

**PROMOTING GOOD CORPORATE GOVERNANCE:
ISSUES AND CHALLENGES**

BY

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THE GOVERNOR CENTRAL BANK OF NIGERIA AT THE ANNUAL**

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The Chairman, FITC Governing Council,

Vice-Chairman, FITC,

The Director-General, FITC

Distinguished Directors,

Ladies and Gentlemen.

It is a privilege to be invited as a Special Guest at this year's Annual Directors= Seminar to deliver the Keynote Address. I commend the Financial Institutions Training Centre for the initiative of this annual event, which brings Chief Executive Officers of Financial Institutions together, to discuss and examine contemporary issues that touch on the effective functioning of the economy.

2. Issues of corporate governance have become so pervasive in recent years, and the lessons learned from experiences of dealing with them is so important that the topic for today's seminar, "Promoting Corporate Governance: Issues and Challenges" becomes relevant and timely. Moreover, it is important to recognise that economic performance of any

country is shaped largely by the quality and effectiveness of the nation's corporate governance. Thus, the world over, sound corporate governance has become of major concern not only to business enterprises, but also central banks and governments.

3. The impact of good governance on economic performance can be appreciated when we recognise that growth is positively related not only to the size of investment but also to the efficiency of its allocation. A good system of corporate governance ensures that directors and managers of enterprises carry out their duties within a framework of accountability and transparency. This is imperative for financial institutions because of their critical role in the economy, particularly their responsibility to exert effective corporate governance in the other sectors of the economy. The benefit is that the overall efficiency and competitiveness of the economy will be enhanced thereby boosting investor confidence in the country.

4. The link between corporate governance and investor confidence is clearly attested to by the outcome of a survey conducted by McKinsey and Company in collaboration with the World Bank in June 2000. In the survey covering 200 institutional investors, 75 per cent of the respondents acknowledged that board practices are as important as financial results in evaluating investment opportunities. Moreover, over 80 per cent of the respondents were

willing to pay more for the shares of a company that is well governed than one with similar financial result but with poorer governance practices.

5. Since the corporate performance of banks and other financial intermediaries is crucial for efficient resource allocation, at both the micro and macro levels, it is important for banks themselves to put in place sound corporate governance. In fact, no one single factor contributes more to institutional problems, capable of precipitating crisis, than the lack of effective governance.

6. Ladies and Gentlemen, you will agree with me that our recent experience in the financial sector has fallen below expectations. The implication is that the country's desperate bid to attract investment flows for growth and development may be frustrated. It is my expectation, therefore, that this seminar should be able to identify the special problems facing corporate governance in Nigeria, particularly the financial sector with a view to making appropriate recommendations, for improved performance based on theoretical perspective and lessons of experience.

7. Let me re-emphasize here that good corporate governance is an important step towards building market confidence and encouraging stable, long-term international investment flows into the country. Since the business corporation is becoming an increasingly important engine of wealth creation and growth, not only in our economy but also worldwide, it is imperative that our companies operate within standards that keep them well focused on their objectives and hold them accountable both to the shareholders and for their actions.

8. Fellow colleagues, it is important, therefore, that this seminar should come up with

recommendations that will assist in ensuring that directors and managers of enterprises carry out their duties within a framework of accountability and transparency.

9. In this context, the five principles in corporate governance issued by the Organization for Economic Co-operation and Development (OECD) in May 1999, should provide necessary guidance. The main thrust of the principles is to ensure better disclosure of important information to shareholders and vigorous protection of shareholder interests, especially those who hold a minority interest or are located abroad. This is a very important area that I hope the seminar participants will discuss at length.

10. Of much relevance to most participants at this seminar is the guidelines issued in September 1999 by the Basle Committee under the Bank for International Settlements (BIS) on corporate governance, which was aimed at:-

- encouraging practices that strengthen corporate governance;
- setting an international benchmark for sound corporate governance; and
- assisting supervisory authorities in promoting the adoption of sound corporate practices in their banking system.

11. You should also take an in-depth look at the two principles of the IMF ACode of Good Practices on Transparency in Monetary and Financial Policies@which focus on corporate governance. The IMF document calls on central banks and financial agencies to adopt policies that will give them greater independence and make them more accountable to the public. The code was designed to:-

- clarify roles, responsibilities and objectives of financial agencies responsible for

financial decisions;

- open the process for formulating and reporting of financial policies and decisions;
- provide for public availability of information on financial policies; and
- ensure accountability and assurances of integrity by central banks.

12. The underlining principle is that monetary and financial policies can be made more effective, if the public knows and understands the goals and instruments of policy and the central bank makes a credible commitment to meeting such goals. The CBN has embarked on an increasing level of openness in the conduct of its monetary policy. There are regular consultations and discussions with banks under the aegis of the Bankers' Committee, while the introduction of the Monetary Policy Forum creates an opportunity for cross fertilisation of ideas on monetary and economic policy issues by major stakeholders in the economy.

13. Cognisant of the need to build in human resources capacity and adopt modern technology to ensure enhanced efficiency and effectiveness in meeting its core mandates, the CBN has in the past three years embarked on a comprehensive reform agenda. Under the code name **PROJECT EAGLES** the Bank has expended considerable energy and resources to upgrade its systems, procedure and people. While the implementation of the project is still underway, we are beginning to see the early signs of improvement in virtually every aspect of the Bank's operations, particularly our surveillance activities.

14. Distinguished participants, I am happy to also report that as the supervisor and regulator of the banking system, we have virtually implemented all the Basle core principles on banking supervision. The Bank has also adopted the code of good practices in

monetary and financial policies, the international standards on auditing and is moving towards the full adoption of International Accounting Standards. Finally, the CBN is making strides in implementing the recommendations of the Financial Action Task Force (FATF) to combat money laundering and advanced fee fraud. Nigeria has also made some progress in the areas of criminal justice, law enforcement, building a sound financial system and is actively co-operating with international agencies and institutions to sustain these efforts.

15. It is also significant to note that in February 2002, Nigeria benefitted from the IMF Safeguards Assessment Programme, thus further underscoring the country's commitment to ensuring good corporate governance in businesses.

16. Let me emphasize that, in addition to the efforts made by the CBN, the promotion of sound corporate governance in banks and other financial institutions is also critical to ensuring the soundness and stability of the financial system. Poor corporate governance at both the supervisory and operator levels could result in corporate failures as evidenced in the Baring (UK), Enron (USA), and the recent experience in Nigeria.

17. It is very important that, banking and other financial institutions should put in place necessary structures and framework for the implementation of good corporate governance values such as acceptable limit of behaviour which are communicated throughout the financial institution.

18. The Central Bank of Nigeria will continue to effectively play its supervisory and regulatory role to ensure sound corporate governance in financial institutions under its purview, by ensuring that only fit and proper persons are appointed into boards and top

management positions. Also, unprofessional conduct and unethical behaviour by both the financial institutions and their managers will remain under sanction. This has been lately demonstrated by the stiff penalties imposed on banks involved in various foreign exchange malpractices. Furthermore, the CBN will continue to strongly enforce its guidelines on the requirements for board and top management appointments aimed at enhancing managerial competence in banks.

19. However, notwithstanding the commitment of the supervisory authority, the primary responsibility for ensuring good corporate governance rests, with the directors and top management of financial institutions themselves. The Annual Directors meeting invariably provides an appropriate forum for preaching the virtues of good corporate governance and its relevance to the survival of institutions in today's global economic environment. It is, therefore, my desire that participants at this seminar will in appreciation of this fact focus on finding the salient issues on corporate governance, and the strategy for implementing them in their various organizations.

20. In conclusion, Ladies and Gentlemen, given the calibre of lead speakers that we have lined up and participants at this seminar, I am confident that at the end of your deliberations, you would have sufficiently addressed the issues raised in this address and come up with credible recommendations that will enhance the quality of corporate governance in Nigeria.

21. Once again, I welcome you all and wish you fruitful deliberations.

22. It is my pleasure to declare this seminar open.

Chief (Dr.) J. O. Sanusi,

Governor
Central Bank of Nigeria

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