of the allegations against a multinational enterprise was assistance to the security services of a repressive Nigerian regime. A companion case[117] involving the same parties and facts is also pending at the California state court.[118] *Wiwa v Shell*[119] concerned alleged corporate complicity in the hanging of some Nigerian human rights and environmental rights activists by a Nigerian military regime. *Kasky v Nike*[120] concerned Nike's response to allegations that it was operating 'sweatshop' factories in South East Asia.

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Conclusion

Renowned American investor, Warren Buffett, recently caused his company to divest from a Chinese multinational corporation.[121] The Chinese corporation was operating in Sudan. Campaigners alleged that the operations helped to sustain human rights abuses in Sudan. Buffet claimed that his decision was purely on business grounds, but accounts suggested that pressures from campaigners could be the critical factor. The incident reveals that in addition to regulation, the freedom of modern corporations, including financial institutions, is limited by threats of civil litigation and pressures from the media, public opinion and stakeholders.[122]

Although non-financial performance and reputation is an area that has witnessed only limited regulation, modern corporations are targets of increasing external pressures on non-financial matters. The result is that for some corporations, non-financial reputation is a board level issue.[123] But the threats to corporate non-financial reputation are growing. For instance, some organisations and publications are now dedicated to exposing 'corporate misdeeds' either in non-financial activity or reporting. Some books[124] have attempted to contradict Nigeria-based oil companies' public statements of responsible practices in Nigeria in areas such as the environment and relationship with repressive or corrupt governments.

For Nigerian financial institutions, awareness and proper management of non-financial issues and reputation is of increasing importance. Negative non-financial reputation presents "real"[125] consequences for both financial institutions and their officers. Management of such matters is critical; it is preferable to catch non-financial issues "before they become headline news".[126] Moreover, bad publicity on such issues "can undo hundreds of millions of dollars worth of marketing"[127].

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Leading through Good Governance

* By Michael S. Olson

Strong, well-governed non-governmental organizations (NGOs) and associations contribute to a strong, well-governed democracy. Business and professional associations are often at the forefront of the modernization of industry, the development of professional standards and credentials, the creation of career opportunities, training and education, ethics reform, and sound leadership models. In order for business associations to fulfill this important role, they must implement the elements of good governance in their day-to-day operations through applying best practices and real world experiences. Leadership skills developed through associations, NGO committees, and board services often carry over into the public sector as volunteer leaders become national leaders through public service and elected office.

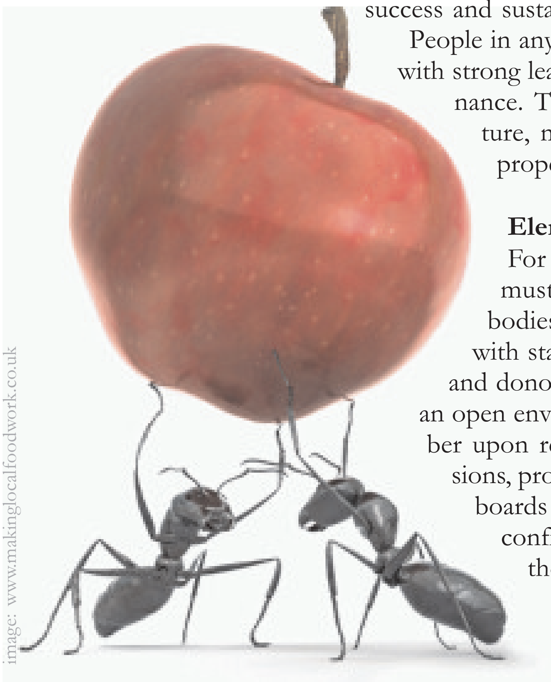
Elected and appointed government leaders at every level rely on associations and professional societies to provide them with information, economic models, credible statistics, and research and unique insights which enable these officials to make informed decisions. In many countries, legislative proposals are often the direct result of advocacy efforts by trade associations, professional societies, unions, and charities. As membership organizations advocate for their members' interests, they advocate for sound principles of democratic government. Such orgniazations' outreach is founded on the ability to represent, speak for, and propose solutions on behalf on their members and donors.

For a governance system to be respected by those under its authority, it must, more than anything else, reflect transparency and trust. Governing bodies of associations and NGOs are typically unpaid volunteers, working with staff and outside parties, who are chosen by those they govern.

image: www.coe.int/t/dg3/health/goodgov_en.asp

To increase the effectiveness of associations, a better understanding is needed of the roles and mutual expectations of elected leaders and professional staffs. Many organizations across the globe are being held hostage to dueling interests of boards and staffs, to elected leaders functioning in what should be staff roles and staff functioning in what should be governance roles. Understanding the differences in responsibilities and accountabilities is a first step in achieving a balance of leadership that reflects synergies of common vision and expectations for the organization. It should be the goal of every chief staff officer to ensure that the organization's board, especially the chief elected officer, has a very rewarding and satisfying experience serving in this volunteer role.

Elected leaders want to make a difference, want to leave a legacy of meaningful accomplishments and want to continue allegiance and service to the organization beyond their term of office. Likewise, it should be a priority for these elected leaders to work collegially and effectively with the chief staff officer and staff team. The more respect, support, and cooperation between the board and staff, the greater are the achievements and accomplishments of the organization. In the business association and NGO world, the relationship between effective and bold leadership and sound governance is crucial to the success and sustainability of the organization.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People in any profession or trade are naturally attracted to opportunities to associate with strong leaders functioning in an environment of principled and exemplary governance. This environment can be created through good governance and structure, managing the expectations of those affected by good governance, and proper role delineation.

Elements of Good Governance

For a governance system to be respected by those under its authority, it must, more than anything else, reflect transparency and trust. Governing bodies of associations and NGOs are typically unpaid volunteers, working with staff and outside parties, who are chosen by those they govern. Members and donors rightfully expect that governing bodies will conduct their business in an open environment, with meeting minutes and proceedings available to any member upon request. Rare exceptions to this transparent model are personnel decisions, property negotiations, or sensitive financial issues. Trust between governing boards and donors and committees and members requires that all parties feel confident that they are well informed about the operations and programs of the organization.

Elected and appointed leaders must continually demonstrate a personal commitment to the organization they serve. This means a will-

Elected and appointed leaders must continually demonstrate a personal commitment to the organization they serve. This means a willingness to tackle any issue coming before these leaders, to monitor the organization's financial health, and ensure strong executive staff is in place.

ingness to tackle any issue coming before these leaders, to monitor the organization's financial health, and ensure strong executive staff is in place. It also means prioritizing attendance at committee and board meetings. Good governance assumes committed volunteer leaders and this commitment is never more apparent than regular attendance at all board meetings. When boards have difficulty attaining a quorum, bad decisions usually are the outcome. When individuals who have been chosen for their leadership skills subsequently fail to participate in meetings on a regular basis, they are communicating to their fellow leaders and members that the organization is no longer important. Board members should seek opportunities to be involved at the committee and board level and this aspiration must be fueled by exemplary leadership, including regular meeting participation.

Sound governance is also attained when there is an appropriate partnership between staff and elected/appointed leaders. When all who influence the organization and contribute to its success fully understand the checks and balances of staff versus volunteer leaders, they are more likely to devote their time and energy to the important issues of policymaking and the achievement of strategic goals than day-to-day administrative and housekeeping issues. Partnership also suggests functioning in a mutually supportive fashion. As staff experience the support and confidence of its governing body, the governing body generates a higher level of respect and support from that staff on a daily basis.

As the partnership between staff and elected leaders matures, it results in a shared vision for the organization's future. In any business context, partners must find themselves agreeing on the current condition of the organization, the challenges and risks confronting the organization, prioritization of strategic goals, and a business plan for operating the organization on a fiscally sound platform. This sharing of perspective and expectations will serve to bond staff and board in ways which cannot be achieved with separate and competing agendas.

Members and supporters of the organization expect and should be entitled to a governing body that exemplifies the highest levels of ethical behavior. Board members are role models. They are in the spotlight and under constant scrutiny by members who expect nothing less than model behavior. Decisions and actions with a strong foundation of ethical behavior and accountability will, without fail, keep a governing body on the path of sound and solid leader-

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ship principles.

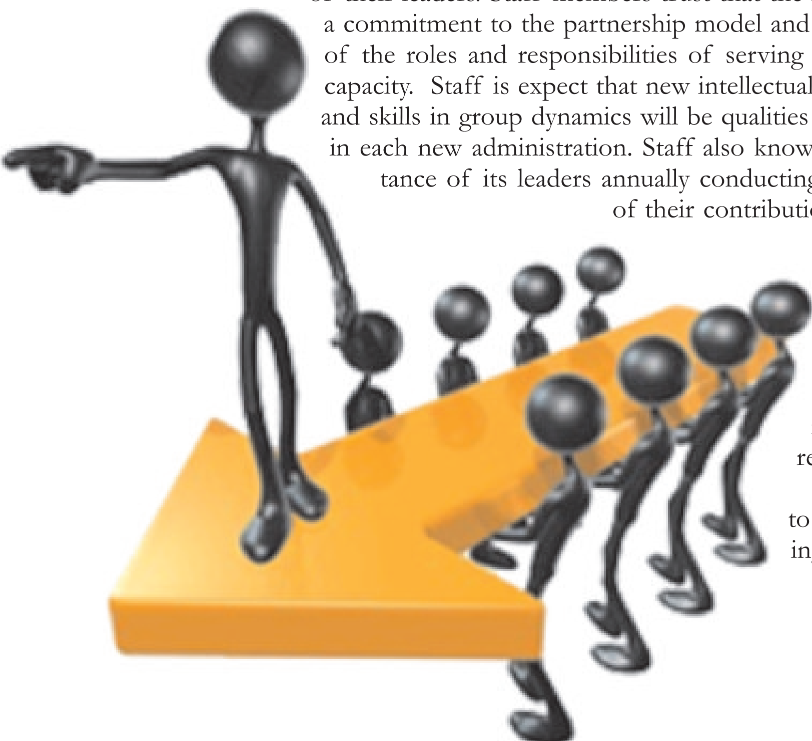
Members and donors expect their organization to be adaptive to change and willing to consider courses of action that might deviate from historic positions of the organization. In a world confronting constant change, it is only right that governing bodies demonstrate their willingness to consider new ideas and programs. It is not uncomon for an organization to fail to due to its inability or unwillingness to boldly address the challenges and threats to its existence. The shortest path to irrelevance is to ignore others' ideas and initiatives.

It is very important for governing bodies to engage in self-evaluation on a regular basis, such as once a year at the conclusion of the fiscal year. This process should involve the elected leaders surveying their governing body as to how effective they have been in recruiting solid leaders to succeed them and in overseeing the financial health of the organization. How has the board performed with respect to achievement of strategic goals, with living the mission of the organization, and participating actively in the policymaking process? This exercise is another opportunity to demonstrate transparency and commitment to continuous improvement in the governing process.

Expectations of Those Affected by Good Governance

It is hard to imagine the number of individuals and organizations affected by the governance dynamics of a given organization. Obviously, the members serving in an appointed or elected office are looking for a meaningful leadership experience, one that enriches their lives and strengthens their relationship with the organization. When a member completes a term of office with positive and supportive attitudes, he or she is far more likely to be involved in recruiting new members and leaders in the future. Lessons learned can also apply to his or her own business or profession, after experiencing the challenges and rewards of moving an organization forward through good governance.

The professional staff of the organization also have their own expectations of their leaders. Staff members trust that the leadership will demonstrate a commitment to the partnership model and have a clear understanding of the roles and responsibilities of serving in an appointed or elected capacity. Staff is expect that new intellectual resources, life experiences, and skills in group dynamics will be qualities of the new class of leaders in each new administration. Staff also know and appreciate the importance of its leaders annually conducting a performance evaluation of their contributions to the organization.



There are often organizational issues with regulatory agencies and elected bodies of government that require solid relationships between the regulators and those being regulated.

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sions with which they interact to provide reliable, accurate, and objective information to facilitate the decision-making processes. The degree to which the organization demonstrates the best governance practices, the more credibility it will have with government agencies.

The reputation and public image of any organization are subject to constant scrutiny, and the degree to which the organization reflects the best of governance principles and a solid commitment to responsible policy decisions determines how sustainable that reputation may be. As governing bodies and staff engage in activities that reach beyond the confines of their own organization they must be vigilant about maintaining the quality of their association's "brand" and standing in the community.

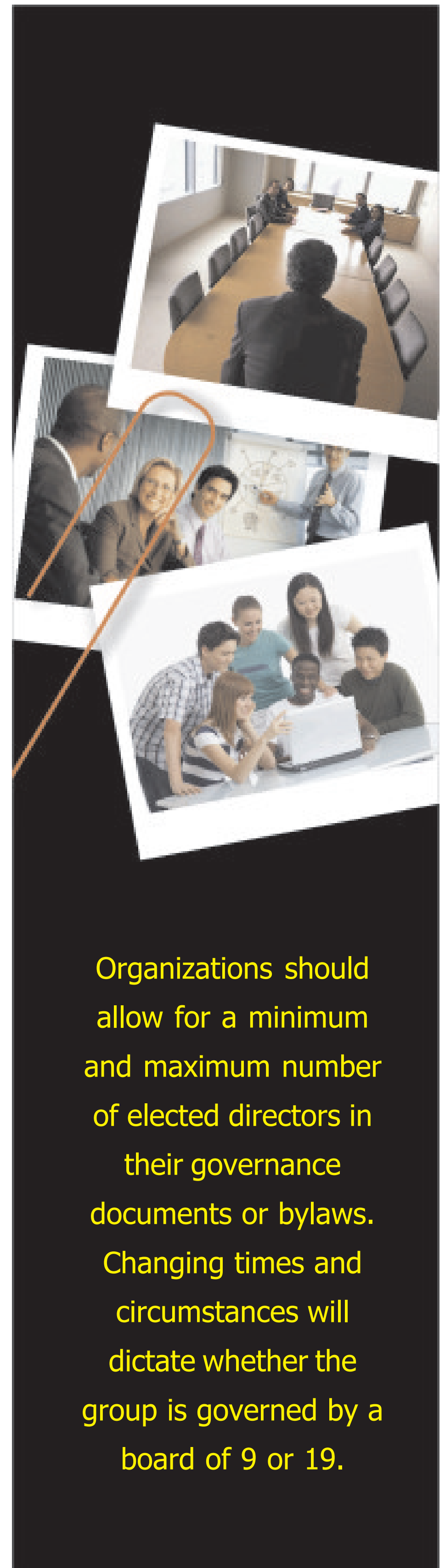
Finally, it is important to remember that there are numerous other entities and interests, allied with the industry or profession represented, which will be evaluating the quality of leadership and governance of a given organization. As more organizations enter into joint projects, coalitions, or single-issue partnership efforts, all the groups involved will be assessing each other and will be keenly sensitive to organizational integrity and transparency.

Structure of Good Governance

Non-profit organizations work through a variety of governance structures, but usually they are a variation of some very basic structural parameters. Organizations should allow for a minimum and maximum number of elected directors in their governance documents or bylaws. Changing times and circumstances will dictate whether the group is governed by a board of 9 or 19.

It is also a best practice to designate an executive committee from among the board members that are typically the officers of the organization: president, vice president(s), secretary, treasurer, and immediate past president. Some associations will annually choose a president-elect so that succession is always known for at least one year beyond the incumbent chief elected officer, and some organizations will combine the offices of secretary and treasurer into one position. While the chief staff officer should always be a full participant at every meeting of the governing body, it is general practice and protocol that the chief staff officer does not have a vote on the board. Designating the chief staff officer as an "exofficio" member of the board clearly communicates that participation is by virtue of the office held.

Every organization needs annual turnover of some members of its governing body, ensuring a steady flow of new thinking, fresh approaches, and contemporary views of the organization's impact among its constituency. The most efficient and non-controversial mechanism to support this model is to simply state in the organization's bylaws a term limit for directors and officers. Typically, an association might provide for a three-year term for its directors, with one-third of the total body



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rotating off each year. For a new organization, this requires having one-third of the body elected to a one-year term, one-third to a two-year term, and one-third to a three-year term.

Depending on the size of the organization and thus the "pool" of members available to serve on the board, it may be appropriate to allow board members to be reelected to one additional term of three years. By the same token, officers are normally elected to one-year terms without the right of successive terms. This keeps the upper rungs of the leadership ladder open to new members every year. One exception to this model is allowing the treasurer to serve multiple one-year terms if this individual is doing an effective job of working with staff in exercising appropriate fiscal responsibility and has no aspirations to higher office on the board.

Many non-governmental organization boards are designating one or two seats on their board for "public" board members, usually individuals well-versed in the interests and activities of the association, but not engaged in the day-to-day practice or business represented. This seat could be for an academician, retired practitioner, an attorney, or an accountant who could, through their own success and experience, offer an independent and detached perspective, positively contributing to the decision-making process.

The bylaws also define the election process for the organization. Typically, an organization will appoint, through the executive committee, a nominating committee charged with identifying candidates for all open board seats and officer positions. Many associations only nominate one candidate for each seat, ensuring a comfortable transition between being nominated and installed.

Even then, some will provide for "write-in" candidates should a group of members wish to contest the slate presented. It is fairly typical for an organization to present the list of candidates chosen by the nominating committee to the members, with a time certain, typically 60-90 days, for offering any "write-in" competitors. Otherwise, barring no additional candidates, the nominated slate is declared duly elected and installed, usually at the annual meeting of the organization.

It is a practice among many associations and NGOs to have the directors elected by the members and the officers elected by the newly installed board of new and continuing members. When an organization provides for a "contested ballot," meaning more than one candidate for each seat is nominated by the nominating committee, the election process becomes more competitive and the results are directly related to how the members view the candidates' qualifications to govern the organization. Bylaws must spell out what constitutes a majority vote of members in the election process, for example, a "simple majority," "two-thirds majority," or other specifically defined method.

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Role Clarification

Earlier references to the importance of strong partnerships between staff and governing bodies are usually borne out in observing how an organization assigns primary responsibility and accountability for the functioning of the entity itself. A primary and often misunderstood example is the staffing function of an organization. A well-run association or NGO will clearly empower the board or executive committee to hire, evaluate, and fire the chief staff officer. In turn, it is the responsibility of the chief staff officer to hire, evaluate, and fire all other staff of the organization. This model effectively removes the governing body and/or any individual member from the hiring and evaluation process of personnel other than the chief executive. If there are performance issues of staff creating concern among board members, the chief staff officer needs to be informed by the elected leaders and deal with those issues promptly.

In the vital area of policymaking, proper roles are for the staff to research and recommend and for the board to review staff recommendations as they make their group decision on each issue. Once the governing body decides policy, it then becomes the responsibility of staff to execute the decision in the appropriate manner. A key area of performance evaluation for the chief staff officer is how he or she implements decisions of the board on key issues and actions.

Many non-governmental organization boards are designating one or two seats on their board for "public" board members, usually individuals well-versed in the interests and activities of the association, but not engaged in the day-to-day practice or business represented.

Staff should be responsible for managing the finances and financial records of the organization, recognizing that bylaws usually assign specific stewardship accountability to the elected treasurer. A solidly transparent organization is evaluated more closely on financial issues than any other single function or activity. Timeliness of financial statements, solid and realistic budgeting, and careful oversight of the financial resources are all measurements of good staff management and are appreciated by the governing body.

The elected treasurer should be able to articulate the state of finances at each meeting of the governing body and answer questions by fellow board members. The need for partnership is very evident in the relationship between staff and the elected treasurer. This relationship must be open and candid with a shared sense of responsibility. The treasurer should be able to always depend, without exception, on the accuracy and integrity of any financial information shared, always being able to assure the board of an accurate representation of financial health at any point in the fiscal year.

There are other functions that can be effectively shared between staff and governing bodies, including making recommendations for appointments to committees and task forces, ensuring the credentials of candidates being considered for election to the board, co-authoring public pronouncements or speeches as well as articles for publication, and fundraising from outside organizations and individuals.

The more clearly understood the roles of staff and governance are, it becomes easier to represent the best interests of the members, donors, and supporters of the organization. An organization can have a greater impact and lasting presence with dynamic and high-quality staff and board leadership.

Associations, professional societies, foundations, and charities all depend on quality governance and professional staffing. Leadership becomes real in the governance process. Good governance should breed good leaders and good leaders depend on the best possible governance. Fueled by a workable structure and solid respect from the members, organizations will always be well-served by a strong and interactive governance model.

We are grateful to CIPE for the permission to publish this article.

(*Michael S. Olson is principal of the Global Association Consulting)*

Nigeria-South Korea: Prospects of Growing Trade Relations

* By Charles Ujomu

s Africa's biggest and the world's seventh largest oil producer, Nigeria offers enormous potential for co-operation with Korea in major bilateral issues. These are in the areas of energy resources as the Asian country seeks to diversify its sources of power supply, physical infrastructure development as well as information and communication technology (ICT), among others. With a population of over 140 million, Nigeria is a leading player in the Economic Community of West African States (ECOWAS), thus offering Korea prospects of expanded trade relations with West Africa. Nigeria is currently Korea's second largest trading partner in Africa behind South Africa and the largest market for Korean construction companies on the continent. Nigeria, home of large-size deposits of crude oil, natural gas and minerals, is an important supplier of energy and other natural resources for Korea. This provides an opportunity for Korea to make inroads into the Nigerian market, especially in consumer goods and manufacturing. Nigeria, no doubt, has great demand for small and medium-size plant construction equipment required for making everyday household items as well as processing agricultural produce. Korea, which has a competitive edge in quality and price over some other 'Asian Tiger' countries, has the potential to become the favoured supplier of these items in Nigeria.

Nigeria Vs South Korea: Demographic and Physical Features

South Korea is among the world's most ethnically homogeneous countries as the number of indigenous minorities is negligible compared to Nigeria's more than 250 ethnic groups. Koreans view a common language and culture as important elements in their identity. This further highlights the fact that the idea of multiracial or multiethnic countries, like Nigeria, strikes many Koreans as odd or even contradictory. The average number of children born to a woman over her lifetime in Nigeria is higher than that of South Korea as shown in their total fertility rates with Nigeria's 4.91 children born/woman compared to 1.21 children born/woman in South Korea. This also reflects in their population figures as Nigeria's population is about three times the size of South Korea's. South Korea's life expectancy of 78.72 years is far above Nigeria's 46.94 years partly due to better general healthcare in Korea than Nigeria. South Korea has experienced rapid fertility decline for the last four decades, from a total fertility rate of 6.0 in 1960 to below 1.5 in 2008. The ambitious national family planning programme initiated in the early 60s has significantly contributed to this rapid fertility decline. Interestingly, the Korean state was concerned with controlling women's reproductive power and promoting socio-economic development; men and women were not objects of contraception but rather agents implementing the family planning programme creatively and using it to secure their own goals strategically. The birth control method played a critical role of effective performance of South Korea's family planning programme. South Korea's birth rate of 8.93 births/1,000 population which is lower than the world's 19.95 births/1,000 population and Nigeria's 36.65 births/1,000 population is attributed to this trend.

Although life expectancy in South Korea has improved ▸

Life Expectancy at Birth

Year	Nigeria	South Korea
2003	51.01	75.36
2004	46.74	75.82
2005	46.74	76.85
2006	47.08	77.04
2007	47.44	77.23
2008	46.53	78.64
2009	46.94	78.72

Source: index-mundi

Demographic & Physical Features

Index	Nigeria	South Korea
Population (millions)	149,229,090	48,508,972
Total Fertility Rate	4.91 Children Born/Woman (2009 est.)	1.21 Children Born/Woman (2009 est.)
Population Growth Rate (%)	1.99%	0.27%
Life Expectancy at Birth:		
Total Population (years):	46.94	78.72
Male (years):	46.16	75.45
Female (years):	47.76	82.22
Land Area:		
Total (sq. km)	923,768	99,720
Land (sq. km)	910,768	96,920
Water (sq. km)	13,000	2,800
Land Boundaries (km)	4,047	238
Irrigated Land	2,820	8,780

Source: World Fact Book – 2009

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Millennium Tower, Busan, South Korea

greatly especially since the 1950s, the country still has a number of important healthcare challenges. According to the Korean Ministry of Health and Welfare, **chronic diseases** account for the majority of diseases in South Korea, a condition aggravated by the health care system's focus on treatment rather than prevention. The Nigerian healthcare system also faces some challenges as long years of neglect by successive administrations among others have resulted in the decay of the system. The Nigerian government is however currently embarking on various reforms with the aim of ensuring that the country's healthcare system is improved upon, in line with its seven point agenda.

South Korea is located in Eastern Asia, on the south half of the Korean Peninsula bordering the Yellow Sea and Sea of Japan. The country consists of over 3,400 islands with a coastline of 2,413 km along the three seas – Yellow Sea, South China and the Sea of Japan. Nigeria's total area of 923,768 sq. km is about nine times the size of the South Korea's 99,720 sq. km. In South Korea, 96,920 sq. km is land and 2,800 sq. km is covered by water compared to Nigeria's 13,000 sq. km. South Korea's self-sufficiency in rice, its key staple food, is not unconnected to its rich irrigated land of 8,780 sq. km, about three times that of Nigeria's 2,820 sq. km.

Nigeria Vs South Korea: Economies

Nigeria and South Korea occupy important positions of economic influence on their continents as well as at regional levels. The economy of South Korea is a developed, largely free-market one, fourth largest in Asia and indeed 15th largest in the world. The country is considered and known to be one of the 'Asian Tigers'. While Nigeria has emerged as a true sub-regional power in the Economic Community of West African States (ECOWAS) where she accounts for about 60 percent of the sub-region's economic output, the oil-based economy of Nigeria operates what can be called an "open-market economy". South Korea is currently classified as a high income economy not only by the World Bank but also by the IMF. As a matter of fact, the country has the smallest gap between the rich and the poor among the high income Asian economies. While Nigeria relies heavily on the export of crude oil for her revenue, South

Key Economic Indicators: Nigeria and South Korea

Indicators	Nigeria	South Korea
GDP (PPP, US$)	338.1 billion (2008 est.)	1.335 trillion (2008 est.)
GDP Real Growth Rate (%)	6.1 (2008 est.)	2.2 (2008 est.)
GDP Per Capita (US$)	2,300 (2008 est.)	27,600 (2008 est.)
Labour Force (million)	51.04 (2008 est.)	24.35 (2008 est.)
Labour Force By Occupation:		
Agriculture (%)	70	7.2
Industry (%)	10	25.1
Services (%)	20	57.6
Investment (% of GDP)	21.40	27.1
Inflation Rate (%)	10.60 (est. 2008)	4.7 (2008 est.)
Oil Proved Reserves (bbl)	36.22 billion	-
Natural Gas Production	34.10 billion cu m	443 million cu m
Natural Gas Proved Reserves	5.21 trillion cu m	50 billion cu m
Current Account Balance (US$ billion)	7.722 (est. 2008)	-6.349 (2008 est.)
Exports (billion f.o.b.)	83.09 (est. 2008)	433.5 (2008 est.)
Exports Commodities	Petroleum and Petroleum Products 95%, Cocoa, Rubber	Semiconductors, wireless telecommunications equipment, petrochemicals, motor vehicles, computer, steel, ships.
Exports Partners	US 51.6%, Brazil 8.9%, Spain 7.7% (2007)	China 26.6%, US 11.3%, Japan 6.7% (2008 est.)
Imports (billion f.o.b.)	46.36 (est. 2008)	427.4
Imports Commodities	Machinery, Chemicals, Transport Equipment, Manufactured Goods, Food and Live Animals	Machinery, electronics equipment, oil, steel, transport equipment, organic chemicals, plastic.
Imports Partners	China 10.6%, Netherlands 7.9%, US 7.8%, South Korea 6.6%, UK 5.7%, France 4.3%, Brazil 4.2%, Germany 4.1% (2007)	China 19.7%, Japan 15.5%, US 9.1%, Saudi Arabia 6.3% (2008 est.)

Source: CIA

GDP Real Growth Rate

Year	Nigeria	South Korea
2003	3.00 %	6.20 %
2004	7.10 %	3.10 %
2005	8.20 %	4.60 %
2006	6.90 %	4.00 %
2007	5.30 %	4.80 %
2008	6.40 %	5.00 %
2009	5.30 %	2.20 %

Source: Index-Mundi

The economy of South Korea is a developed, largely free-market one, fourth largest in Asia and indeed 15th largest in the world.

Korea's Major Exports Partners in Africa - 2008

Rank	Partners	Value (Million euro)
1	Nigeria	1.509
2	South Africa	1.303
3	Egypt	905
4	Algeria	617
5	Congo	393
6	Libya	323

Source: IMF

South Korea's Major Imports Partners in Africa - 2008

Rank	Partners	Value (Million euro)
1	South Africa	1.413
2	Algeria	549
3	Egypt	476
4	Zambia	469
5	Cameroon	403
6	Nigeria	376
7	Sudan	291

Source: IMF

South Korea's Major Trade Partners in Africa - 2008

Rank	Partners	Value (Million euro)
1	South Africa	2.717
2	Nigeria	2.285
3	Liberia	1.949
4	Egypt	1.382
5	Algeria	1.166
6	Congo	557

Source: IMF

Korean economy depends on export of information technology products, steel and ships among others. The 'Asian Tiger' country boasts of the world's highest broadband internet access per capita while its ICT industry competitiveness ranks among the top three in the world.

In the 1960s, the economy of South Korea transformed from a poor, agricultural society to one of the most highly industrialized ones in the world. This underscores the slow-moving pace of the agricultural sector compared to both industrial and services' sectors of the Korean economy. Due to the rapid development witnessed in the economy of the country, about half of its need for items such as barley, fruit, vegetables, cattle, pigs, chickens, fish and milk are largely met through importation.

Agriculture accounts for about 7.2 percent of the Korean total gross domestic products (GDP) compared to Nigeria's 70 percent contribution to its economy. Despite the huge size of agricultural contribution to the economy of Nigeria, the sector still faces some challenges that have skewed its economy towards over-dependence on petroleum and indeed made the nation rely heavily on imported food. The challenges of poor credit facilities, inadequate inputs, poor infrastructure, paucity of improved seeds and seedlings among others have continued to confront the country's agricultural sector. Available statistics show that Nigeria's food import bills rose from N147.38 billion in 2004 to N299.48 billion in 2008. Under the current scenario, Nigeria is still far from fulfilling its commitment to agriculture. Economic experts view that the country needs to move away from its reliance on food imports, to securing its food supplies through rapid, sustainable improvement in local food production.

South Korea's industrial sector accounts for 25.1 percent of its total economy while that of Nigeria contributes just about 10 percent to its GDP. This rapid growth of the South Korean industrial sector is attributable to the cooperation between government and business leaders who work together to target specific industries for continuous

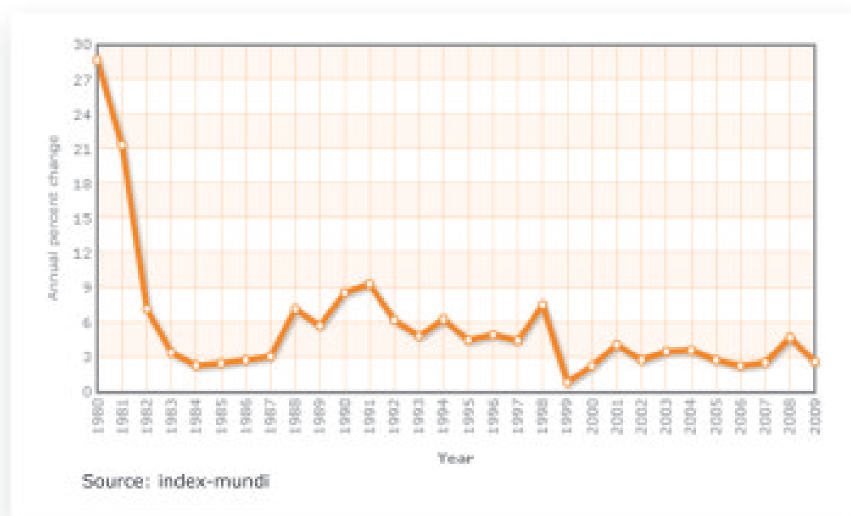
A man stands in front of a statue titled "Seoul broods a golden egg" at the Seoul city hall plaza in central Seoul. The statue was made up of wires and stones on which people wrote their wishes.

development.

This explains the fact that today, the economy of South Korea is characterized by low unemployment, export surplus and reasonably equal distribution of income. The nature of growth seen in the Korean industrial sector is considered a key stimulus to its overall economic development. The country's main industries include automobiles, electronics, steel products, semi-conductors, shipbuilding and textiles. On the other hand, the oil boom of the 1970s led Nigeria to overlook its light manufacturing base in favour of an near-total reliance on crude oil. The direct impact of this is the relatively low contribution of its industrial sector to the country's economy as it ranks 44th on the globe.

Nigeria's services sector which contributes about 20 percent to the country's economy, ranks 63rd in the world and fifth in Africa. Further analysis shows that low power generation and telecom density are some of the main challenges that have dwarfed the growth of this sector. The trend in South Korea is however different as this sector is the largest contributor to its economy. South Korea's services sector accounts for about 57.6 percent of its GDP. The service industries include insurance, restau-rants, hotels, laundries, health related services and entertainment businesses among others. An extremely competitive education system and a highly skilled and motivated workforce are two key factors driving this knowledge economy. In recent years, Korea's economy moved away from the centrally planned, government-directed investment model toward a

South Korean Inflation (1980-2009)



more market-oriented one.

Since the mid 1980s, Korea has achieved an incredible record in its inflation rates. The overall inflation rate in Korea averaged 4.7 percent compared to Nigeria's 10.60 percent in 2008. The inflation rates in both countries have however slowed to 2 percent (October 2009) in Korea and 10.4 percent in Nigeria (September 2009). With the determination on the part of the Nigerian government to target inflation rate at a single digit one, policies are being directed at stability of prices of goods and services.

Nigeria Vs South Korea: Trade Relations

One striking feature of Korea's economic structure is its heavy reliance on international trade. In 2008, the value of Korean merchandise export trade stood at an estimated US$433.5 billion, about five times that of Nigeria's US$83.09 billion. This Korea export trend is linked to the export-oriented industrialization drive initiated by the then presi-dent, Park Chung-Hee. Korean exports mainly are made up of semiconductors, wireless telecommunications equipment, petrochemicals, motor vehicles, computer, steel, electronic products, machinery and ships. During the same period, both Nigeria and South Korea's imports stood at US$46.36 billion and US$427.4 billion respectively. Nigeria's major import commodities are machinery, chemicals, transport equipment, manufactured goods, food and live animals.

In 2008, Nigeria ranked 6th as Korea's major import partners in Africa and 39th in

the world. One obvious trend here is the low level of import trade relations between Korea and Nigeria as the proportion of commodities sold to Korea by Nigeria was 0.1 percent of the total goods imported into Korea in 2008. This is also a reflection of minimal trade relations between the Asian country and Africa continent. South Africa ranked 1st in Africa on the export to Korea but this translated to only 0.5 percent of the total commodities purchased by Korea in the world in 2008. Hence, the argument for trade expansion between Korea and Nigeria also extends to the entire African continent. This is considered imperative as the level of import trade relations between Korea and some Asian, North American and Middle East countries averages 14.76 percent. China, Japan and United States recorded 19.7, 15.5 and 9.1 percent respectively in 2008 in terms of commodities sold to Korea. Today, more than ever before, there is every genuine reason for Nigeria to develop its non-oil sector base. Expanding the trade ties between the two countries would not only help to broaden this area of the country's economy but also improve foreign exchange earnings.

Korea's major export commodities to Nigeria are telecommunication equipment, petrochemicals, motor vehicles, steel, ships etc. In 2008, Nigeria ranked first on the Korean export partners list in Africa as items worth over 1.9 billion euros were exported to Nigeria that year alone; about 0.7 percent of the Korean total global exports within that year. Statistics show that on both import and export sides, Nigeria trade relations with Korea over the years remained minimal, less than 1 percent of the total transactions with the Asian country's major trading partners. Apart from Nigeria, South Africa, Egypt, Algeria, Congo and Libya are Korea's major trading partners in Africa. It has become imperative that the Nigerian government should, through a mix of policies, drive its private sector/industrialists to grow its trade with Korea. One important lesson from the Korean experience is that due to its heavy dependence on import of raw materials like oil, its government ensures high emphasis on the growth of exports, greater international competitiveness and higher productivity.

It has become imperative that the Nigerian government should, through a mix of policies, drive its private sector/ industrialists to grow its trade with Korea.

Obviously, Nigeria should seek to broaden and deepen its economic relationship with South Korea beyond mere exporting of oil and gas to the Asian country. In fact, improved political, economic and diplomatic relations between the two countries would not only create a true platform for better understanding but also open up investment opportunities in other areas of interest like agriculture, real estate and power generation other than oil and gas. Addressing the balance of bilateral trade difference between the two countries would also make the African country a multiple export product nation and help to increase the level of trade between Nigeria and Korea. It will be interesting, for instance, to see increased Korean investments in infrastructure development, power generation, auto plants, computer engineering, agriculture, shipbuilding, agro-allied industries and cutting-edge medical facilities among others in Nigeria. This will indeed boost the socio-economic and industrial development of the country.

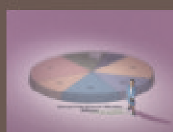
(Charles Ujomu is an Analyst, Zenith Economic Quarterly)*

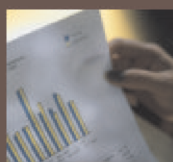
Facts & Figures

Ibrahim Abubakar

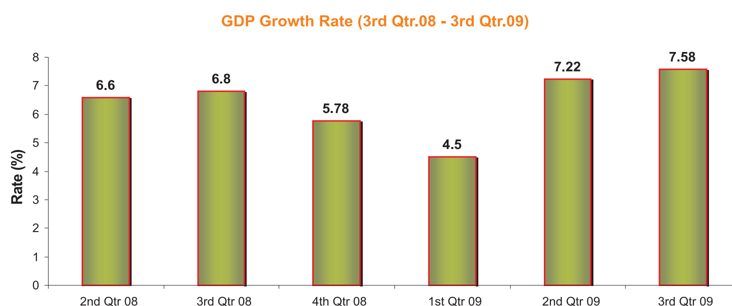
MACROECONOMIC ENVIRONMENT

The Nigerian economy in the third quarter 2009, recorded mixed performance in several parameters. Some of the indicators witnessed remarkable improvements, while others began on a low beat but rebounded by the tail end of the quarter. Gross Domestic Product (GDP), for instance, grew in the third quarter; inflation slowed down, dipping closer to the single digit rate targeted in the 2009 budget. The Monetary Policy Rate (MPR) was slashed down significantly. Foreign exchange reserves dwindled moderately during the quarter. The nation's currency, the naira, lost value against other major world currencies but regained strength by the close of the quarter. Bearish trend continued in the capital market, with investors remaining cautious all through. In the international crude oil market, crude oil price surged, recovering some of initial losses.





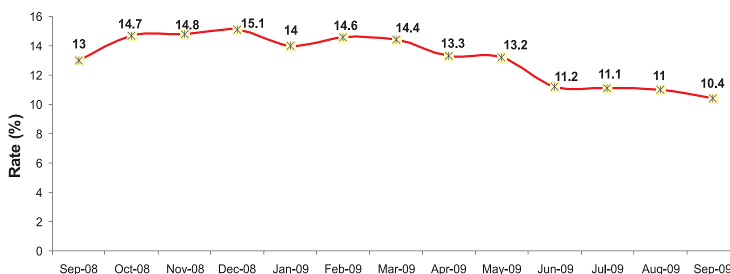
GROSS DOMESTIC PRODUCT



Source: CBN

Gross Domestic Product in the third quarter was estimated at 7.58 percent, up from 7.22 percent in the preceding quarter. Real GDP growth continued to be driven by the non-oil sector. Despite delayed start of rains in far North and persistent flooding in some Southern regions, favourable weather conditions in most part of the country allowed agriculture to continue its dominance as the major contributor of GDP. For the oil sector, a marked improvement in output came as a result of the amnesty deal offered to Niger Delta militants, lifting production up by an estimated 134 percent between August and September. Real GDP has been projected to remain robust for the remainder of 2009 on the basis of output growth recorded so far.

INFLATION

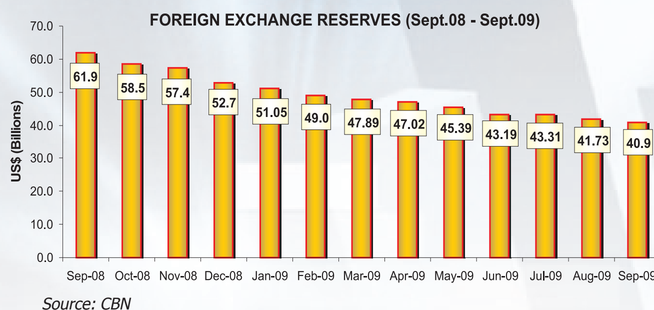


Source: NBS

The Year-on-Year (y-o-y) inflation continued its downward slide in the third quarter 2009, slowing down to 16 months low of 10.4 percent in September. Inflation has been on a gradual decline for seven consecutive months after continuous acceleration since May 2008. The downward spiral saw inflation inching down in July and August to 11.1 and 11 percent respectively. This was essentially due to imported inflation arising from a temporary weakening in the value of naira exchange rate. In September however, inflation dropped sharply to 10.4 percent, inching closer to CBN's target of a single digit rate due to the combined effect of subdued demand and a decline in the price of some staples like maize, millet and sorghum. Although surging food prices of other staples posed a major challenge during the period, this was counterbalanced by the dampening effects of those with low prices. Overall, core inflation declined consistently during the quarter.

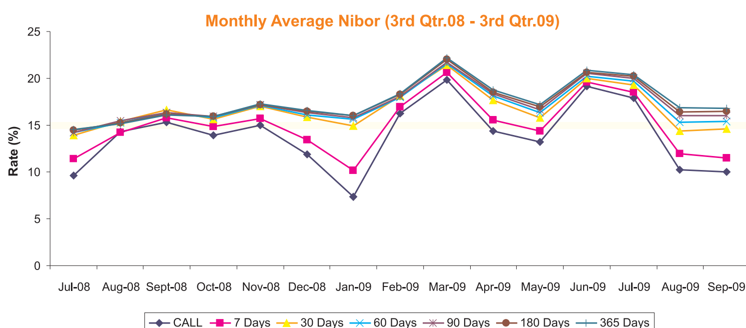
Facts & Figures

EXTERNAL RESERVES

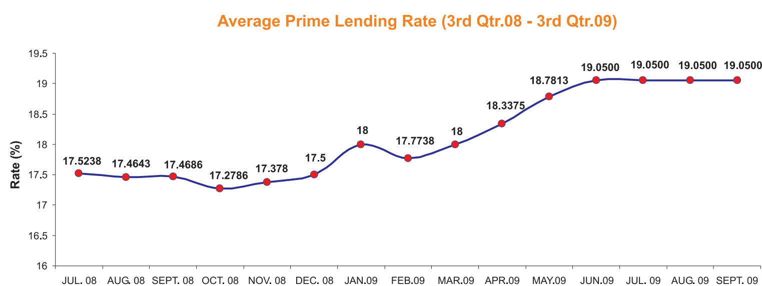


Source: CBN

The nation's stock of external reserves experienced a decline for most of the third quarter 2009, despite a rebound in crude oil prices in the international market; it however made some recovery towards the tail end of the quarter. The stock of foreign reserves had been consistently dropping over the past 12 months, from a record high of US$64 billion in August 2008. However, in its Monetary Policy Committee communiqué Number 66, issued on November 03, 2009, the apex bank said the external reserves stood at US$43.34billion as at end September, and that it was capable of financing about 15 months worth of imports. The authorities attributed the improvement in reserves at the end of the quarter to the receipt of Special Drawing Rights (SDR) allocation. In the last quarter of the year, the external reserve position is projected to improve further due to expected increase in crude oil output and prices in the international markets.



Source: Financial Markets Dealers Association of Nigeria (FMDA)

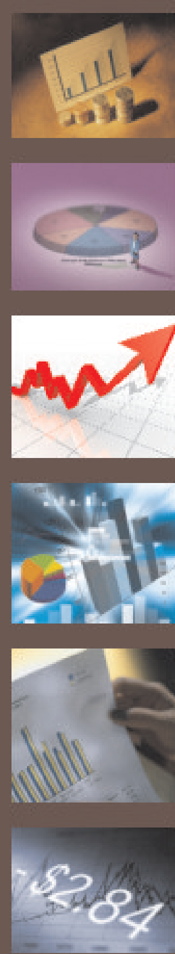


Source: Financial Markets Dealers Association of Nigeria (FMDA)

INTEREST RATE

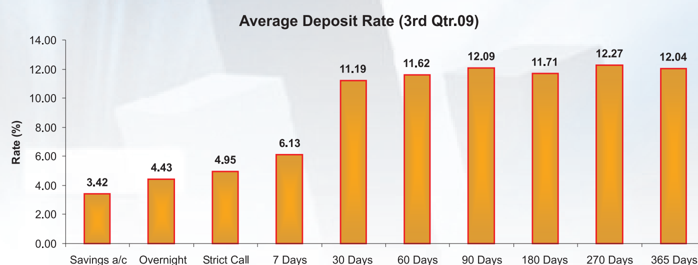
Amidst skyrocketing cost of funds, the CBN thrilled manufacturers by slashing its Monetary Policy Rate (MPR) from 8 to 6 percent in the third quarter 2009, a sharp cut last witnessed about three years ago.

The average monthly interbank rate (NIBOR) fell sharply across most tenors after a liquidity squeeze in June. For instance, rates were highly volatile on the Call and 7 Days tenors. The rate on the Call tenor crashed to a three-year low to 4.2 percent in August from 22.9 percent in the preceding month. Liquidity pressures eased earlier in July as the CBN reined in rates using a mixture of measures such as lifting restriction on funds obtained from its lending window to be placed in the interbank market; allowing FGN bonds to count as eligible instruments for repo transactions and guaranteeing all interbank transactions from July 2009 to March 31, 2010. Rates came down significantly in August as the market got 'awash' with a N420 billion injection into five 'bailed-out' banks by the CBN as well as a $2 billion release from the Excess Crude Account. Liquidity was further boosted with about N365billion Statutory Revenue Alloca-

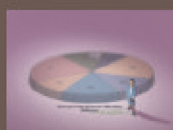


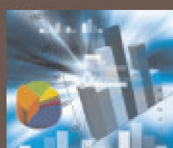
tions to the three tiers of government.

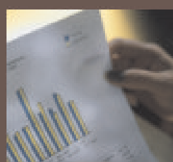
In terms of the cost of borrowing, the average Prime Lending Rate (PLR) remained relatively stable in the third quarter due to improved liquidity. Generally, rates hovered around 19 percent all through the quarter, reflecting the soaring risk premium banks demand to lend. Returns on the average deposit rates were mixed across most investment horizons during the third quarter. Rates inched up marginally in July on most tenors. However, in August rates on the 7 Day and overnight tenors dropped by 27 and 19 basis points respectively but climbed back up by 18 and 11 basis points respectively in September.



Source: Financial Markets Dealers Association of Nigeria (FMDA)

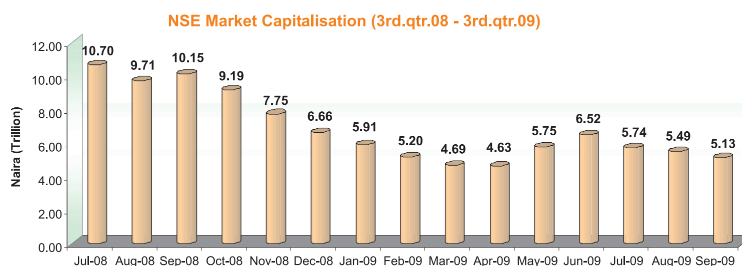




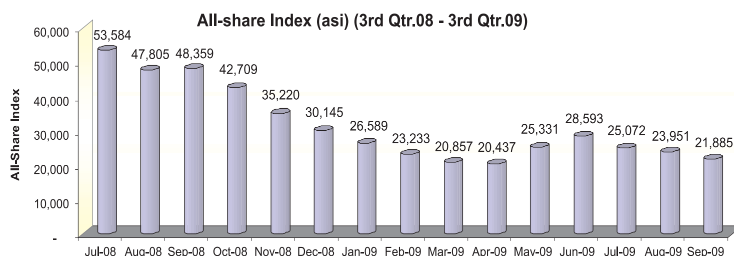


CAPITAL MARKET

The capital market continued its weak performance in the third quarter, retreating to an earlier low level, after remarkable gains during May and June. The All-Share Index (ASI) and market capitalization finished a volatile quarter at 22,065 and N5.13 trillion respectively, from 26,861.55 and N6.12 trillion in the preceding quarter.

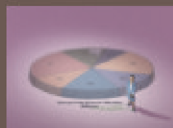


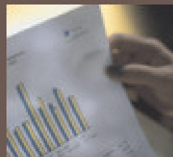
Source: Nigerian Stock Exchange (NSE)



Source: Nigerian Stock Exchange (NSE)

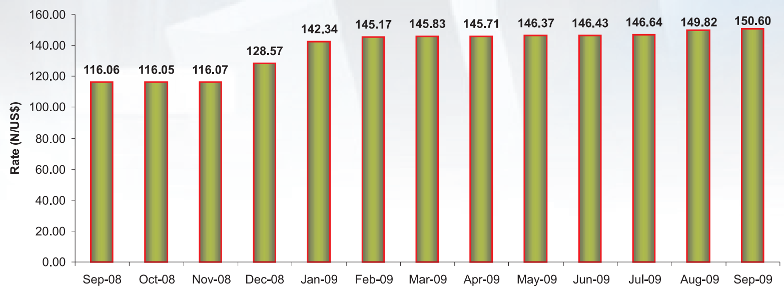
It was a roller-coaster ride for investors, as stock prices seesawed during the quarter, triggering rounds of profit-takings. Market sentiments were weakened on the back of uncertainties over CBN/NDIC banks audit exercise. Investors remained cautious as they watched for signs of recovery coming from banks loan-loss provisions in the first leg of the audit exercise. On the upside, quoted companies continued to post impressive earnings providing a boost to a fragile investor confidence. Also, a number of companies joined the official list of the NSE: e-transact International; Portland Paint; African Alliance Insurance Company, as well as the Imo State Government Bond.





EXCHANGE RATE

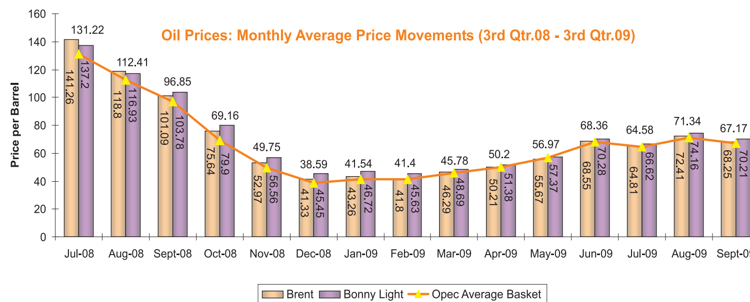
The nation's currency, the naira, lost some stability, coming to a low of N151.41/US$ in the third quarter 2009; although it regained some strength by the tail end of the quarter. Cumulatively, the naira lost about 25 percent of its value since November last year. In the bid to strengthen the currency the CBN reintroduced the Whole Sale Dutch Auction (WDAS). In its twice weekly auctions, the apex bank supplied about US$7billion against US$6.2billion demanded during the quarter. To further stabilize the market, the CBN reduced the minimum paid up capital of Class 'A' BDCs from N500 million to N250 million and resumed direct sales to these operators. The CBN also barred banks from trading foreign exchange sourced from the official market in the inter-bank market in August to curb speculations.



Source: CBN

OIL

Crude oil prices in the international market surged to new high of about US$73.84 per barrel in the third quarter despite a minor correction to U$59.89 early in July. Crude oil prices have increased by about 117 percent this year, although still around 49 percent below the record high of $147 per barrel in July 2008. Despite having jumped by around 27 percent in the second quarter, crude oil price squeezed out a gain of only 7 percent in the third quarter, trading in a band of US$60-US$75 per barrel. The price of Nigeria's brand of crude oil, Bonny light, spiked at a one-year high of around 74 dollars per barrel, gaining about US$4 dollars in the third quarter. Industry analysts attributed the rebound in crude oil prices to signs that world's biggest energy consumers, the US and China, have entered a new, though fragile, phase of recovery. Crude prices climbed steadily during the quarter buoyed also by a weaker US dollar. With prices pivoting around $70 per barrel, OPEC agreed to maintain its existing production target of 24.845 million barrels per day in its September meeting as huge inventory overhang revealed that demand was still weak during the quarter. In the months ahead, crude oil prices are expected to remain intact.



Source: Energy Information Administration