The Nigerian
First Published: May 1980

Banker

Journal of The Chartered Institute of Bankers of Nigeria, October - December, 2013 ISSN 0197-6679 N500.00

50TH ANNIVERSARY AWARDS/ GALA NIGHT

- Ethics, Professionalism and Corporate Governance Practices in Nigerian Banks and their Impact on Consumer Complaint Management in Nigeria
- Managing Naira Exchange Rate Based on Dollar as a Third Currency
- The Philippine Microfinance and Financial Inclusion Experience

CELEBRATING THE CIBN @

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THE NIGERIAN BANKER
(ISSN: 0189-6679)

Published by
The Chartered Institute of Bankers of Nigeria

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Cover Design & Layout
The CIBN Press Ltd

Printed by
THE CIBN PRESS LIMITED
7, Turton Street, Sabo-Yaba, Lagos.
Tel: 01-7384297
E-mail: cibnpress@cibng.org

BODY OF PAST PRESIDENTS AND GOVERNING COUNCIL

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From the
EDITOR'S DESK

The Nigerian Banker congratulates the Chartered Institute of Bankers of Nigeria on its 50th anniversary. This is indeed a landmark celebration which calls for rolling out of drums. Looking back at the last 50 years and considering the achievements attributable to the existence of the Institute, one will have cause to jubilate and join in the celebration.

The Institute, which was planted like a mustard seed on the 28th of November, 1963 by 124 bankers with a common vision, today stands out as one of the foremost professional bodies in Nigeria. It actually started as a Local Centre of the London Institute of Bankers, got its independence from the London Institute in 1976 and became registered as a Company limited by Guarantee. It attained a chartered status through Act No. 12 of 1990. Following the expanding scope of activities in the banking industry and increasing need of the Institute to be empowered to provide effective leadership in the industry especially in the light of the prevailing reforms in the banking industry, the Act was repealed and re-enacted as Act No. 5 of May 2007.

The Institute has indeed recorded milestone achievements within its fifty years of existence. It was the first professional body in Nigeria to build its own secretariat at Yaba in 1973. Other professional bodies saw the need for their own secretariat buildings and took a cue. The Institute has sustained a high level of professionalism in its examinations and training activities. It is on record that the Institute has consistently maintained the integrity of CIBN examinations, even in the face of dwindling societal moral base. Although many examination bodies have suffered one form of examination leakage or the other, the CIBN examinations have remained sacrosanct and even cheating in the examination hall is usually treated with the full weight of the prescribed sanctions.

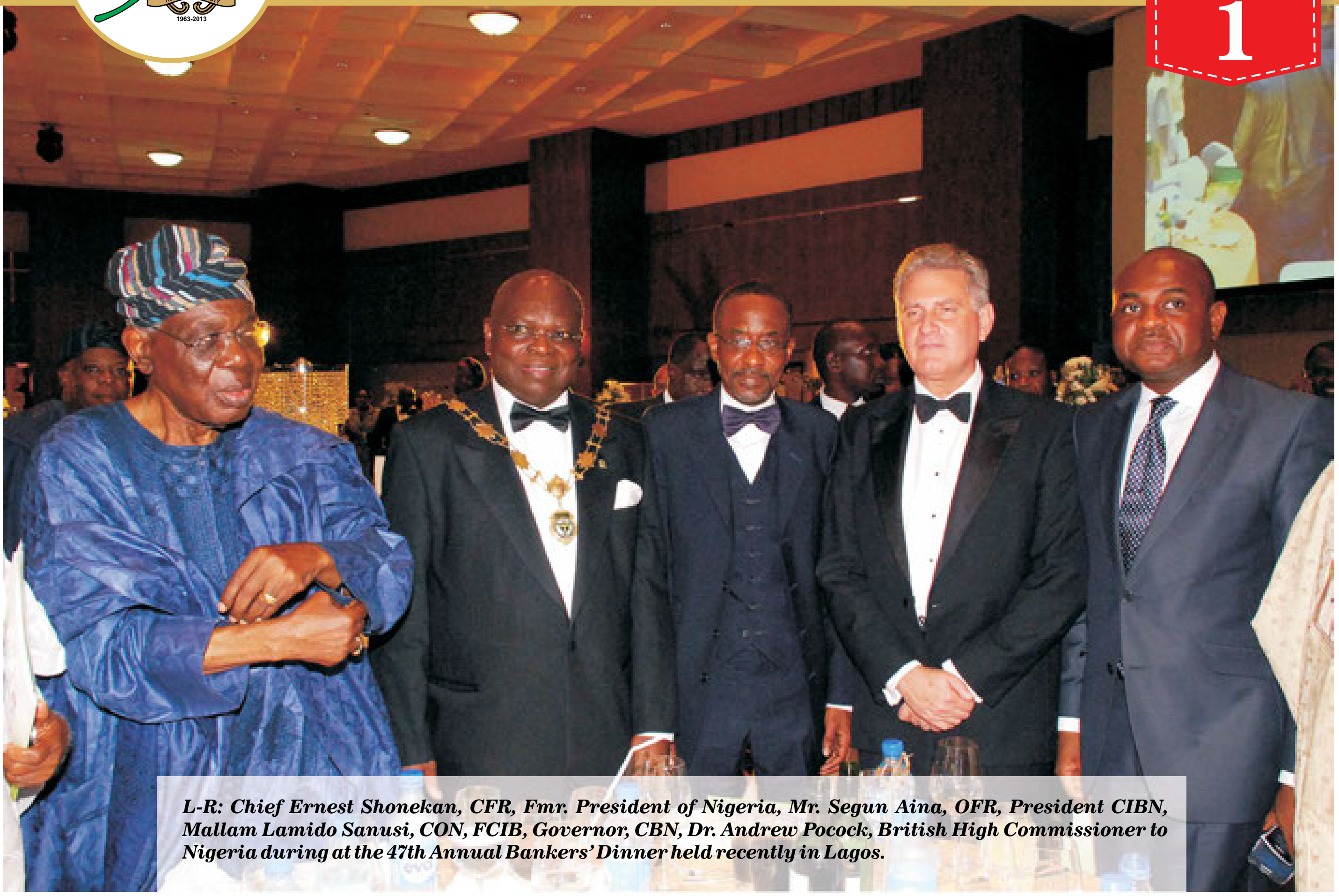
The Institute has also established its relevance at both the national and international levels. It has represented the banking industry at various national committees and has made presentations on behalf of the Nigerian banking industry at the national level as the need arises. At the continental level, the Institute played a key role in the formation of the Alliance of African Institutes of Bankers, AAIOB. The Institute is currently the Chairman of the body for the second term running. Within the West African sub-region, it has extended its tentacles to the Gambia where it currently has an examination centre and it is concluding plans to establish centres in Sierra Leone and Ghana.

It has also established linkage programmes with many tertiary institutions in Nigeria and overseas. These include, Bangor University and the Chartered Institute of Bankers in Scotland, the University of Nigeria, Nsukka, the University of Port Harcourt, Ogun State University, Ago-Iwoye, Babcock University amongst others.

The Institute has also embarked on aggressive pursuit of consumer protection programme to boost confidence in the banking industry. A major development that has impacted positively on the consumers of financial services is the Ethics and Professionalism Desk which was established in collaboration with the Bankers Committee to entertain complaints from consumers of banking services. Consumers who are displeased with some of the charges of their banks usually have recourse to this Desk. The Desk is something akin to the ombudsman of the banking industry and has indeed been able to recover for consumers of financial services about N11.9billion from its inception in 2001 to April 30 2013. This is about $16.5million. The good news there is that consumers of banking services now have somewhere to channel their complaints to, when they feel cheated and they will get attention. The Desk has obviously added to the boost of confidence in the Nigerian banking industry.

The recent establishment of the Center for Financial Studies, CFS, by the Institute is an attempt to put in place a state-of-the art “factory” for sharpening of the intellects and skills of bankers to enable them compete at the global terrain. The Institute has indeed come a long way and has made marks on the economic and financial landscape of Nigeria in particular and Africa at large. The founding fathers of the Institute who are alive today ought to be celebrated and those dead must be remembered for their roles in re-shaping the Nigerian financial landscape. They really had a great vision. The Nigerian Banker truly salute their courage and foresight.

Alex C. Anameje, HCIB



L-R: *Chief Ernest Shonekan, CFR, Fmr. President of Nigeria, Mr. Segun Aina, OFR, President CIBN, Mallam Lamido Sanusi, CON, FCIB, Governor, CBN, Dr. Andrew Pocock, British High Commissioner to Nigeria during at the 47th Annual Bankers' Dinner held recently in Lagos.*

Article 1

Sanusi Lamido Sanusi, FCIB*

Protocol

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I am delighted to be speaking at this 47th CIBN Annual Bankers' Dinner and Award Night of the Chartered Institute of Bakers of Nigeria. This day is also particularly significant at it marks exactly 50 years since the resolution setting up the Lagos Local Centre of the Institute of Bankers, London, was passed.

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As a fellow member, I am proud to say that the institute has come a long way and the strides, which have been taken to instill the highest-level professional excellence in the banking industry.

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In the last few years, the Nigerian banking industry has faced one of its most daunting periods, coming out of the recent Global Financial Crisis to face the important task of building a stable and safe sector financial system. Today, the fundamentals of the Nigerian economy remain strong in spite of certain external issues, which occurred earlier in the year such as the political standoff over fiscal sustainability in the US, the Eurozone crisis e.t.c.

The global economy is currently adjusting structurally to the evolving growth dynamics in the advanced and emerging market economies. While growth in the advanced economies has resumed, growth in the

** Mallam Sanusi, is the Governor, Central Bank of Nigeria.*

**Being remarks delivered at the 47th Annual Bankers' Dinner and Special Award Nite organised by the Chartered Institute of Banker of Nigeria, November 28, 2013, in Lagos.*

emerging economies has slowed down. Global growth averaged 2.5 per cent in the first half of 2013, same as in the second half of 2012. The US, Japan and a few European countries just emerging from recession are helping to drive the current growth. Improvement in US output is anchored by enhanced industrial production buoyed largely by strong private demand and extra-ordinary accommodative monetary policy.

The political standoff over fiscal sustainability, which led to a shutdown of the US Government in October in October, 2013, was moderated, however, by discretionary spending during the period. Strong signs of growth resumption have emerged from some euro area economies, especially Portugal and Greece.

Given the changing global growth forecast in October to 2.9 per cent in 2013 and 3.6 per cent in 2014. Global inflation is estimated to fall from 3.75 per cent in 2012 to 3.0 per cent in 2013, but could rise marginally in 2014. Food and fuel prices continued to positively moderate global consumer price inflation. In the light of these developments, most central banks responded by either maintaining current policy stance or moderately easing the policy rate in the last three months.

The financial markets expect monetary conditions to remain easy through the first quarter of 2014. Indications to this came from the Fed Chairman-designate during her Senate screening. In addition, the Bank of England has given signals that its quantitative easing would continue to late 2014 while the Bank of Japan has also indicated that its quantitative easing would continue until inflation reaches a 2.0 per cent target.

Macroeconomic Indicators – Domestic Output

On the domestic scene: NBS estimated real GDP growth rate of 6.81 per cent for the third quarter of 2013. Overall growth rate for fiscal 2013 was projected at 6.87 per cent up from 6.58 per cent in 2012, indicating that the economy was on the path to recovery after the

Alhaji (Chief) A.O.G. Otiti, OON, FCIB, Past President, CIBN and Chief (Dr.) Joseph Sanusi, CON, Fmr. Governor, CBN at the Annual Bankers' Dinner.

decline in overall growth performance from 7.43 per cent in 2011 to 6.58 per cent in 2012; Non-oil sector growth rate of 7.95 per cent and oil sector growth rate of 0.53 per cent in Q3 2013; the growth drivers in the non-oil sector remained agriculture; Wholesale and retail trade; and services that contributed 2.01, 1.76, and 2.56 per cent, respectively; Crude oil production, including condensates and natural gas liguids, decreased by 0.03 mbd or 1.6 per cent to an average of 1.90 mbd or 58.9 million barrels (mb) in October 2013; Average daily production of crude oil in 2013 is lower than in 2012 and 2011, with the decline attributed to pipeline vandalisation and illegal oil bunkering.

Inflation and Monetary Aggregates

The moderation in inflationary pressure, which began in the fourth quarter of 2012, continued into the third quarter of 2013; The year-on-year headline inflation fell consistently to 7.8 per cent in October, from 8.2 and 8.0 per cent in August and September, 2013, respectively. However, core inflation rose to 7.6 percent in October, 2013 from 7.4 per cent in September, 2013.

M2 contracted by 6.16 per cent in October, 2013 over the level at the end-December, 2012. When annualised, M2 contracted by 7.39 per cent, in contrast to the growth of 8.24 per cent in the corresponding period of 2012. M2 was also below the growth benchmark of 15.20 per cent for 2013.

Aggregate domestic credit (net) grew by 7.32 per cent in October 2013 which annualises to a growth rate of 8.28 per cent over the end-December 2012 level, compared with the contraction of 3.30 per cent in the corresponding period of 2012. The annualised

> **"The Bank continued to intervene in the market through the sale of intervention securities at the open market. This was with a view to maintaining price stability, curtailing excess liquidity in the banking system and reducing inflationary pressures in the economy."**

growth rate in aggregate domestic credit (net) at end –October, 2013 of 8.78 per cent was below the provisional benchmark of 22.98 per cent for 2013.

Credit to Government contracted by 30.04 or 40.05 per cent on annualised basis while, credit to the private sector grew by 7.53 per cent or (or 10.04 per cent on annualised basis).

Credit to state and local governments grew by 5.86 per cent or 7.81 per cent on annualised basis.

Sectoral breakdown of credit by Deposit Money Banks (DMBs) showed that 37.2 per cent was granted to the preferred sectors (agriculture, soild minerals, export and manufacturing), while 40.1 per cent was to the less preferred sectors (Transport and communication; imports and domestic trade; governments; and real estate and construction) as at September, 2013.

Reserve Money declined by N138.48 billion or 2.98 per cent to N4,511.51 billion by end of October, 2013. In 2013, the MPC held MPR at 12.0 per cent, and maintained the CRR and NOP at their July 2012 levels until July 2013 when it introduced a 50 per cent CRR on public sector deposits to stem the build-up in excess liquidity in the banking system and the rising cost of liquidity management.

The Bank continued to intervene in the market through the sale of intervention securities at the open market. This was with a view to maintaining price stability, curtailing excess liquidity in the banking system and reducing inflationary pressures in the economy. The cost of liquidity management as at end of Q3, 2013, stood at N49.76 billion compared with N38.23 billion in the preceding period.

Developments in interest rates structure showed that retail leading rates remained relatively high up to and including the third quarter of 2013. The average maximum lending rate stood at 25.12 per cent as at end of Q3, 2013, while average prime lending rate stood at 16.76 per cent. The weighted average savings rate was 2.43 per cent as at end of Q3 2013, while the weighted average deposit rate was 5.27 per cent.

Interest rates in all segments of the money market reflected the tight liquidity conditions in the banking system. The weighted average inter-bank call and OBB rates closed at 12.50 per cent and 11.73 per cent as at 15th November, 2013. Monetary Policy has so far been successful in attaining price and exchange rates stability.

The CBN has focused on certain developmental issues such as promoting sustainable banking, ensuring that requisite skills and competencies exist within the industry and also promoting financial inclusion.

Cutting of the 50th Anniversary Cake.

Sustainable Banking

The Nigerian Sustainable Banking Principles (NSBP) were agreed in 2012 following a decision taken by the industry at the Nigerian Sustainable Finance Week in 2011 to have an industry which not only focuses on efficiency and profitability in its business operations, but also on environmental and social considerations and its attendant impact.

In 2013, I am pleased to report that we have begun implementation of the NSPB in earnest. The boards of the regulatory agencies, deposit money banks and discount houses have all undergone sustainability awareness training in addition to the NSBP. An industry training programme is currently being finalised for middle and senior management employees.

We expect all industry players to now begin to embed sustainability into their various policies and business operations. With the consultation of the industry, we are working on a timeline for implementation as well as a reporting template.

Building Industry Competency

The industry has dedicated time and effort to ensuring that competent people run the sector. The Industry competency framework was released and adopted in November, 2012 aims among others, to define the minimum knowledge, skills and attributes (competencies) needed for operators and regulators to perform optimally on their various jobs/taks while serving as a guide to Nigerian bankers in the establishment of standards expected from the start of their careers as professional bankers.

The assessment has since been repeated and preliminary discussions are on-going with varying stakeholders to ensure that once the current results are collated, remedial action plans on the competency assessment gap are discussed and executed.

Financial Inclusion Strategy

The Financial Inclusion Strategy was launched in October 2011, with the objectives of driving down financial exclusion from 46.3% to 20% of the adult population by 2020. In the last survey carried out by the EFINA, the level of financial exclusion has come down to 37.9%. The cash-less policy implementation, Mobile money scheme, agent banking and the reviewed KYC guideline will foster rapid financial inclusion.

I was pleased to see that a deposit Money Bank has recently launched its Financial Inclusion initiative through agent banking in the Asejere market, Makoko, Lagos and it was impressive to see how the market women were open to embracing new technology to assist them in opening basic accounts and their enthusiasm when they were told about the progress being made in mobile payment in the country.

Payment Systems And Financial Inclusion In Nigeria

With a target to improve access to finance for the poor and unbanked to 80% by 2020, the

Payments System in Nigeria has undergone tremendous changes with the entry of new players and the introduction of new technology.

The Financial Market Infrastructure has also become pervasive and strengthened to accommodate the volume of financial transactions which it carries. The payment system transformation agenda of the CBN has lead to tremendous improvement in the payment system through the numerous initiatives of the CBN.

Latest Development in and Surveillance of the Payments System

Mobile Money Scheme: The CBN launched the Mobil Money Framework in 2009 and has issue over 18 Approval-In-Principles to banks and payment companies for the operation of mobil money in Nigeria. The activities of the Mobil Money Operators are monitored through on-site and off-site analysis. Interoperability is achieved through the connection to the National Central Switch (NIBSS). The framework for the scheme is currently being reviewed.

Cash-Less Policy Implementation: A cash-less policy that encourages the usage of alternative payment channels other than cash. This lead to the issuance of the PoS Terminal Deployment Guideline and the licensing of Payment Terminal Service Providers (PTSP) to offer the banks payment terminal deployment services to merchant locations. Over 150,000 PoS terminals deployed. All POS terminals are connected to the Central Terminal Management System in NIBSS.

Cheques Truncation: This was introduced nationwide in June 2013. It has led to the reduction in the number of clearing houses from 37 to just one which is being operated by NIBSS. The benefit is that Cheque payments now clear T + 1. Plans are underway to increase the number of clearing sessions from the current 3 to 4 per day.

Agent Banking: The CBN launched the Agent Banking guidelines in February 2013. This guides the Deposit Money Banks and Mobile Money Operators to extend their financial services to the rural areas through the appointment of agents. Three types of Agents are identified, Super-Agents, sole Agents and Sub-Agents. CBN neither license nor supervise the Agents.

Three-Tiered Know Your Customer guideline: This has helped reduce the barriers in the bank accounting opening requirements for the low income earners and people with no verifiable credentials are able to access banking services. There are limits to the lower level identifications for AML/CFT reasons.

The Bankers Committee under the leadership of the CBN is however at an advanced stage in the Unique Identification project. It is planned to be deployed in the last quarter of this year or in the first quarter of next year.

Latest Statistics on Improvement in Payment System

Daily transaction on 26 November 2013:

i. POS transaction was 256,467 worth N3.6 billion.
ii. NEFT transaction was 288,380 worth N202.4 billion.
iii. Active POS rose by 29% and mobile money subscribers stand at 7.9million.
iv. Enrolled agents was 59,595 and total transaction to date was 9.9 miillion valued at N93billion.

I am indeed delighted to be here and to report on the successes of the industry as a whole. I urge the CIBN to continue in its efforts to advocate for continued professionalism with the industry.

Thank you.

2013 CIBN ANNUAL BANKER'S DINNER/AWARD NITE

Mr. Segun Aina, OFR, President, CIBN discussing with Chief Akintola Williams during the Bankers Dinner/Award Nite held in Lagos, November, 2013

(M): Dr. Femi Olopade receiving an award on behalf of Chief Olusegun Obasanjo, GCFR, Fmr. President of Nigeria, from the CIBN President while Mr. Tunde Lemo, OFR, FCIB, Deputy Governor, CBN, looks on.

Mr. Stephen Onosanya, FCIB, MD, First Bank Plc, receiving the Pioneer Bank's Award on behalf of the Bank from Chief Ernest Shonekan, CFR, Fmr President of Nigeria ably supported by President/Chairman of Council, Mr. Segun Aina, OFR, FCIB.

Emeka Emuwa MD/CEO Union Bank Plc (R) receiving the 'Pioneer Corporate Contributor Award' for the bank from the President/ Chairman of Council.

King Sunny Ade exchanging greetings with Mallam Sanusi Lamido, CON, FCIB, Governor CBN and Dr. Andrew Pocock, British High Commissioner to Nigeria, looks on.

Mr. Kennedy Uzoka, Deputy Manager. UBA Plc, receiving the 'Pioneer Corporate Contributor Award' for the bank from the President/ Chairman of Council.

CIBN 2013 SPECIAL GOVERNING COUNCIL MEETING

Office Holders, Past Presidents, Past Registrars and Governing Council Members of the Institute at the Special Council meeting to mark the 50th Anniversary.

L-R: Mr. A.A. Adenubi, FCIB, Fmr Registrar CIBN, Dr. Ogubunka FCIB, Registrar/Chief Executive, Alh. (Chief) Otiti, Chairman, Body of Past Presidents, CIBN, at the Special Council Session in honour of the 50th Anniversary.

President CIBN, presenting Past Registrar Award to Mr Olakunle Olorun-Rinu, son of late Alhaji G.G.O. Olorun-Rinu, Fmr Registrar, CIBN.

President CIBN, presenting Past Registrar Awards to Chief S.O. Dada, FCIB.

President CIBN, also presenting Past Registrars Awards to Mr. A.A. Adenubi, FCIB while the Registrar/Chief Executive smiles on.

CIBN President, presenting Past Registrars Awards to Chief Esan Ogunleye, FCIB, while Dr. Ogubunka, FCIB, applauds him.

Ethics, Professionalism and CORPORATE GOVERNANCE

Practices in Nigerian Banks and their Impact on Consumer Complaint Management in Nigeria

Dr Alaba Olusemore, FCIB*

Abstract

This is a descriptive study on development of ethics and professionalism in banking practice in the last fifty years. The author calls the attention of readers to the state of affairs in the earlier years of banking in Nigeria before the Banking Ordinance (and later the CBN Act of 1958) and states that bank failures were a result of management failures and lack of regulatory framework. He also makes reference to the combined efforts of the Central Bank of Nigeria (CBN) and Bankers' Committee with the Chartered Institute of Bankers of Nigeria as the arrowhead.

The causes of bank failures experienced in the decade of the nineties can be traced to professional and ethical misconduct. The author opines that regulatory framework has been enhanced, especially in the past five years, but that the results have not been inspiring.

1.0 Introduction

Ethics are principles that explain what is right or wrong; good or bad; and what is appropriate or inappropriate in various circumstances and settings. Business ethics provide standards or guidelines for the conduct and decision-making of all employees and the executive management in organisations. Absence of a code of ethics could lead to a dysfunctional organisation where nothing works or a vast majority exhibit behaviour that destroys the foundation upon which the organisation is built. When officers of a bank deliberately flout the laws and regulations of the land, or they circumvent their own internal guidelines, they are being unethical or unprofessional.

On the other hand, morals refer to an individual's own principles regarding right or

* Dr Olusemore is a Managing Partner, Nesbet Consulting, Lagos.

wrong. People's attitude to the various issues of life such as wealth acquisition and desire to succeed at all cost are all products of one's set of values and education acquired through the various agencies of socialisation, i.e. schools and religious groups. A major factor that determines a person's level of morality is the degree of self-discipline and control that one possesses. These qualities can be acquired through hereditary factors or sound moral education.

2.0 The Banker's Moral Responsibilities

Given the fiduciary nature of banking business, there are certain moral responsibilities that the society thrusts on the shoulders of professional bankers. These include, are the not limited to, the following: prudence; honesty; reliability; dependability, integrity, confidentiality and fairness.

A bank officer is expected to demonstrate prudence in handling customer's and bank's resources placed at his disposal. Honesty should also be the watchword of a prudent banker. When a banker acts honestly he is said to have acted in good faith. A professional banker should be reliable and dependable. A banker must, like "Caesar's wife," be above board. The profession of banking requires that practitioners should keep in confidence any matter that comes to their attention in the ordinary course of business. Contract of employment in banks requires that every prospective employee signs a secrecy undertaking, before taking up an employment.

3.0 Ethical Dilemma

The question that often crosses the minds of bankers in real-life situation is whether morality and profitability (which is the ultimate goal of business organisations) can ever find a meeting point. For example, should a financial controller in a bank expose the financial excesses of his chief executive to the bank examiners or cover up? Whose interest would the bank officer be serving if he allows the regulators to impose heavy sanctions on his bank, which may in turn lead to adverse chains of reaction?

Reputational and liquidity risks are possible consequences when the CBN asks a bank to make huge provisions for loan losses and frauds. Most bankers would not want to contemplate these unpleasant consequences of unethical or corporate governance issues. The natural thing for most bankers is to err on the side of caution and seek to protect their employers and the employment contract.

On the other side of the scale, an employee could engage in ethical breaches simply because he wants to make ends meet or wants to be seen as meeting the set performance targets. This of course could not be an excuse for a banker to commit fraud or engage in unethical practices. Bankers all over the world are paid salaries and emoluments that are far in excess of the national average. Moreover, bankers have easy access to various forms of loans in banks to meet emergent personal financial needs.

4.0 Professionalism and Ethics

According to Dr. Peter Strahlendorf (2005) of Ryerson University, School of Occupational and Public Health, the word "professional" means a person who belongs to a formal group. A narrow definition of "profession" is a self-regulating occupational group capable of legally prohibiting others from practising. Brincat & Wilke (2000) provides the following list as the elements of a profession: group identity; shared education, training (requirements for admission); special, uncommon knowledge; knowledge used in the service of others (positive social need); individual judgement, some autonomy in decision-making; adherence to certain values; penalties for substandard performance.

In specific terms, professionalism connotes a formal rigorous training and certification in a particular field of human endeavour. Those involved are governed by set rules and guidelines that are consistent. Professionals have systematic and consistent ways of providing quality services to clients. Alternatively, the objective of professionalism or professional training is to equip the individual who has been certified to add value to his or her client's business. It also entails that we subscribe to a code of conduct or ethics.

A survey conducted by Ali Yidawi (2005), revealed that: (i) There is general awareness of the code of ethics in the banking industry; (ii) most banks encourage ethics training; (iii) in spite of all the checks and balances in Nigerian banks, frauds and forgeries are on the increase; (iv) frauds and mismanagement compound the ethical problems in Nigerian banks and are responsible for the systemic distress in the banking industry in Nigeria. The author takes a cue from Yidawi's (op cit) deduction and affirms that the most recent bank distress in 2009, and subsequent reform of the CBN were initiated mainly to address the perverse and widespread unethical practices and/or corporate governance infractions, often perpetrated by owner managers. The table below provides an illustration on the roles professionalism/ ethical issues play in bank distress. Loans that go bad or erode the bank's core capital could be traced to lack of due diligence or rigour in credit appraisal, approval and administration. Similarly, where there are widespread frauds in a bank, management is to be blamed for not designing and implementing robust internal control measures.

practice and to place the interest of the customer above parochial profit motive. As professionals bankers, we are expected to honour obligations and make our words our bond. The code further enjoins banks to lend on agreed terms and to deal with respectable parties.

The major challenge that the CIBN faces in implementing the code of ethics is that majority of bank workers are not registered with the Institute. In a situation where the majority of workers in banks are excluded from the Institute's direct regulation because they are not registered members, strict enforcement of ethical standard becomes near impossible. This scenario runs contrary to the very essence of a professional institute that is expected to regulate and control entry and practice in its profession.

Table 1: Causes of Bank Failures in Nigeria

Causes	All Financial Institutions	Professional/Ethical Issues
Loans & Advances	19.5...........	Professional
Fraudulent Practices	16.7...........	Professional/Ethical
Under-Capitalisation	11.8............	Non-ethical
Rapid Changes in Govt Policies	10.8............	Non-ethical
Bad Management	17.9...........	Professional/Ethical
Lack of Adequate Supervision	16.9...........	Professional
Undue Reliance on Forex	6.4.............	Professional
Total	**100.0**	

Source: A CBN/NDIC Collaborative Study of Distress in Nigerian Financial Services Industry: October 1995: P 58.

4.1 CIBN Code of Banking Practice

The CIBN Decree 12 of 1990 vests the Institute with the powers to regulate the practice of banking in Nigeria. Specifically, Section 13 gives it the power to constitute an investigating panel and a disciplinary tribunal to consider cases of professional misconduct levelled against its members.

Consequent upon its mandate, the CIBN issued a code of banking practice which sought to promote professionalism and high ethical standards in the conduct of banking business. The code enjoins banks and bankers to operate within the ambit of the law governing the business of banking. It enjoins bankers to follow best professional

5.0 True Tests of Good Ethical Standards and Breaches

The following acid tests have been developed to aid a banking professional faced with the dilemma of whether to proceed with a course of action being contemplated or whether the action is a breach of good ethical standards.

- Does this action breach any of the bank's internal regulations and codes of conduct for staff?
- Is this decision likely to lead to a breach of government regulations-CBN, NDIC, EFCC, and NDLEA?
- Are there breaches of commercial and personal laws of the land?
- Would there be a breach of banker-

customer relationship?
- Would your action help to demote banking culture in the country?
- Would your actions or decisions demote the bank's corporate image?
- Is there a conflict of interest?
- Did I put my personal interest above the corporate or bank's interest?
- Is the decision negatively skewed against the customer?
- Will the decision lead to injustice among the parties concerned?
- Will the decision injure societal good or welfare?
- Did I put short-run profit motive above long-term relationship and organisational sustenance?

If the answers to the above questions are "yes," then a banker should steer clear of the proposed action as it would amount to a breach of ethical standard.

6.0 What is Corporate Governance?

Corporate governance is the system by which business organisations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders. It spells out the rules and procedures for making decisions in corporate affairs. The four pillars of corporate governance are: fairness, accountability, independence and transparency. Its major elements will also include: board commitment, good board practices, functional and effective control environment, transparent disclosure; well-defined shareholder rights.

One of the ways the Central Bank of Nigeria resolves widespread corporate governance challenges in banks was to place limits on the tenor of chief executives of banks and banks' external auditors.

In 2010, the Central Bank of Nigeria issued a new exposure draft on corporate governance in banks. In November of the same year, it was reported in the Business Day newspaper that because of the low level of banks' compliance with the new code of corporate governance, the Central Bank of Nigeria (CBN) was considering engaging specialists to oversee and review the practice in the industry on a continuous basis.

The intention of the CBN in the current dispensation is to strengthen governance practices among Nigerian banks, eliminate perceived ambiguities in the provisions of the 2006 CBN Code, align the corporate governance code applicable to the banking industry with current realities in the sector and global best practices on corporate governance.

7.0 Consumer Complaints' Management in Nigeria

In the early years of professional banking, and in spite of the extant regulations, customers were taken for granted. This was because there were no formal structures for tracking consumer complaints within each banking organisation and at the apex bank. Most customers were at the mercy of their bank managers, who in most cases behaved like feudal lords within the banking community. Thus, it was common for bank customers to encounter unprofessional actions exhibited by their bankers. This is reflected in intolerable delays and errors in banking transactions, often resulting into losses on the part of the gullible customers. In most of the banks, there was no formal process and structure in place for handling customer complaints expeditiously. Thus, the aggrieved customer was made to lick his wounds or bear the loss alone.

Through a combination of the efforts of the Bankers' Committee and the Central Bank of Nigeria, an "Ethics and Professionalism Committee" was established, with the secretariat domiciled at the Chartered Institute of Bankers of Nigeria. To demonstrate the importance of its function, the department is headed by an assistant director.

While the Central Bank has made considerable efforts to reduce unprofessional practices in banks by creating a consumer complaints desk and urging banks to do the same, the amount of complaints does not seem to have abated. This will continue to be sore thumbs in the development of banking practice, as the increasing application of electronic banking platforms present their own peculiar challenges.

7.1 Categorising Consumer Complaints

Nigerian consumers complaints can be categorised into the following groups: excess charges above agreed amounts or rates; clumsy processes and procedures; policies that are not consumer-friendly; performance standards that fall below expectations or the ones advertised by the bank. There are also complaints about information gap as well as financial exploitation on the part of banks.

7.1.1 Excess Charges

In spite of the availability of CBN's banker's tariff that gave a broad range of bank services and maximum charges, the incidence of inappropriate or excess bank charges was a common occurrence until recently. There were other instances where a bank advised lower interest rate on loan facilities but charged higher rate in real terms.

7.1.2 Processes and Systems

Long processes and procedures that banks institute in order to check abuse or errors often create bottlenecks and intolerable delays in the provision of excellent banking services. What most banks in Nigeria have done is to review their standard operating procedures from time to time with a view to simplifying them and making them customer-friendly. For example, in order to enhance financial inclusion, the Central Bank has introduced a three-tier KYC and reduced the documentation requirements to the barest minimum for certain categories of prospective account holders.

7.1.3 People's Behaviour and Ethical Factors

These factors are a result of lack of adequate professional training as well as lack of morals. The manifestations are seen in the following circumstances:

Slow or delayed services provided by bankers due to poor attitude. There are also instances where a banker gives wrong or unprofessional advice to the customer. Another instance is when an employee benefits from proceeds of loans granted to customers.

It is unethical for a banker to sell charged assets without notice to customers. Selling customer's pledged assets through private treaty, especially to employees or management of the lending banker, will amount to an unethical practice.

Chartered bankers know that it is unlawful to make disclosures to third parties, regarding a customer's account details without his express permission.

It is also the responsibility of a prudent banker to draw customer's attention to negative incidences on an account that could lead to further losses in future. Failure to do so will amount to professional misconduct.

Failure to carry out input and output verification every working day could lead to losses. The essence of daily call-over is to check the accuracy of the day's transactions

L-R: Mr. Segun Aina, OFR, FCIB, President CIBN, Hon. Justice Mahmud Mohammmed, CON, representing Chief Justice of Nigeria and Chairman Board of Governors, NJI, Hon. Justice Aloma Mariam Mukhtar, CON, and Hon. Justice Umaru Eri, (Rtd), OFR, Administrator, NJI at 13th National Seminar on Banking and Allied Matters for Judges held in Abuja.

and postings so that errors could be corrected promptly before statements are made available to the customer. Wrong entries and frequent reversals of errors on customer's account ledger is a signal of lack of professional skill. Daily 'call-over' is now professionalised with internal control staff resident in branches assigned to do the job. This provides effective checks and balances, thus reducing the chances of fraud.

Other unethical practices could include: colluding with agent or staff of customer with a view to defrauding the customer; fraudulent transfers and conversion of customer's funds and unwillingness to pay for goods bought on credit from a bank customer; snubbing customers and preferring one customer to another. However, all banks in Nigeria today adopt the queuing system that enables customers to be attended to on "first-come-first served" basis.

Overpromising and underperforming as well as demonstration of gross incompetence on the part of bank officer. When a banker advises wrong account balances, it puts the customer in a difficult position and this could also damage his commercial credit as the customer could draw against unfunded account.

In an effort to increase or maintain a targeted level of earnings, a bank could enter into commercial paper or banker's acceptance transactions without the knowledge of the customer concerned. This was rampant before the CBN provided for full disclosure of such transactions in the audited financial statements. Before the CBN made it mandatory for exporters to access the foreign currency-denominated export proceeds, some banks had exploited the consumers' ignorance to buy export proceeds at rates that were below the market rate. This amounts to financial exploitation.

Failure to send advice or statements of accounts as required by customers to aid reconciliation could be a subject of strained relationship between a banker and his customer. In today's banking world, e-statements which are sent via electronic mails have replaced the old system of sending statements through the postal agencies or courier companies. Customers get frustrated when their complaints are ignored or left unattended to. In today's competitive environment and in view of the seriousness the CBN and CIBN attach to consumer complaints and protection, no bank can afford to ignore their customer complaints without adverse consequences.

"Some other issues the customer could complain about are the loss of property due to armed robbery within the banking hall. It is the responsibility of banks to provide a safe environment for the conduct of banking business."

7.1.4 Ethics in Credit Analysis and Administration

The distress conditions in some banks in Nigeria that led to the consolidation initiative of the Malam Sanusi Lamido Sanusi administration at the Central of Nigeria, was triggered by several unethical professional practices of senior management of the affected banks as shown in Table 1 above. The following are a few examples: concealing of material facts in loan contracts; calling in term loans or accelerating repayment rate contrary to agreement; closing a running account without adequate notice; sending letters of credit to wrong correspondent banks. Some loan offer letters were replete with onerous conditions that often led to loan repudiation and strained relationship between a banker and its customers. A client could be discouraged to do business with a banker that withdraws or suspends an overdraft facility before the due date.

7.1.5 Premises

Bank premises should be conducive for business. Safety, health and environmental issues must engage the attention of bankers. Provision of cabinets with keys at the entrance to the banking hall is one of the developments in the quest to safeguard the property of customers. Entrances to banking halls of banks in Nigeria have security doors that are capable of detecting metal objects.

Some other issues the customer could complain about are the loss of property due to armed robbery within the banking hall. It is the responsibility of banks to provide a safe environment for the conduct of banking business. However, where a bank puts all necessary security apparatus in place to check robbery, such a bank should not be held negligent when the event occurs.

A bank can be sued for vicarious liability if a customer sustains an accident in the banking hall due to a slippery floor. Many bank branches are designed on the understanding that there will be uninterrupted power supply. Thus, the halls could be stuffy when there is power cut or breakdown of the generating set.

Few banks subscribe to the Equator Principle in Nigeria. Flowing from that is the Nigerian Sustainable Banking Principles, which all Nigerian banks are committed to implement effective September 2013. The signatories to Principle 2 undertake to avoid, minimise, and offset the negative impacts of their business operations on the environment and local communities in which they operate. The local community will include the customers and those who transact banking business.

Some of the possible negative impacts of a bank branch in its immediate community are: disruption of traffic flow due to movements in and out of the bank premises; emission of carbon dioxide into the atmosphere due to the use of generating sets as well as noise pollution from such generating sets. A bank was once sued in the city of Lagos when its telecommunication mast fell and destroyed a neighbouring house.

7.1.6 Operational Issues

Another source of complaint could be from the delay in receiving and lodging money into a bank account. There were unusual instances where an account was showing debit balance when reactivated from the dormant status. This happens when, due to systems problem, unauthorised debits continues to be charged to a dormant account. Unexplainable and fictitious entries in customers' statements of account could also be a source of complaint. Where a customer has instructed that two of his accounts should be kept separate, it behoves the bank to comply with such instructions and ensure that payment meant for one account is not debited or credited to another account of the same customer. Bank customers have the first right of appropriation, failing which the bank is allowed to appropriate.

7.1.7 Electronic Platforms

Automated Teller Machines (ATMs) were developed to facilitate customer service and solve the problem of accessibility to banking facilities by the general public. Despite the immense benefits accruable to electronic banking platforms, the facilities have become a nightmare of some sort to users. There are a legion of complaints from users. There are complaints about unauthorised access to account details and fraudulent withdrawals from account through ATMs and delays in reversing debit entries where there was no disbursement. Because of the erratic nature of the ATM's, many of the teller points are not operational. The result is that there are usually long queues at most teller points in urban centres. Some of the banks deploy better platforms and their ATMs and internet banking facilities are better managed. The difference is in managerial capacities of each bank and attitude to work by workers.

8.0 How Can Ethics Assist?

The CBN Code of Corporate Governance compels people to do what is right and at the right time. Moreover, it imposes the need for consciousness in doing what is good. Ethical conduct will promote professionalism and excellent banking practice. It will enable bankers to consider the joint interest of all parties when taking decisions.

9.0 Managing Consumer Complaints Today

In today's banking environment, bank managements take customers and their complaints more seriously because of the competitive nature of banking, compared with the sixties and seventies when there were fewer banks. The Banking reforms and liberalisations of the nineties brought in thier wake some unintended evils of unhealthy professional practices.

Each bank should institute procedures to track and respond expeditiously to customer complaints. Bank officers should always think about the possible loss of income and cash flow to the bank when major accounts are lost or where there is a class suit or action against the bank. Bankers should continually think about the negative press reports and damage to the organisational reputation of the bank. They should think of possible sanctions from the regulatory authorities.

10.0 Promoting Good Ethical Climate in Banks

The best way to promote good ethical climate and make it conducive for sustainable banking business is to agree on a code of ethical conduct. This should be made known to members of staff and reviewed from time to time. Another solution is to integrate ethics into the team performance evaluation. In this way, each person becomes a watchdog or check on other members of the team. As it was in the sixties and seventies when our value system was still intact, banks should recognise and reward acceptable ethical behaviours. On the other side of the scale unethical behaviour should be sanctioned to serve as a deterrent to others.

Internal communication media should provide a forum for employees to share their experiences with regard to how a knotty ethical issue was handled. It is also a good practice to use sample surveys to find out the ethical concerns of customers of the bank.

11.0 Conclusion

Money is at the root of most unethical practices in Nigeria and the major cause of bank failures. This was confirmed in the thesis of Ali Yidawi (2005). Unethical people who found themselves in custody of other people's money have thus redefined business as "the art of extracting money from another man's pocket without resorting to violence." A professional banker should always be reminded of, and guided by, the kind words of Mignon McLaughlin that "there are a handful of people whom money won't spoil, and we count ourselves among them."

Managers in banks should understand that it is better to acquire a good organisational image and to maintain it. Once an organisation loses its credibility, customers take a flight to safety and money follows in the same direction. Professional bankers should continually set the tone and make efforts to build their own reputation and that of their organisations, and sustain it. Indeed, there has been increased consciousness by banks of the need to toe the line of professionalism and establish a high moral tone. Professionalism and ethical considerations should go beyond the level of rhetoric. Bank management should begin to establish the business case for ethical practice without being teleguided by the authorities of the Central Bank of Nigeria. This is the only thing that can prevent affective distress and put banks in a more sustainable business growth path.

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BANKER'S WALK FOR CHARITY

Otunba (Mrs) 'Debola Osibogun, FCIB, 1st Vice President and Dr 'Uju .M. Ogubunka, FCIB leading the CIBN Banker's Walk for Charity to mark the 50th Anniversary, held recently in Lagos.

Wema Bank Staff at the Banker's Walk for Charity.

FCMB Staff supports the Charity Walk.

Cross Section of Union Bank staff.

Staff of Mainstreet Bank during the Walk.

Staff of Heritage Bank during the walk.

2013 CIBN ANNUAL LECTURE

Cross Section of the Invited \Guests at the 2013, Annual Lecture held in November, 2013 at the Bankers House.

L-R: Chief Luke Okafor, FCIB, Past President, Dr. Andrew Hilton, Guest Speaker, Gen. Yakubu Gowon, GCFR (Rtd), Fmr Head of State, Alh. Otiti, OON, FCIB, and Dr. Ogubunka, FCIB at the Lecture.

CIBN President presenting an Award to Gen. Yakubu Gowon, GCFR (Rtd) as the Special Guest of Honour while, Dr. 'Uju Ogubunka, Registrar/CE, smiles on.

Deacon Segun Ajibola, PhD, FCIB, 2nd Vice President, Mr. J.O. Ekundayo, FCIB, Past President and others at the lecture.

Winners of the 50th Anniversary Essay Competition for Banking and Finance Students in Tertiary Institutions: L-R: Oluwatosin Ogunleye, 2nd winner, Mr Adedeji Isaac Alonge, 1st winner and Ebere Ume Kalu, 3rd winner.

Unveiling of the Compendium of CIBN Annual Lectures (2000-2012) by the President while the Guest Speaker, the Special Guest Honour, Guest Speaker and 1st Vice President, and Mrs Ndidi Olaosegba looks on.

Managing Naira Exchange Rate

Based on Dollar as a Third Currency

Chris Enyinnaya, ACIB*

1.0 Introduction

"It is far easier to propound theories and preach lofty ideals than to put them into practice" - Anon.

Management of Naira exchange rate in the international money market by the Central Bank of Nigeria (CBN) over the years has been a hydra- headed problem. The main reason for this is policy inconsistency and inability to syncronise monetary and fiscal policies between the Central Bank of Nigeria and the Federal Ministry of Finance. Consequently, the CBN over the years has been unable to maintain the exchange rate of the Naira to other foreign currencies, especially the US Dollar at a level that is at the best interest of the Nigerian economy.

For instance, the Federal Government, through the Federal Ministry of Finance, had, between 1970 and 1986, maintained import substitution as an economic developmental strategy while the CBN maintained a regime of fixed exchange rate. Then in 1986, the General Ibrahim Babangida (IBB) administration ushered in a regime of deregulated exchange rate and devalued the Naira, thereby making the Naira content of imported raw materials unafordable to manufacturers, especially assembly plants, light industries and other small- and medium- scale players in the real sector.

This led to the collapse of medium industries in the industrial towns of Lagos, Kano, Kaduna, Port Harcourt, Aba, Onitsha, Enugu, Ibadan,

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and so on, which could not afford the huge Naira requirements for imports of essential raw materials and spare parts for plant maintainance. Even service industries like airlines, railways, and waterways were not spared. . We shall return to this subject later.

2.0 Historical Perspective

The monetary and fiscal policies of the Federal Government of Nigeria which impact on exchange rate directly for the decade 1960 to 1970 were not clearly defined. This is because Nigeria was still tied to the apron strings of her colonial masters as the Nigerian Pound was linked to the British Pound until the advent of Naira in 1973 through the Decimal Currency Decree No 21 of 1973 which gave effect to the currency change-over from the Pounds, Shillings and Pence currency unit to the Naira.

The decree stipulates, among other things, that: "a) the unit of currency in Nigeria shall be the NAIRA which shall be divided into 100 kobo; b) every contract, sale, payment, note instrument and security for money and every transaction, dealing, matter and thing whatsoever relating to money or involving the payment of or the liability to pay any money in relation to Nigerian pounds shall in Nigeria be deemed instead to be made, executed, entered into, done and had in, and in relation to Naira on the basis that one Nigerian pound equals two Naira." There were other price effects of the decimalisation which need not be discussed because they are outside the scope and focus of this study.

Thus, much of the monetary and fiscal policies, according to W. Okefie Uzoaga, "merely reflected a calculated determination to sustain the familiar colonial relationship with the metropolitan country in trade and payments. .... The implication of this – such as imported inflation, deteriorating earnings from export of agricultural produce, and balance of payments difficulties compounded the problems of Nigerian policy makers"

However, the period 1967 to 1969 witnessed the first real attempt to make a policy (framework) that addressed the challenges of governance at that time with regard to management of the economy"

The primary objective of the policy during the period July 1967 through December 1969 was total mobilisation of resources and expansionary monetary and fiscal policy measures to finance the war. This was against the background of mounting inflation, adverse balance of payments position and increasing budgetary deficits"2 (emphasis added).

Monetary and fiscal policies for the years 1970 to 1974, and 1976 to 1980 were to follow, which largely influenced the economic policy of the country today, especially as they relate to interest rate and exchange rate in the domestic economy. In particular, the monetary measures of the 1979/80 fiscal year were targeted at maintaining price stability, and improving the balance of payments position.

Useful as the impact of the monetary and fiscal policies made between 1980 and 1986 may be to our study, the radical departure from a regime of fixed Naira exchange rate to the US Dollar to deregulated foreign exchange market around August 1986 by the regime of General Ibrahim Babangida makes its study irrelevant to the objective of this study.

3.0 Naira Exchange Rate Determination through Structural Adjustment

By August 27, 1985 when General Ibrahim Babangida came to power forcefully, the regime inherited an economy that was in tatters suffering from chronic balance of payment disequilibrium.

The regime assembled economic experts, mostly foreign-trained economists (whose names we do not need to mention here since our focus is on the policy not the team members), to advise him on the best way to correct the disequilibrium. They decided to implement an economic package called Structural Adjustment Programme (SAP).

The policy thrust of the programme was aimed at earning more foreign exchange to correct the lingering balance of payments disequilibrium. The logical way to achieve this, in their thinking, was to boost export earnings, mainly from crude oil exports and non-oil exports, mainly agricultural products.

The experts claimed that Naira exchange rate of N1 to US$1.3326 was too high and that the overvalued Naira was responsible for the poor export earnings. They decided to devalue the Naira to make exports cheaper and imports more expensive so as to encourage Nigerian citizens to embark on export while discouraging imports.

In that wise, they aimed to grow the country's foreign reserves which at that time could not support 90 days' import bill which is the globally acceptable benchmark in international trade creditworthiness.

Because the regime was a benevolent dictatorship, Naira devaluation was made a national issue and subjected to nationwide debate. It will be recalled that the same method was used to decide on whether or not to accept International Monetary Fund (IMF) bailout loan that was on offer to Nigeria when IBB forcefully came to power. This demanded about 20 % outright devaluation of the Naira among other conditionalities.

The loan was eventually unanimously rejected by Nigerians, which was why the IBB regime embarked on home-grown Structural Adjustment Programme (SAP) that recommended determination of the exchange rate of the Naira to the US$ Dollar through the interplay of market forces of demand and supply in contradistinction with the pre-SAP era of fixed exchange rate regime.

Apparently, SAP was imposed on Nigerians who were made to believe that it had the approval of the IMF whereas it was not so. This assertion is vindicated by the fact that Dr Ibrahim Ayagi (as he then was) who opposed the policy in a public lecture was relieved of his plum job as Managing Director and Chief Executive Officer of the defunct Continental Merchant Bank through a radio announcement barely two hours after the lecture. The reason for termination of his appointment, according to the Government of the day, was the "irreconcilable difference between his views on the SAP and his position as Managing Director of a government-owned bank."

The first auction of US Dollars to licensed banks conducted and supervised by the CBN took place in August 1986. At that time, this writer was the Treasurer at Indo-Nigerian Mrechant Bank (now a legacy group in Sterling Bank). Exchange rate on the date of first auction, around 19th August, 1986, was N1 to US$1.3326. At the end of bidding session for that day, the closing rate was N3 to US$1, a devaluation of over 400%.

It will seem that it was crazy of the IBB regime to reject 20% devaluation demanded by the IMF and go for 400% devaluation in one fell swoop. That was when Nigeria committed economic suicide. Worse still, the IBB regime implemented the severe IMF conditionalities that led to belt tightening by Nigerian citizens in the management of the economy while rejecting the loan. This brings up the issue of why the IMF loan was rejected in the first, place, especially as the IMF demanded only 20% devaluation of the Naira.

4.0 Economic Mistake of IBB Regime

Apart from the mistake of rejecting the IMF loan, the devaluation of the Naira following a classical textbook economic theory was in order, but the policy support was an error because it was deficient in practical application which is the raison d'etre of our opening quotation above. It is sound economic policy for a country that is suffering from chronic balance of payments disequilibrium to devalue her currency in order to boost exports and discourage imports to grow foreign reserves.

However, the practical way to reap the benefit of devaluation following this model is to correspondingly invoice exports in home or local currency. The IBB regime did not do that.

Since the structure of the Nigerian economy is such that over 80% of her export earnings is derived from crude oil export, of which price per barrel is determined by the Organisation of Petroleum Exporting Countries (OPEC) that fixes the selling price in US Dollars and Nigeria was invoicing crude oil export in US Dollars, devaluing the Naira to boost exports was, to say the least, a tragic mistake.

The mistake lies in wrong application of the economic theory of devaluing the home currency to boost exports by IBB"s economic experts, some of whom hold PhD in economics. The tragic mistake was committed as a result of the fact that the foreign-trained economists did not study the Nigerian financial system and so were unable to domesticate the economic theory.

It is important to note that economics is an international subject, but it demands local adaptation for effectiveness. Hence, they were thinking in terms of US Dollar which is the home currency in the United States of America rather than thinking in terms of the Naira which is Nigeria's home currency.

This economic principle in international trade assumes, ceteris paribus, that exports will be invoiced in the home currency. In other words, when the IBB regime devalued the Naira in 1986, they would have made an enabling law to invoice all exports, oil and non-oil exports in Naira, which is Nigeria's home currency. That way, the crushing effect of Naira devaluation which Nigerians experienced at that time would not have occurred.

There would have been interest rate and exchange rate stability because the demand for Naira by foreign importers would have led to a more realistic exchange rate determination devoid of the aberration of Naira exchange rate determination based on supply of the US Dollar to the foreign exchange auction market hosted by the CBN.

Imported inflation, which is the bane of the Nigerian economy since independence as earlier noted, and with it pressure on the Naira at auction sessions would have been reduced to the barest minimum, if not altogether eliminated.

Furthermore, making the US$ a third currency will enable the CBN to take advantage of our foreign reserves which at present cover over 20 months' import bill. This is more than six times the international benchmark of 3 {three}months based on creditworthiness in the determination of exchange rate of the Naira to other foreign currencies.

With growing foreign reserves vis-a-vis the situation in 1986, why should the Naira be depreciating against the US Dollar each time the US Dollar is depreciating against other international currences?

Nigeria suffers double loss because, while the value of her assets denominated in US Dollars is depreciating in value, the purchasing power of the Naira at home is also going down, which is why Nigerians are getting poorer in spite of growing foreign reserves and gross domestic product. This trend ought to be corrected once the US Dollar is made a third currency.

Above all, the value of Naira vis-à-vis the US Dollar and other foreign currencies would have become more favourable and appropriately priced following the economic principle that a scarce commodity, in this case the Naira, will, ceteris paribus, command a higher price.

> **When exports are invoiced in Naira, it will stimulate economic activity in Nigeria due to increased demand for Naira which could become scarce and command an enhanced value in the international foreign exchange market.**

5.0 Effect of Invoicing Exports in Naira

The immediate effect of invoicing oil and non-oil exports in Naira is to make the US Dollar and other convertible currencies a third currency. That means that the US Dollar and other foreign currencies will be chasing the Naira that is, seeking to purchase the Naira.

This scenario will eliminate the spiral fall in Naira value vis-a-vis the US Dollar as a result of pressure on the Naira due to demand exceeding supply of the US dollar in the CBN auction sessions.

This reversed role will not stop the Federal Government of Nigeria from earning US Dollars and other baskets of foreign currencies. In fact, the reversal of roles will put the Central Bank of Nigeria in a sound position to protect the Naira against the US Dollar and other currencies since, by statute; it is enpowered to issue and control Naira supply as well as manage the country's foreign reserves.

This scenario makes a lot of economic sense. The present practice of the CBN protecting the Dollar in the Dutch Auction Foreign Exchange Market by arbitrarily increasing the exchange rate to discourage demand for the US Dollar or increasing the volume of the Dollar offered in the market to drive down the exchange rate will not lead us to the promised land because you cannot protect what you do not own or control.

When exports are invoiced in Naira, it will stimulate economic activity in Nigeria due to increased demand for Naira which could become scarce and command an enhanced value in the international foreign exchange market. After all, the demand for Naira is equal to demand for goods and services that Naira will buy.

Since crude oil is the major export commodity, importers of Nigerian crude oil will open letters of credit in US Dollars at the existing exchange rate of the Naira to the US Dollar. Their foreign bank will have to appoint a Nigerian bank as a correspondent bank for the purposes of purchasing the Naira.

When the inward letter of credit gets to the counters of the Nigerian bank, the bank surrenders the US Dollar to the CBN which in turn credits the bank with the Naira equivalent for onward credit to the Nigerian National Petroleum Corporation (NNPC) or other exporters of agricultural and other goods or services.

In this way, the phenomenon of excess liquidity will be a thing of the past because what causes excess liquidity is the monetisation of petro-Dollar receipts under the present substitution method.

In addition, tourism and hospitality industries will receive a big boost. Just as Nigerian

Cross Section of the Awardee's and Invited Guests at the public presentation of Practice License and Seal held in Lagos.

otherwise international trade becomes domestic trade to them when they buy Nigerian goods or services.

Making the Dollar a third currency has the effect of subjecting them to the vagaries of international trade as well as losing the financial leverage they enjoy when external economies use the US Dollar as a transaction currency, especially as the USA is struggling to balance her national budget due to millitary adventures in the Middle East and Asia.

importers travel to Asia, Europe and America to supervise their imports, importers from these continents that are importing from Nigeria will also visit Nigeria to follow up their imports. They will stay in hotels and buy other Nigerian-made goods and services and in that wise, there will be cultural exchange to the benefit of all parties.

6.0 Likely Implimentation Problems and Solutions

The first problem is the political will by the Federal Government of Nigeria to make the almighty US Dollar a third currency against the Naira.

The second problem is that the Naira is not a convertible currency. How then can we conduct international trade by invoicing exports in Naira especially as Nigeria"s contribution to world trade apart from oil is not significant?

We may take a cue from India that is also an import-dependent country. As reported in the print media, "The nation relies on imports of crude oil, chemicals and some foodstuffs which are priced in Dollars.

The weak Rupee makes these expensive, a cost that is eventually handed over to the consumer."3 It is clear that India is also an

Mustering the political will is key, because the USA, until recently, was the major buyer of Nigerian crude oil. Given the arrogance of USA government, coupled with their diplomatic tactics of arm-twisting nations to bow to their wish, the Nigerian government should be well prepared because there is an element of politics in the determination of exchange rate.

Another reason why the USA might resist it is that by invoicing exports in US Dollars, they gain because an

CIBN Office Holders, Chief (Dr) Joseph Sanusi, CON, former Governor, CBN and some of the Awardees during the Public presentation of Practice Licence and Seal held in November, 2013 at the Bankers House.

import dependent country like Nigeria. They nevertheless engage in export of goods that are invoiced in Indian Rupees.

When this writer worked in the International/Treausury Department of Indo-Nigerian Merchant Bank which was 40% owned by the State Bank of India, we were receiving invoices denominated in Indian Rupees for settlement by a Nigerian importer of hand tools from India. Because the Indian Rupee was not a convertible currency, this writer thought there must be a mistake somewhere.

However, my boss at the time, (1988), one Mr Saraf told me that it was not a mistake because the exporter was protecting himself from the vagaries of the foreign exchange market where exchange rate is volatile. At that time, exchange rate of the Naira to the Indian Rupee was N1 to Rs14.

What we did was to convert the Rupee to the Naira and then purchase the US Dollar and transfer same to the State Bank of Indian London with an instruction to use the US Dollars to purchase Indian Rupees from Reserve Bank of India (India's Central Bank) and remit to the exporter in India. We were constantly receiving Naira to Rupees exchange rate on a regular basis at that time.

Nigeria can do the same through her banks in major financial centres of the world if this suggestion is accepted by the Nigerian Government. We can also draw from the experience of Canada that survived the economic meltdown of 2008.

Matters arising from the Chartered Institute of Bankers of Nigeria's 2011 Annual Lecture reveals that the Canadian economy remained stable while the economy of their next door neighbour, the United States of America, was crashing.

Again, Canada was shielded because she invoiced exports in Canadian Dollars not US Dollars. Whatever happened to the US Dollar in the international financial market did not affect them economically except for their assets that were held in US Dollar.

The foregoing exposition has, hopefully, established this writer's position that the Naira exchange rate will be better managed by the CBN if the Nigerian government musters enough political will to make the US Dollar a third currency in international trade.

Calls by some Nigerian economic experts for the issue of US Dollar notes instead of monetising Dollar proceeds will not be practicable given the low level of financial literacy of majourity of Nigerians and the level of our economic development. Need we say more?

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Article 3

The Philippine Microfinance and Financial Inclusion Experience

Eduardo Jimenez

I. Introduction

The Economic Intelligence Unit (EIU) has consistently ranked the Philippines, for four years in a row (2009-20012), out of 55 countries, as number one in the world in terms of policy and regulatory framework for microfinance. Furthermore, the Philippines is also consistently ranked at the top ten for having a good microfinance business environment.

The EIU-Microscope is the only study that looks at the microfinance environment across regions and across the world, highlighting the similarities and differences between countries and giving them the opportunity to benchmark themselves against others. The acknowledgement affirms the consistent work done by the various stakeholders in the Philippines for the last 15 years in order to strengthen the practice of microfinance in the Philippines.

The journey to being recognised as one of the best in the world is not easy but a product of sustained regulatory and policy reforms and changes set in place as early as the late 1990s.

The adoption of a duly approved National Strategy for Microfinance (NSM) in 1997 by the national government, through the National Credit Council (NCC) and with the support given by the various stakeholders, especially the financial regulators, is a tangible expression of commitment by the stakeholders to see the growth of a vibrant microfinance sector in the Philippines.

The NSM became a landmark document that guided the executive branch of government, policy makers, regulators and legislators in crafting succeeding policy issuances, executive orders and several laws affecting the provision of credit and how it should be

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Being a Paper presented at the Workshop on Financial Inclusion: Making Financial Inclusion Work in Nigeria organised by The Chartered Institute of Bankers of Nigeria 23rd July, 2013 in Lagos.

utilised by the Filipinos, especially the agricultural, agrarian workers and the microentrepreneurs who belong to the most vulnerable sector in the Philippines.

The NSM encouraged the strong participation of private-led institutions like banks, co-operatives and non-governmental organisations to act as retailers of credit services while government banks and government-owned corporations started to move towards wholesaling of credit, partnering with the said private financial institutions.

The Philippines, an archipelagic nation and still an agriculture based economy with a population of 92,337,852 as of 01 May, 2010, has continued to innovate policy solutions and programmes to bring down the level of poverty and, increase financial inclusion. Pockets of poverty are seen throughout the nation and aggregately, 27.9% of the Philippines' latest population count is still below the poverty line.

To put a context in my presentation, please note that the Philippine banking system is distributed as follows:

1. Universal and Commercial Banks – largest type of bank in terms of resources and scope of banking activities.
2. Thrift Banks – savings and mortgage banks, private development banks targeting SME and consumer sector.
3. Rural and Cooperative Banks – relatively smaller banks in rural communities that are serving the local economies.

A total of 9,477 banking offices comprised of 687 head offices; 8,790 branches and other offices were reported as of end of March 2013. Additionally, these financial institutions operate a total of 12,702 automated teller machines (ATMs). The archipelagic nature of the Philippines poses a large challenge to financial access, including microfinance. Around 37% of the existing 1,634 cities and municipalities in the Philippines do not have a presence of any banking institution.

Even with this great challenge, the Philippines reported that its 1st quarter (2013) GDP is 7.8%, the highest among the Asian countries, and last year's GDP was 6.8%, the second highest growth, next to China.

The macroeconomic fundamentals are showing positive results and yet the growth is not that inclusive enough to impact the poor, especially the entrepreneurial poor. Noting that the growth is not impacting the poor as it should be, the Aquino Government resolved to lift more than 10 million people out of poverty, and make an enduring impact on lessening one of Asia's worst rich-poor divides.

The Philippines looks at microfinance as a poverty alleviation tool and has committed itself, through its National Strategy, to see its growth primarily with the help of the private sector. Thus, the government is focusing its energy on providing microfinance friendly environment and related support infrastructure.

II. The Philippine's Journey towards Sustainable Microfinance Programme

Just like any other developing country, the Philippines has employed the theory that economic growth can be spurred through the use of government subsidies, especially in the area of the provision of the needed credit and loans by its citizenry. This theory was very evident during the decades of the '70s, '80s and up to the mid-1990s. The government has looked at the provision of credit, much more subsidised credit as a strategic input to help the poor, and especially the farmers, get out of poverty.

During the said decades, financial institutions generally do not lend to the rural sector because of the perceived high risk and excessive costs of doing business to the said sector. It was generally believed that the rural poor cannot afford to pay interests at market rates nor are they able to save money. The myths about the poor, however, were debunked when microfinance programmes and practices started to impact the poor.

The sudden change of government in 1986 brought about by the so-called People Power or EDSA Revolution further cemented the on-going policy of providing highly subsidised credits to the rural poor (farmers, fisher folks, agrarian beneficiaries, etc). It was generally believed that in less than a decade after the People Power revolution, the growth of government-directed credit programmes (DCPs) have grown by leaps and bounds. The government continued to intervene in addressing the unequal access and exclusion of marginalised farmers from the credit markets through the DCPs.

Several studies and researches commissioned by the government through the Credit Policy Improvement Programme (CPIP) under the National Credit Council revealed the following:

i. Credit did not reach the target market.
ii. The credit and selection process of beneficiaries was politicised.
iii. The private commercial financial institutions were further alienated due to market distortion.
iv. Financial institutions depended on cheap government and donor funds to finance loan portfolio; savings products were set aside.
v. Interest rate subsidies and administration costs were shouldered by the government, thus increasing fiscal costs.
vi. There was promotion of 'dole-out' mentality among the borrowers/ beneficiaries

As earlier reported, the National Strategy for Microfinance, which was approved in 1997, became the general guiding document that helped in crafting relevant laws and regulations. The NSM embodies and supports the new paradigm of doing things, i.e., from the government-led supply of credit to the private-sector-focused leadership in addressing the need for credit and related financial services. The NSM espouses the following key principles:

vii. Non-participation of government line agencies in the direct implementation of credit and guarantee programmes and for government to focus on the policy environment and capacity building;
viii. Adoption of market-oriented financial and credit policies;
ix. Greater role of private microfinance institutions in the provision of financial services;
x. Donors to focus on capacity building.

As the executive branch of the government started to see the value of the principles enunciated in the NSM, the legislature passed two laws that further strengthened the said strategy. The Social Reform and Poverty Alleviation Act (December 11, 1997) adopted market-based interest rate policy for microfinance programs as well as recognised the need to set aside funds for capacity-building purposes.

The said Act also strengthened the work of the People's Credit and Finance Corporation (PCFC), the government apex microfinance institution. The PCFC actively supported the growth of microfinance in the Philippines by providing wholesale funds to institutions desiring to provide microfinance services to their clients.

The Congress also passed the Agriculture and Fisheries Modernisation Act (AFMA) in December 22, 1997 that set in motion the phase-out of DCPs in the agricultural sector and the adoption of market-based interest rates in the provision of credit. Subsequently, a Presidential Executive Order (No. 138) was issued in August 1999 directing all government agencies implementing credit programmes to adopt the NCC Credit Policy Guidelines, which basically are the four (4) policy statements in the NSM.

It is noteworthy to mention at this juncture that microfinance in its nascent stage, became very popular in the Philippines primarily due to the advocacy and direct implementation of microfinance Non-Governmental Organisations (MFI NGOs).

These MFI NGOs were at the frontline, providing the needed access to credit by the entrepreneurial poor. Towards the early part of the 1990s, a group of NGOs, under the auspices of Opportunity International, bonded together and started the first microfinance network organisation in the Philippines called APPEND Network.

The APPEND Network also became the nucleus for the first microfinance thrift bank in the Philippines, which is owned by these NGOs. The Bangko Sentral ng Pilipinas (BSP) has paved the way for NGOs and other private organisations and persons to start their own microfinance-oriented banks, which can be either a thrift bank or a rural bank.

Another network, the Microfinance Council of the Philippines (MCPI), now with more diverse memberships coming from the regulated and semi-regulated sector, was established in June 1999. The MCPI has grown to comprise 47 institutions, including 39 practitioners and 8 support institutions. It is estimated that MCPI members account for 60 per cent of the total active outreach of the microfinance sector in the Philippines.

The co-operatives or credit unions, on the other hand, are not new to the practice of providing small loans to their members, even without collaterals. The co-operatives in the Philippines, during the time that the MFI NGOs were popularising microfinance programmes, were not that strict to follow certain 'best practices' thus affecting the viability and efficiency of these cooperatives.

A number of large networks and federations of co-operatives started to look seriously at the sustainable practice of microfinance operations and incorporated these practices (Portfolio at risk, Operational and Financial Sufficiency ratios, Efficiency ratios, etc) among their members. The Co-operative Development Authority (CDA), the main regulator of co-operatives, has also started to beef up its capacity insofar as regulations, supervision and monitoring of co-operatives and not just do its registry functions.

The BSP Programme for Microfinance

With the passage of the new General Banking Act of 2000, the Bangko Sentral ng Pilipinas (BSP) was mandated to mainstream microfinance in the banking sector. As a response, the BSP declared microfinance as its flagship programme for poverty alleviation. The BSP programme for microfinance is three-pronged:

- Development of a microfinance 'friendly' policy and regulatory environment;
- Capacity building within the BSP and the banking sector;
- Promotion and advocacy of sustainable and viable microfinance programmes.

Cross section of participants at the 13th National Seminar on Banking and Allied Matters for Judges held recently in Abuja.

1. Development of a Microfinance “Friendly” Policy and Regulatory Environment
   - Mainstream microfinance in the banking sector while maintaining prudential standards to protect the financial system as well as the clients.
   - Provide incentives and appropriate environment for expanded scope and scale of microfinance operations in the banking sector.
   - Over 20 regulations were issued to support an enabling environment.

2. Capacity-Building Programme
   - Building banks' capacity for microfinance in the areas of internal controls, portfolio and risk management and governance;
   - Exposure visits of BSP top management to inform policy-making;
   - Examiners' continuous training to strengthen supervisory capacity;
   - Institutionalisation of microfinance in the BSP.
   - Microfinance Committee then renamed Inclusive Finance Steering Committee and inter-departmental Working Groups.
   - MSME Specialist Group.
   - Inclusive Finance Advocacy Staff.

3. Promotion and Advocacy of Sustainable Microfinance
   - Participation in the legislative process;
   - Developing partnerships to promote sustainable microfinance (NCC-DOF; MCPI; RBAP, MABS, donors, etc);
   - Initiatives to promote consumer education in microfinance (e.g., Financial Learning Seminar for microfinance clients and the unbanked);
   - Advocacy for Consumer Protection (e.g., transparency and disclosure standards).

The BSP, in support of efforts to strengthen microfinance programmes in the banking sector, issues circulars, circular-letters and memorandums which set rules / regulations / guidelines that govern microfinance operations of banks.

These issuances can be broadly categorised into Microfinance Definition; Licensing and Branching; Incentives for Microfinance; Rules for Safe and Sound Operations and Expanded Activities.

1. Microfinance Definition and Products

The first issuance focused on microfinance was Circular 272 (30 January, 2001) which basically implements the provisions of the General Banking Law. This circular defines what a microfinance loan is and recognises cash-flow-based lending as a peculiar feature of microfinance.

The circular also provides exemption of microfinance loans from rules and regulations with regard to unsecured loans. Just about a decade after the first issuance, the BSP issued Circular 694, Annex A (14 October, 2010) that expanded the definition of microfinance to include micro-deposits, micro-enterprise loans, micro-agricultural loans, housing microfinance loans and microinsurance. The salient features of the said products stated in the foregoing are:

Microdeposits –microfinance savings deposit accounts that cater to the needs of the basic sectors, low-income and unserved/underserved clients; They are generally designed and priced to fit the needs and capacity of the target market; therefore, minimum maintaining balance not exceeding PhP100.00; not subject to dormancy charges and only for individual microfinance clients whose average daily savings account balance does not exceed PhP15,000.00.

Microenterprise Loans – small and short-term loans granted to the basic sectors, on the basis of the borrower's cash flow, for their microenterprises and small businesses.

Microfinance Plus Loans - loans ranging from PhP150,000.00 to PhP300,000.00; Borrowers have a track record of at least two (2) microfinance loan cycles in the PhP50,000.00 to PhP150,000.00 range, demonstrating business success, increasing credit demand and subsequent increased capacity to pay, and borrowers should have a savings account.

Housing Microfinance Loans – granted

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8. Footnotes should be avoided.
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10. Check tables and figures (rows, columns and totals) properly. Explanatory paragraphs should be as near as possible to the relevant tables and figures, which should be appropriately numbered.
11. Only articles that are of high quality in content and relevance may be published. Unpublished articles may not be returned to their authors.
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for home improvements, house and/or lot acquisition using microfinance principles in accordance with the BSP regulations; maximum loan amount generally pegged at PhP300,000.00 with payment terms up to 15 years; loan value up to 90% appraised of real estate mortgage (REM) or acceptable valuation in cases of usufruct, lease, freehold, right to occupy/build.

Micro-Agri Loans – granted to small farmers with farm and off-farm income generation activities; maximum loan amount generally pegged at PhP150,000.00 with payment terms up to 12 months; as risk management feature, frequent amortisation, with option for lump-sum payment of up to 40% of loan amount; can be availed by existing borrowers with good track record. With prior BSP approval, banks may provide micro-agri products that fit their clients' production and cash cycles.

Microinsurance – thrift, rural and co-operative banks can market, sell and service approved microinsurance products of licensed insurance companies to microfinance clients; the products to be sold should comply with the regulations set up by the Insurance Commission.

2. Licensing and Branching

The second circular issued by the BSP on microfinance was Circular 273 (27 February, 2001) which partially lifted the moratorium to allow the opening of new banks to be known as microfinance-oriented thrift or rural banks. The said circular also allowed microfinance NGOs to establish their own microfinance banks.

The BSP, mindful of the unique operational activities and programmes of banks doing microfinance, issued Circular 340 (30 July, 2002). The Circular provided rules on the establishment of loan collections and disbursement points (LCDPs).

This particular circular was amended by Circular 365 (16 January 2003) and Circular 369 (16 January, 2003) that addressed the minimum capitalisation requirements for the selection location of the concerned banks.

The BSP then issued Circular 505 (22 December, 2005) which allows qualified microfinance-oriented banks and microfinance branches of regular banks to establish branches anywhere in the Philippines. Subsequently, the BSP issued two more circulars (No. 624 and No. 669) last 13 October, 2008 and 22 October, 2009, respectively that clarified existing branching policy and also provided guidelines for the establishment of other banking offices or OBOs.

The BSP amended portions of Circular Nos. 624 and 669 through the issuance of Circular No. 694 (14 October, 2010) which classifies OBOs into regular OBO and microfinance OBO (MF-OBO) or microbanking office (MBO). The said circular also expanded the range of activities that MBOs can provide to microfinance clients.

3. Incentives for Microfinance

Three (3) regulatory incentives, i.e., Rediscounting Facility, Reduced Risk Weight and Relaxed Documentary Requirement for Clients, were given by the BSP for banks desiring to provide sustainable microfinance products to their clients. Three circulars (Nos. 282, 324 and 515) were issued to cover the rediscounting incentives while Circular Nos. 549 and 608 cover the relaxed documentary requirements for clients.

4. Rules for Safe and Sound Operations

Microfinance is a serious business and can be a very profitable endeavour if the right risk mitigation procedures and practices are integrated in the business case. Along this line, the BSP issued Circular 409 (14 October, 2003) to set the rules, regulations and standards for microfinance operations, specifically the measurement of Portfolio-At-Risk (PAR) and Loan Loss Provisioning.

The BSP further integrated in this circular the adoption of sound practices, like application of PAR 1 day and the acceptable standard of less than 5% of PAR for the total portfolio.

Two more circulars were issued to ensure safe and sound microfinance operations of banks, i.e., No. 607 (30 April, 2008) identifies the reportorial requirements for all banks engaged in retail microfinance and No. 725 (16 June, 2011) provides the framework for governance arrangements and contractual agreements between a bank with microfinance operations and its related microfinance NGO.

5. Expanded Activities

The BSP issued Circular 649 (09 March, 2009) which provided guidelines regarding the issuance of electronic money and operations of electronic money issuers in the Philippines. The said circular defines e-money as electronic surrogate for cash, redeemable at face value and not a deposit. The circular also ensures compliance to consumer protection and to anti-money laundering rules. Microfinance services can be provided through mobile technology using electronic money.

The BSP also issued Circular 685 (07 April, 2010) which created an enabling environment for the establishment of Microfinance Institution Rating Agencies (MIRA) that can provide objective, credible and competent third-party ratings of microfinance institutions. The BSP issued recognition of such MIRA that is valid for three years and may be further renewed.

Finally, to enhance loan transaction transparency, the BSP issued Circular 730 (20 July, 2011), Circular 754 (17 April, 2012) and Circular 755 (20 April, 2012) that require all credit-granting entities to charge interest based on the outstanding balance of a loan and to define the effective interest rate as well as a uniform disclosure of the loan term. These transparency and disclosure circulars require banks and other credit-granting entities to also post, in conspicuous places, the revised format covering the said disclosure of loan transactions.

Microfinance Update in the Banking Sector

The issuances of BSP circulars and the close monitoring and supervision of banks doing microfinance operations have indeed strengthened the practice of microfinance in the formal financial sector. Not only is microfinance fully mainstreamed in the formal financial system, but NGOs can transform or set up formal financial institutions if these institutions see the need to transform. Financial institutions see microfinance as a profitable business proposition and not a 'burden or a push' from the regulator. These institutions treat microfinance clients as consumers and not as 'beneficiaries'.

Technological innovations such as mobile/branchless banking help increase efficiency and outreach of operations. The space is wide open for telephone companies to provide the needed services of the non-bank and bank clients insofar as financial transactions are concerned.

To date, there are now 186 banks, a marked increase from less than 30 in 2000, who are providing microfinance operations reaching more than one million clients with total outstanding loans of PhP8.0 billion and savings of PhP8.2 billion. Microfinance in the banking sector has increased access to formal credit for clients as clients reported that microfinance loans were their first formal bank loans. On the savings front, 6 out of 10 borrowers had the opportunity to save for the first time. Overall, clients increased savings balances by 13% since taking their first loan.

III. Moving towards Financial Inclusion

Microfinance programmes help the poor to have access to the relevant financial services, thus empowering the disadvantaged and low income segments of the society. It is widely known that the poor, given the right supporting, opportunities and protection, can improve their lives; thus their vulnerability to financial distress, poverty and debt can be minimised.

A great number of the Philippine population, not necessarily the poor, have still limited access to needed financial services and are excluded to participate fully in the system. Building on the success of microfinance in the BSP and in the banking system, the BSP firmly believes that financial inclusion for all, needs to be pursued and given enough seriousness like that of microfinance. Financial Inclusion is defined by the BSP as "a state wherein there is effective access to a wide range of financial services to all".

"Effective access" does not only mean that there are financial products and services that are available. These services must be appropriately designed, of good quality and relevant, that lead to actual usage, and can benefit the person accessing the said services.

The notion of "wide range of financial services" means a full set of basic services for different market segments, particularly those that are traditionally underserved and unserved.

The BSP believes that Financial inclusion is a worthy policy objective that needs to be pursued alongside the promotion of financial stability and efficiency in the financial system. Financial inclusion and financial stability should be viewed as mutually reinforcing in achieving the country's objectives.

The BSP further believes that market-based solutions are feasible and should be encouraged to address financial access issues. The regulator should establish a supportive regulatory environment for the said market-based solutions. Proportionate regulations to address real and valid risks should be set up in place on top of the monitoring of the commitment by the providers of services to uphold consumer protection and financial system integrity.

With the operationalisation of the guiding principles stated above, the BSP envisions that an Inclusive Financial System would be characterised by:

> **"Microfinance programmes help the poor to have access to the relevant financial services, thus empowering the disadvantaged and low income segments of the society."**

1. Wide range of financial services that serve different market segments;
2. Financial products appropriately designed, priced and tailor-fitted to market need;
3. Wide variety of strong, sound and duly authorised financial institutions utilising innovative delivery channels;
4. Effective interface of bank and non-bank products, delivery channels, technology and innovation to reach the financially excluded.

IV. Key Lessons Learnt

In my close association with the Bangko Sentral ng Pilipinas for the last 12 years as its Microfinance Advisor, and in my concurrent capacity as an Associate with the Alliance for

Financial Inclusion (AFI), let me present to you the key lessons that I think are very relevant for microfinance and/or financial inclusion. Let me use the acronym CBANKER for easy communication:

Commitment to practise and support sound financial inclusion/ microfinance principles and practices. This commitment must be seen and integrated in the issuances of rules, guidelines, policy statements and regulations.

Boldness to think outside the box when crafting poverty solutions to stem the growth of poverty.

Adaptive and flexible without sacrificing prudential standards and the safety of the financial system as well as the general public

Nationalistic to keep the interest of the country at heart, even as the world is becoming flat and inter-connected in terms of business dealings and operations.

Knowledge-focused, that is, being aware of what is happening globally in terms of technology, sound practices, developments, trends, and socio-cultural changes.

Earthy mind to be grounded in reality and not be confined in an ivory tower where, sometimes, policies are crafted, discussed and approved.

Responsive to the needs of the market, thus appropriate and proportionate regulations can be made. "Regulations follow the market" is a sound mantra as we tackle the issue of being responsive.

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8. Footnotes should be avoided.

9. Check tables and figures (rows, columns and totals) properly. Explanatory paragraphs should be as near as possible to the relevant tables and figures, which should be appropriately numbered.

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