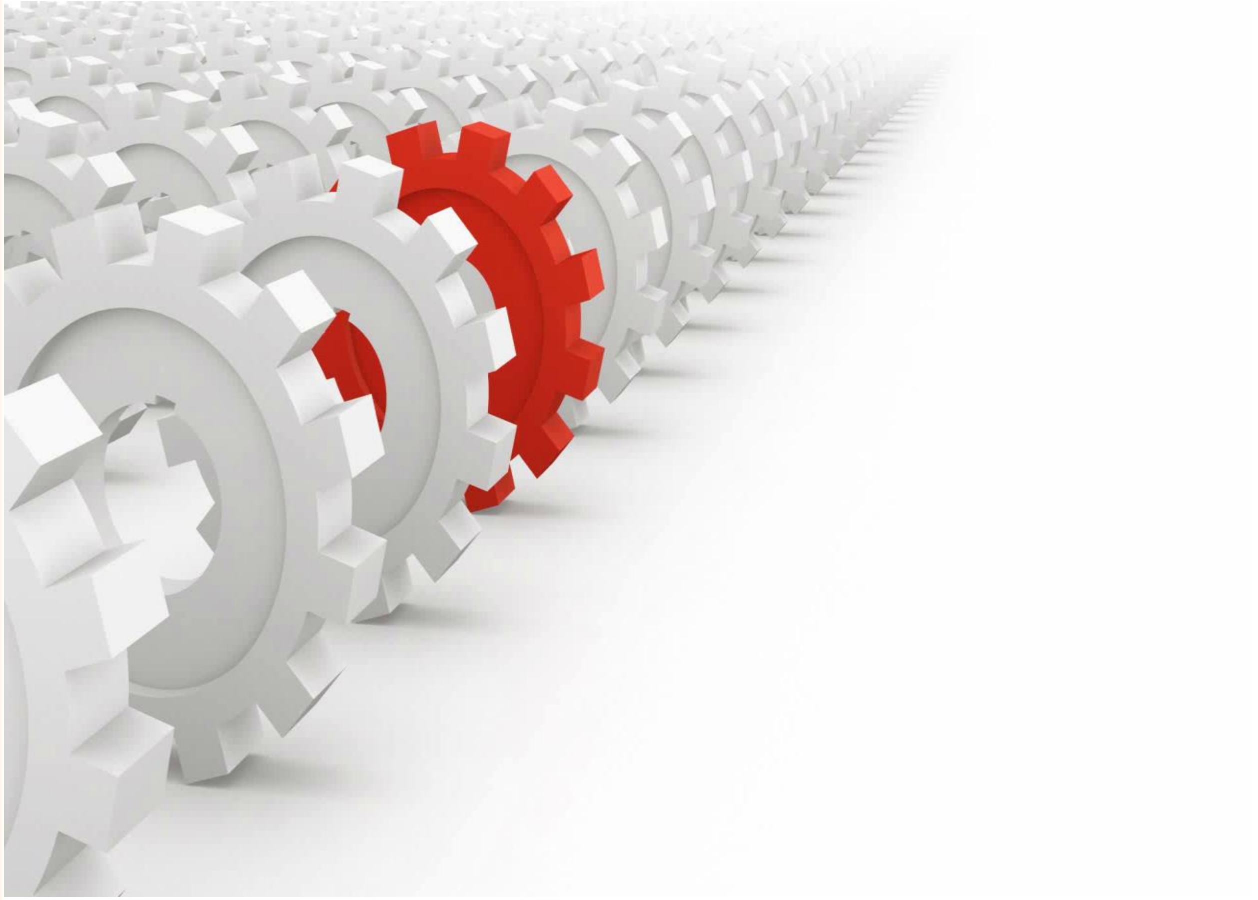


The Role of Governance in Emerging Markets

Name: Tinuade T. Awe

Date: 17 June 2022

Outline

1. Introduction – Overview of an Emerging Market
2. Role of Corporate Governance in Combating Governance Challenges
3. Achieving Sound Corporate Governance
4. Questions and Answers

INTRODUCTION – OVERVIEW OF AN EMERGING MARKET

What is an Emerging Market?

"Emerging Markets" is a term that refers to an economy that experiences considerable economic growth and possesses some, but not all, characteristics of a developed economy. Emerging markets are countries or companies that are transitioning from the "developing" phase to the "developed" phase.

Investors seek out emerging markets for the prospect of high returns because these markets often experience faster economic growth as measured by gross domestic product (GDP). However, along with higher returns usually comes much greater risk.

https://corporatefinanceinstitute.com/resources/knowledge/economics/emerging-markets/

Characteristics of Emerging Markets

Market Volatility

Market volatility stems from political instability, external price movements, and/or supply-demand shocks due to natural calamities. It exposes investors to the risk of fluctuations in exchange rates, as well as market performance

Growth and Investment Potential

Emerging markets are often attractive to foreign investors due to the high return on investment they can provide

High Rates of Economic Growth

Governments/Managements of emerging markets tend to implement policies that favor industrialization and rapid economic growth. Such policies lead to lower unemployment, high disposable income per capita and better infrastructure

Developing Capital Markets

Capital markets are still rapidly developing in many emerging markets, and a shareholder culture may not be fully developed or embedded in the legal system.

Examples of Countries with Emerging Markets

(a)

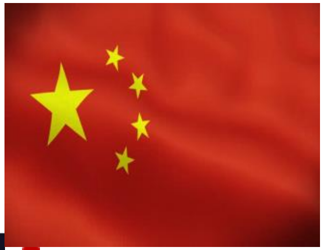
Brazil's economy on a relative basis grew rapidly during the early 2010s at a rate of 7.5%. Due to political instability and trade sanctions, however, the growth rate slowed down and became negative in 2016 (-3.5%). The Brazilian economy has been affected largely by political uncertainties and lower government expenditure. However, the outlook for the country's future is positive.

(b)

Driven primarily by oil exports and a rise in oil prices, Russia experienced exponential growth in its GDP during the period 1999-2008 (before the Global Financial Crisis). The transition from communism to capitalism that has been taking place since 1991 has boosted economic growth in the country through economic reforms and an export-oriented trade policy. However, since 2014, Russia's economy has been negatively affected by political conflicts and trade sanctions that have been imposed by the US, Canada, Japan, and the EU, along with fluctuations in the price of oil, which accounts for close to 52% of Russian exports.

(c)

India established itself as an emerging market after trade liberalization and other major economic reforms in 1991. The Indian economy has been growing steadily at relatively high rates. It averaged 7.1% in the past decade, with some fluctuations due to political instability and economic reforms.



(d)

The Chinese economy has posted an average growth rate of 10% since the enactment of trade liberalization and economic reforms in 1978. China's economic growth has been propelled by government spending, expansion of its manufacturing sector, and exports (specifically electronic equipment).

However, the country's income per capita is still low. Although only 3.3% of the Chinese population lives below the poverty line, 30% of the population lives below US$5.50/day. Nonetheless, as the Chinese government focuses on increasing GDP through consumption, disposable incomes are likely to increase, leading to sustained economic growth.

(d)

South Africa was inducted into the BRICS association in 2010, after experiencing negative GDP growth in 2009 following the 2008 Global Financial Crisis (-3%). Following the financial crisis, the South African government implemented a number of policies to boost GDP through government expenditure and consumption. Economic growth increased in 2010-12 before slowing down in 2012-16 and rising again in 2017.

Nigeria as an Emerging Market

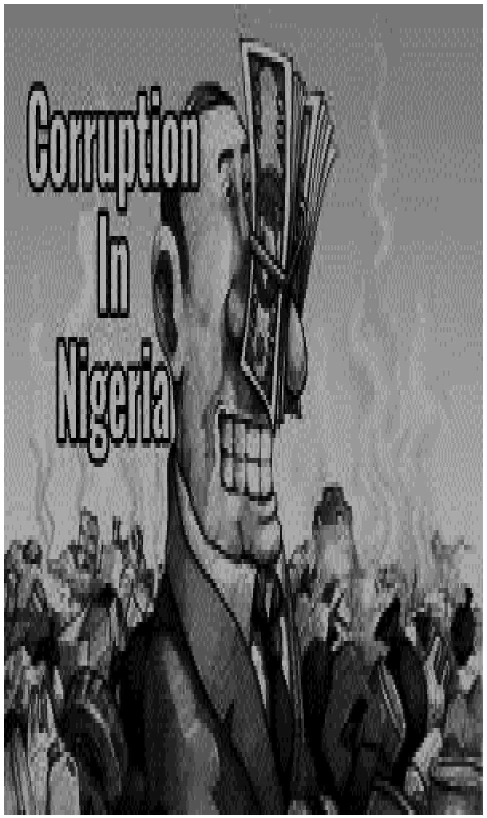
Nigeria is a state that features prominently in current depictions of ‘emerging’ Africa, owing to its combination of assets and potential as a West African hub.

Since returning to democracy in 1999, the country has witnessed significant economic and some political reforms which, along with rising demand for its natural resources, have helped ignite unprecedented economic growth, reaching nearly 7% during the period 2001–2011. However, despite these political and economic advances, Nigeria faces serious social, economic and political challenges owing to the predominance of private over public interests in government and in many public institutions.

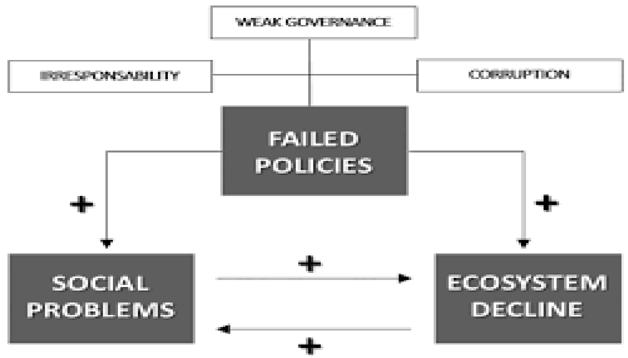
Rising poverty, insecurity and corruption underline the challenges that daily confront the country. Indeed, when one considers these challenges, and the attributes of other countries classified as emerging, it becomes difficult to sustain the labelling of Nigeria as an emerging market or economy.

Governance Challenges in Emerging Markets

Corruption



Weak institutions



Lack of Transparency

Bureaucratic Processes

Low adherence to Rule of Law

ROLE OF CORPORATE GOVERNANCE IN COMBATING GOVERNANCE CHALLENGES

Corporate Governance in Emerging Markets

Giving credit where due, emerging market economies have made significant corporate governance strides over the past decade, as the adoptions and revisions of governance codes and relevant regulations have led to better disclosure standards, higher levels of board independence, and more shareholder protections.

(Harvard Law School Forum on Corporate Governance, 2019)

Nigerian Code of Corporate Governance, 2018

King IV Report on Corporate Governance, 2016 (South Africa)

Code of Corporate Governance for State Owned Enterprises in Egypt, 2015

Brazilian Corporate Governance Code, 2016

Code of Corporate Best Practices, 2010 (Mexico)

Report of the Committee on Corporate Governance, 2018 (India)

Code of Corporate Governance for Listed Companies in China, 2019

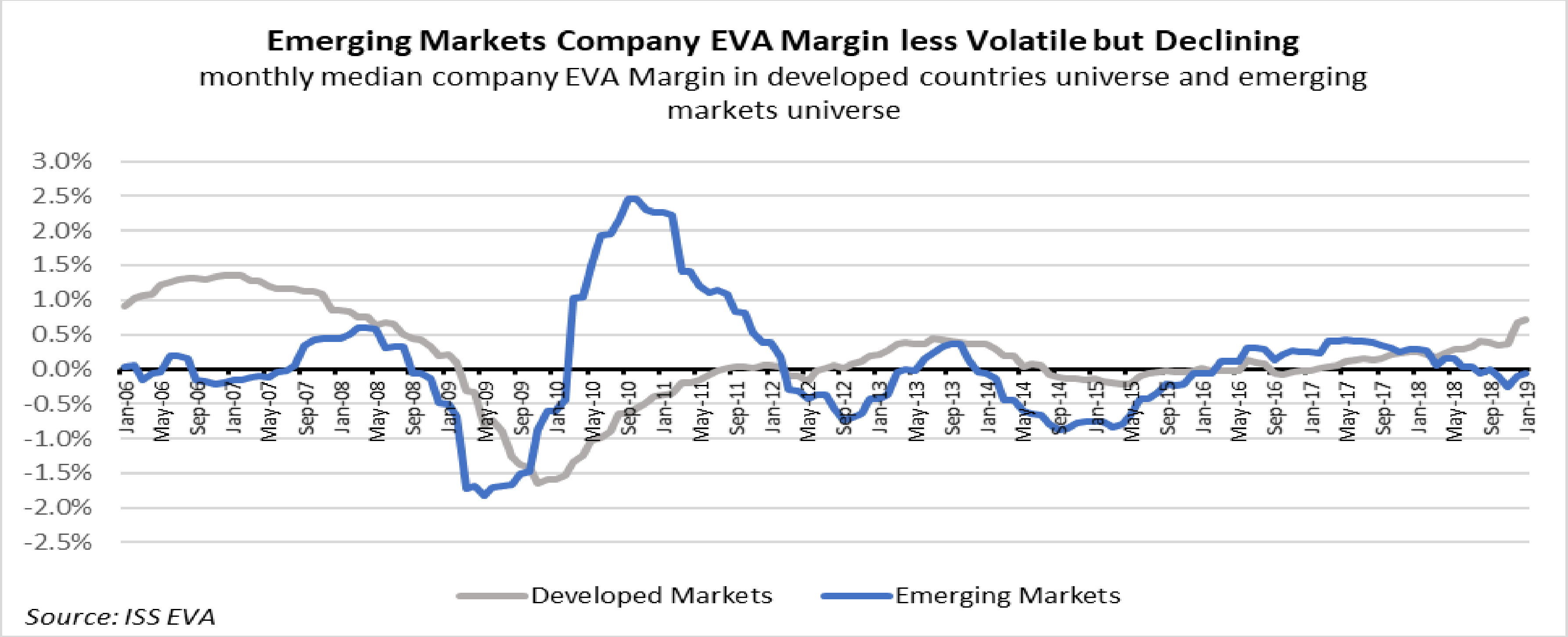
Corporate Governance Principles—Capital Markets Board of Turkey

Russian Corporate Governance Code, 2014

10

Impact of Corporate Governance

Emerging markets are showing signs of maturity in terms of financial performance, with economic profitability in the form of Economic Value Added (EVA) Margin figures being less volatile during the recent past years. The reduction in volatility is likely a result of macroeconomic trends, where evolution in corporate governance cannot be excluded as a part of the general process. (Harvard Law School Forum on Corporate Governance, 2019)



Corporate Governance Codes and Guidelines in Nigeria

Code of Corporate Governance for Microfinance Banks in Nigeria, 2018

Code of Corporate Governance for Banks, Discount Houses and Other Financial Institutions

Nigerian Code of Corporate Governance (NCCG) 2018

Financial Reporting Council, Nigeria

SEC Corporate Governance Guidelines (SCGG), 2020

Code of Corporate Governance for the Telecommunications Industry

Circular on Corporate Governance for Pension Fund Operators, 2019

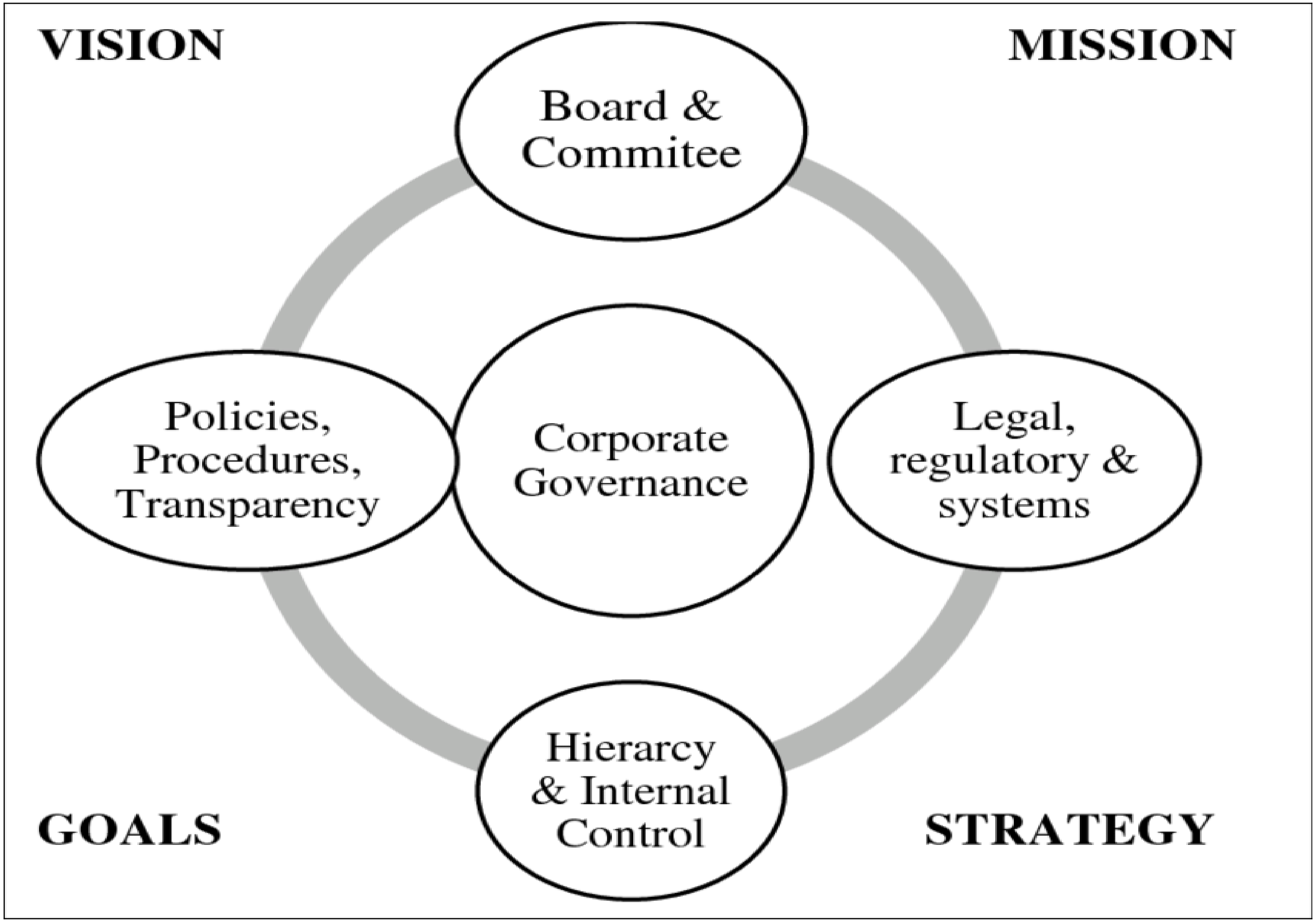
Corporate Governance Guidelines for Insurance and Reinsurance Companies in Nigeria, 2021

Flashback - Corporate Governance is…

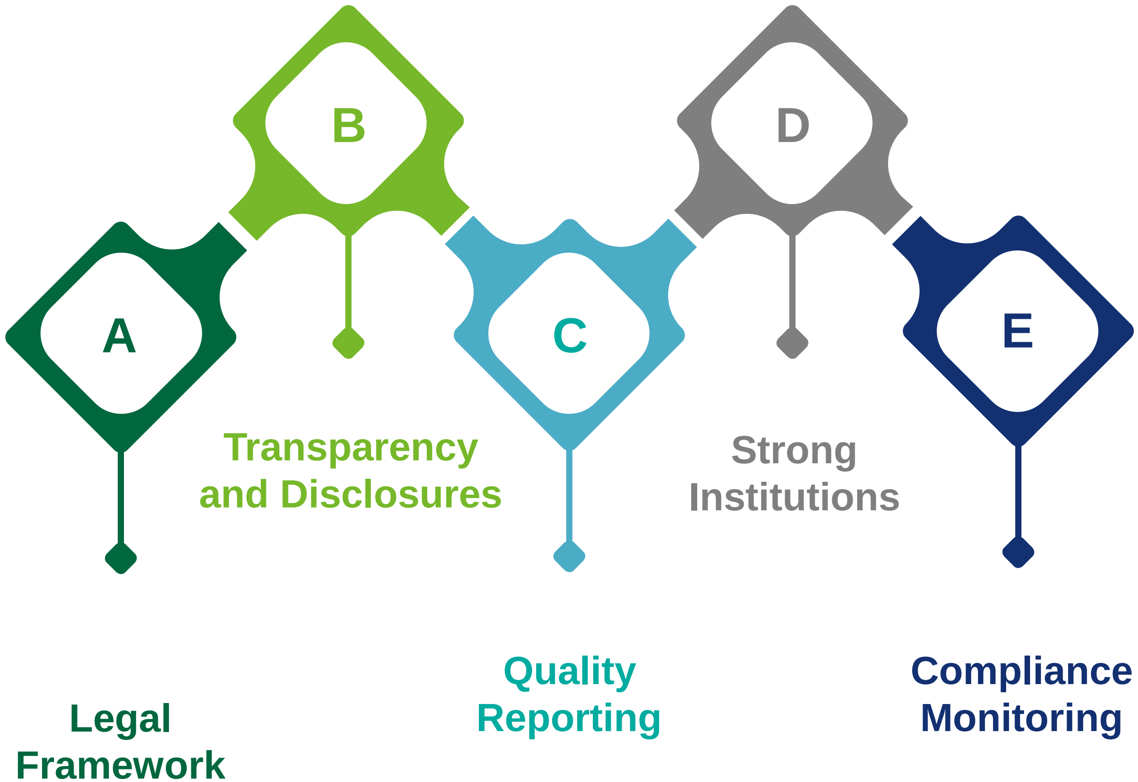
Corporate Governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate Governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

OECD (2015), G20/OECD Principles of Corporate Governance

Governance Model



How?



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Transparency and Disclosures
Strong Institutions
Legal Framework
Quality Reporting
Compliance Monitoring

Whose Responsibility?

CAMA, 2020

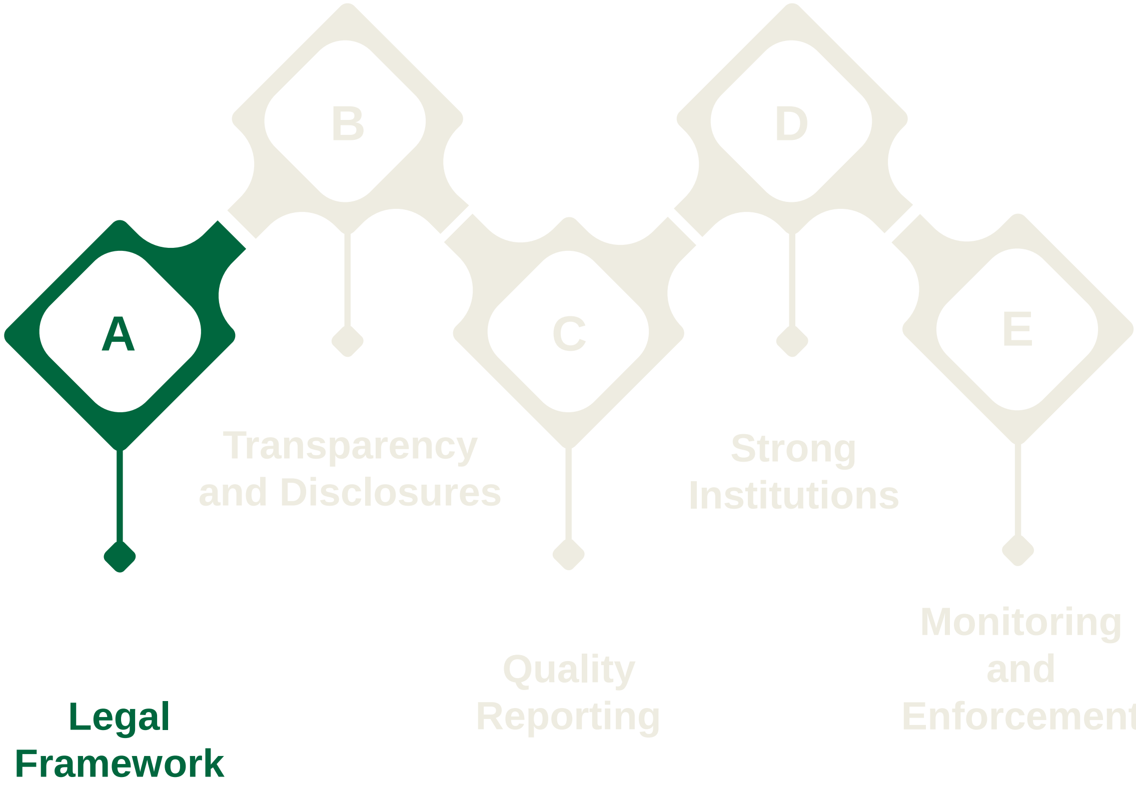
Directors owe the company the duty of care and loyalty and to act in the interest of the company's employees and other stakeholders.

CBN's Code for MFB, 2018

The Board shall be accountable and responsible for the performance and affairs of the MFB…. Directors owe the MFB the duty of care and loyalty to act in the interest of the MFB's shareholders and other stakeholders.

Nigerian Code of Corporate Governance, 2018, Principle 1

A successful company is headed by an effective Board which is responsible for providing entrepreneurial and strategic leadership.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Legal Framework
Transparency and Disclosures
Quality Reporting
Strong Institutions
Monitoring and Enforcement

Laws, Rules and Regulations – the Universe

01 Companies and Allied Matters Act, 2020

02 Code of Corporate Governance for Microfinance Banks in Nigeria, 2018

03 Financial Reporting Council of Nigeria Act, 2011

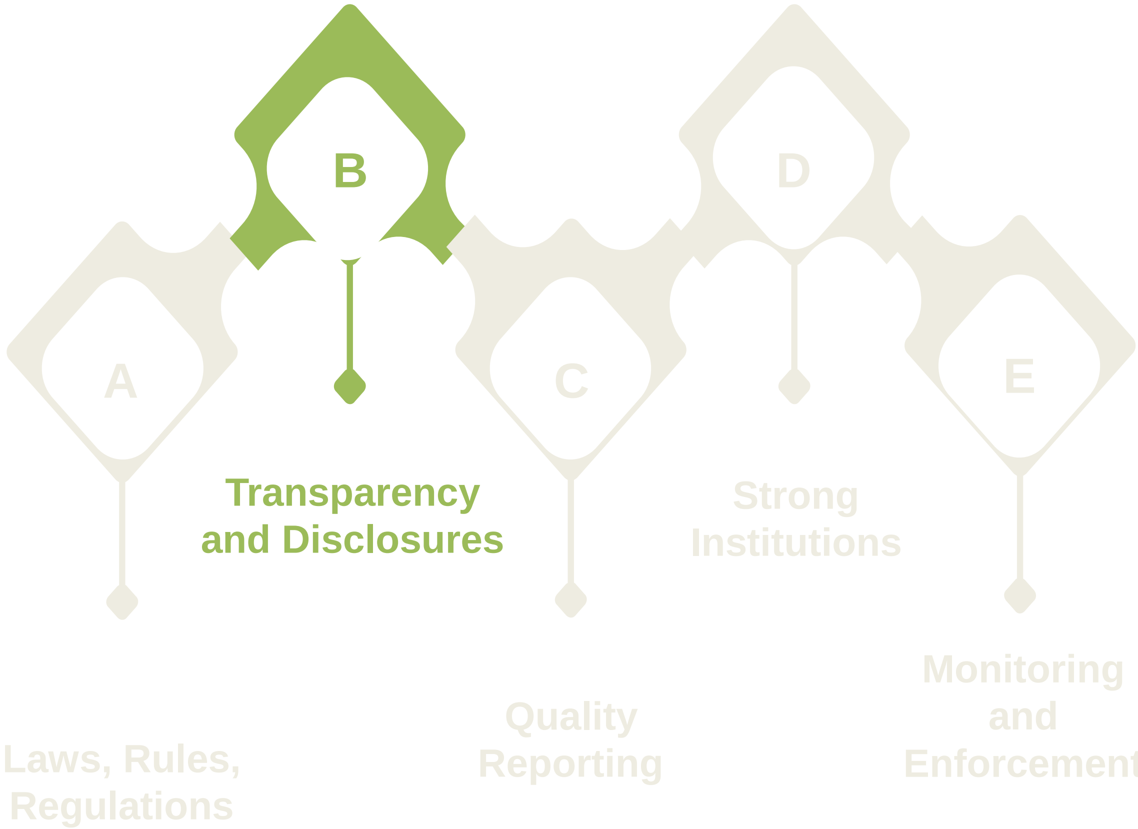
04 Revised Regulatory and Supervisory Guidelines for Microfinance Banks in Nigeria, 2012

05 Nigerian Code of Corporate Goverance, 2018

06 Nigeria Data Protection Regulation, 2019

07 SEC Corporate Governance Guidelines, 2020

08 Rules of the Securities & Exchange Commission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Transparency and Disclosures
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Why?

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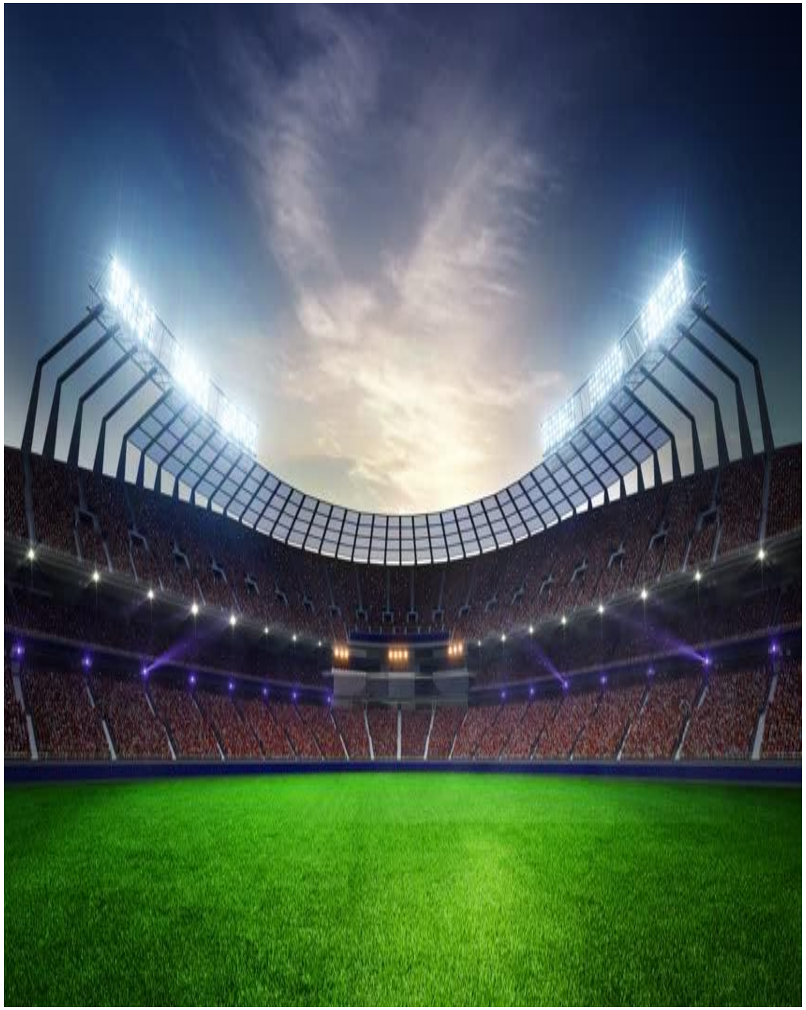
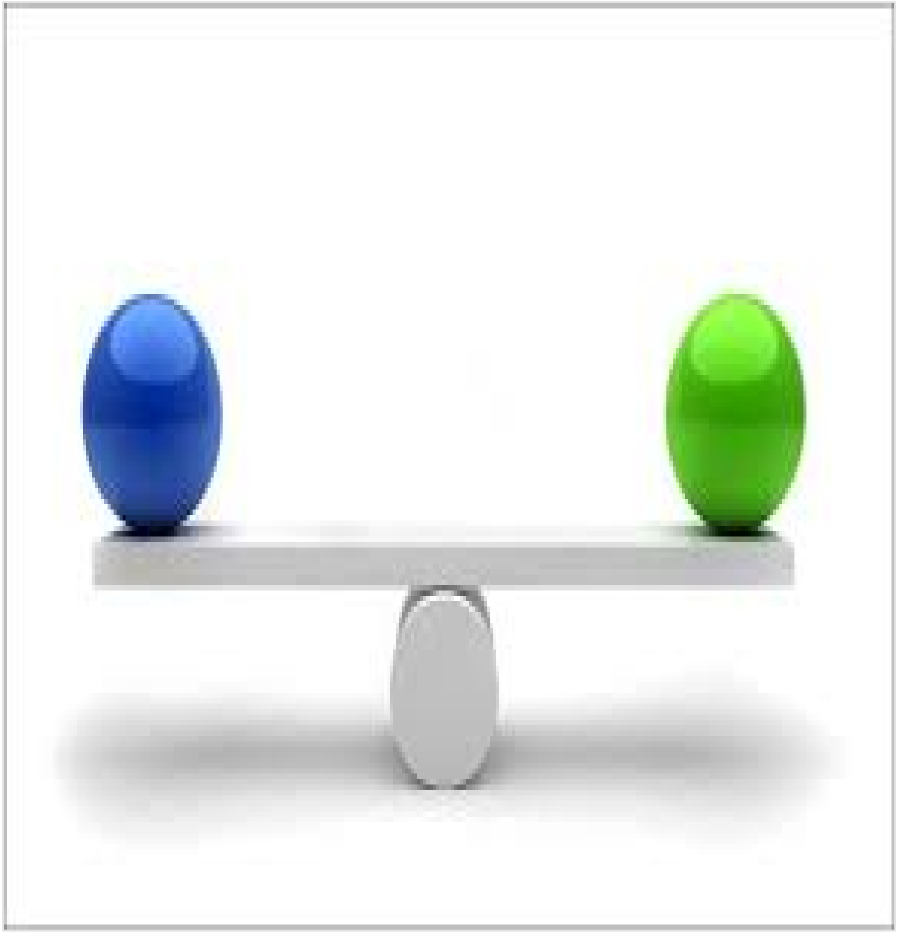


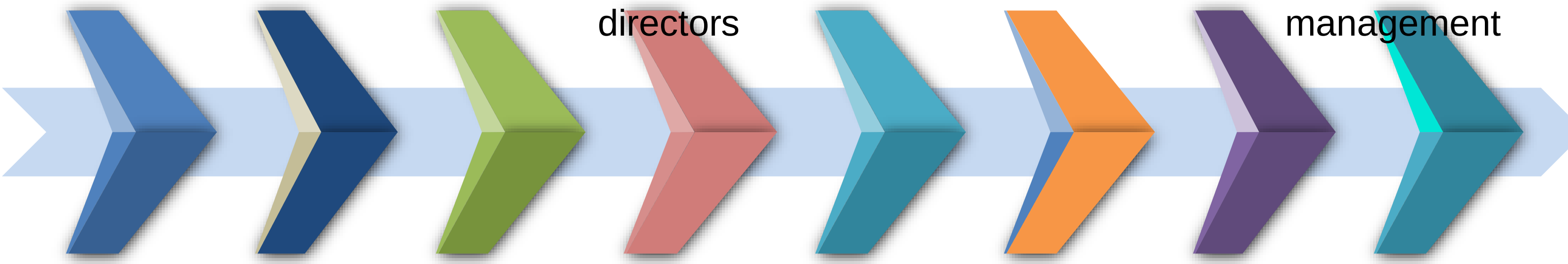
The Need for Disclosure



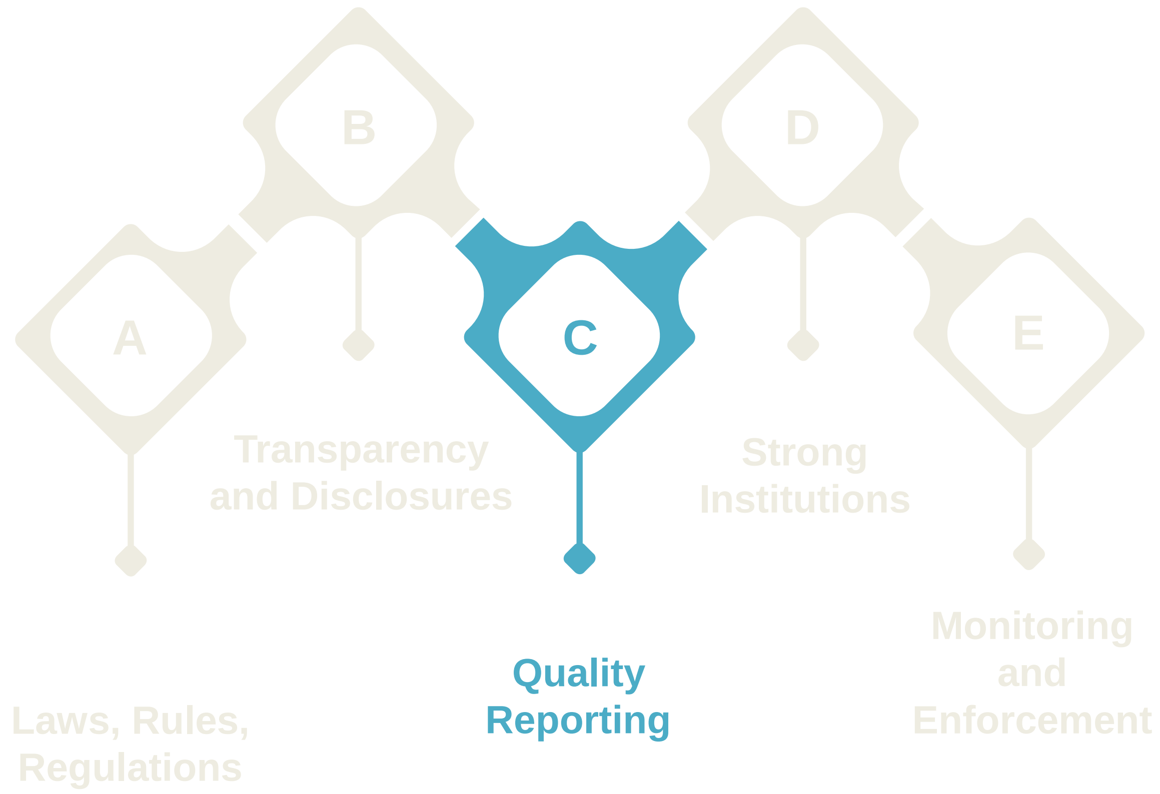
- Information disclosure is an important and efficient means of protecting shareholders and is at the heart of corporate governance.
- It is also integral to corporate governance, i.e. an important element of corporate governance.
- Higher disclosure is able to reduce the information asymmetry, clarify the conflict of interests between the shareholders and the management, and make corporate insiders accountable.
- Information asymmetry exists where there is a gap in information between management and shareholders, and other stakeholders like competitors.
- Where information asymmetry exist, there is tendencies for market manipulation and abuse.
- Full disclosures reduce information asymmetry and incidences of market abuse.

Importance of Disclosures

- Projects the company as a law abiding corporate citizen
- Prevents/reduces unethical behavior of employees, management and directors
- Protects investors and builds investors' confidence
- Enhances credibility and reputation of the company, its board and management



- Mitigates risks
- Ensures compliance with regulatory requirements
- Serves as a deterrent to fraud and corruption
- Improves the performance and stability of a Company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Monitoring and Enforcement
Quality Reporting
Laws, Rules, Regulations

Annual Report

Annual reports are the principal mechanism or channel of corporate information disclosure as they contain comprehensive report of a company’s activities in the preceding year as well as its future goals. The annual report aims to provide shareholders, potential investors and other stakeholders information about the company's activities and financial performance.

Contents of Annual Report I

- **Overview**
  - Notice of Annual General Meeting (AGM) (notice must indicate date, time, venue and business to be transacted at the AGM
  - Company's Profile, (includes details of directors, officers and professional advisers)
  - Key Financial Highlights/Results at a glance

- **Strategic Reports**
  - Chairman's Statement
  - Chief Executive Officer's Statement
  - Business Review
  - Board of Directors
  - Executive Management

- **Governance**
  - Directors' Report (the report should present a fair view of the development of the business of the company its subsidiaries during the year and of their position at the end of it, and state the amount (if any) which they recommend should be paid as divided and the amount (if any) which they propose to carry to reserves. [S385.1(a) and (b) of the Companies and Allied Matters Act 2020]

Contents of Annual Report II

- Corporate Governance Report [The Board should ensure that the Company's annual report includes a corporate governance report that provides clear information on the Company's governance structures, policies and practices as well as environmental and social risks and opportunities. (S28.1, NCCG 2018)]
- Corporate Social Responsibility/Sustainability Report
- Risk Management Report
- Statement of Directors' Responsibilities in Relation to the Financial Statements
- Audit Committee Report (Section 385, CAMA 2020)
- Reports of Independent Auditors (Section 404, CAMA 2020)

❑ **Financial Statements**
- Statements of Profit or loss and Other Comprehensive Income, Financial Position, Changes In Equity and Cash Flows
- Notes to the Financial Statements

❑ **Other National Disclosures**
- Value Added Statements
- Five-Year Financial Performance

❑ **Additional Information**
- Share Capital History
- Proxy Form

Contents of Annual Report (NCCG 2018)

The Annual Report should contain the following information and reports:

- Processes used in relation to all Board appointments. **(Principle 12.6)**
- Summary of the corporate governance evaluation report. **(Principle 15.2)**
- Remuneration Policy as well as remuneration of all Directors. **(Principle 16.8)**
- Sitting allowances, Directors' fees and reimbursable travel and hotel expenses, in addition to any other allowances and benefits made to NEDs. **(Principle 16.13)**
- How the Board has obtained adequate assurance on the Company's risk management framework. **(Principle 17.7)**
- A statement on the effectiveness of the internal processes and systems such as risk management and internal control. **(Principle 18.2)**
- Corporate governance report that provides clear information on the company's governance structures, policies and practices as well as environmental and social risks and opportunities. **(Principle 28.1)**
- Statement by the Board on the company's level of application of the Code arising from the results of its corporate governance evaluation. **(Principle 28.5)**
- Where the Board has engaged independent experts in evaluating and reporting on the extent of application of this Code, they should name the consultant and include a summary of the report (provided by the consultant). **(Principle 28.6)**
- Statement by the Board on the Company's ESG activities. This should be reviewed by an appropriate Board committee and may be subject to independent review. **(Principle 28.8)**

Integrated Reporting

Integrated Reporting - Overview

Integrated reporting is an evolution of corporate reporting. It is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term. (International Integrated Reporting Council)

➢ Benefits

- Improved quality of information contained in the final report
- More productive reporting process
- Tangible benefits for the company
- Stimulates integrated thinking
- Enables better understanding of the factors that materially affect an organization's ability to create value over time
- Can lead to behavioral changes and improvement in performance throughout an organization

➢ Concepts

- Strategic focus and future orientation
- Stakeholder and materiality focus
- Conciseness
- Connectivity and reliability
- Consistency and comparability

Corporate Governance Report – NCCG 2018

Corporate Governance Report

- Board Composition
- Board appointments
- Number of Board and Committee Meetings
- Diversity
- Evaluation Process
- Policies and cases of clawback
- Roles and responsibilities of the Board Committees
- Cumulative Years of Service of: Each Director, External Auditor, External Consultant
- Code of Business Ethics for Directors, Senior Management and other employees
- Unlawful or unethical behaviours
- Related party transactions in the notes to its annual and quarterly financial statements
- Fines and penalties
- Highlights of sustainability policies and programmes
- Human Resources Policies

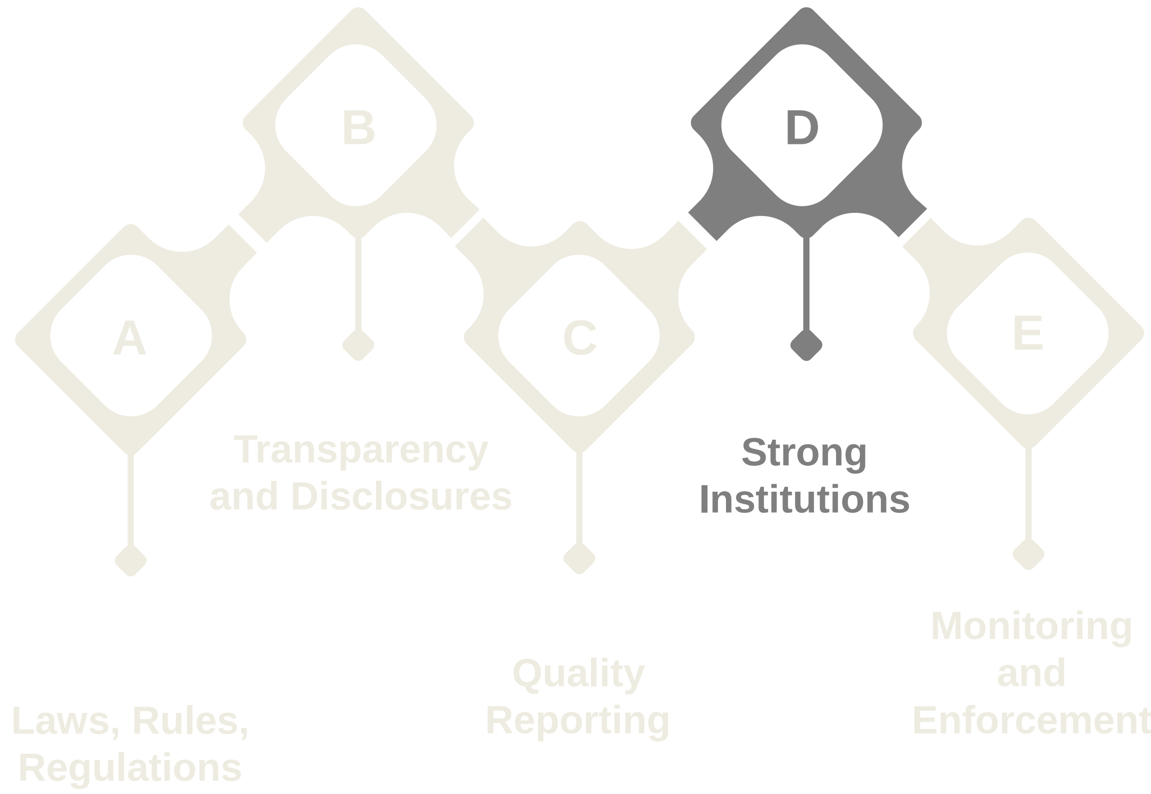
Corporate Governance: How to Report?

Report on key governance information

State how you implement, measure and communicate governance principles

Tell your governance story while still complying with the Code

Report any deviation from the Code and explain how the principle is applied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Transparency and Disclosures
Strong Institutions
Laws, Rules, Regulations
Quality Reporting
Monitoring and Enforcement

How?


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GOVERNANCE
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finance
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important
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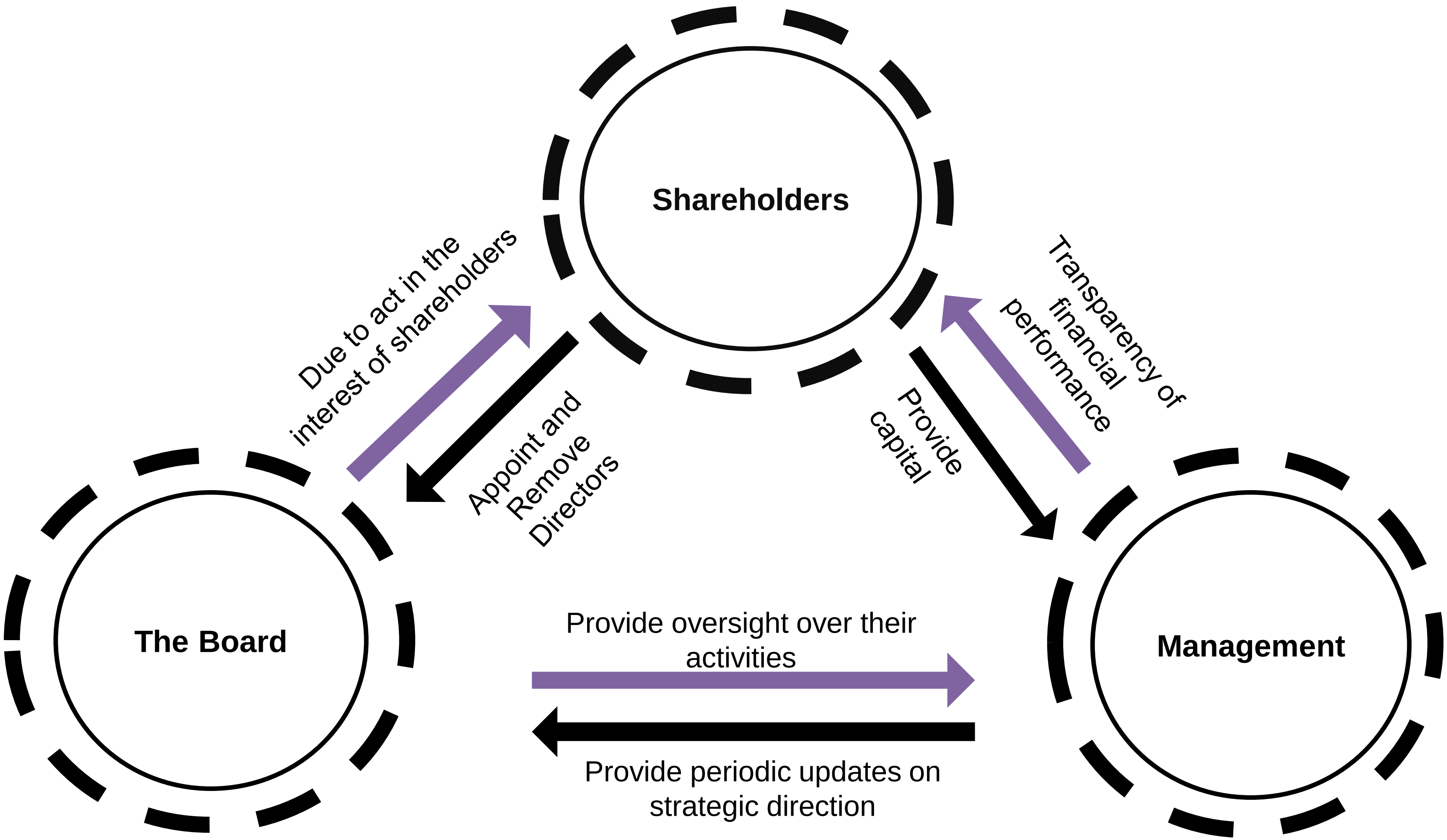
Effective Governance System



Elements of Good Governance

The Role of the Board

Leadership

- To ensure sufficient number of Directors based on skills, knowledge and experience.
- Determine matters reserved for the Board and Delegate other matters to its Committees and Management.

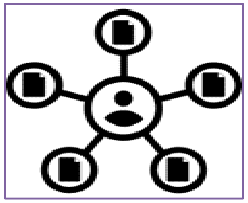
Direction

- The Board has a duty to provide strategic direction.
- Promote ethical culture within the organization.
- Ensure the establishment and approval of all company policies.

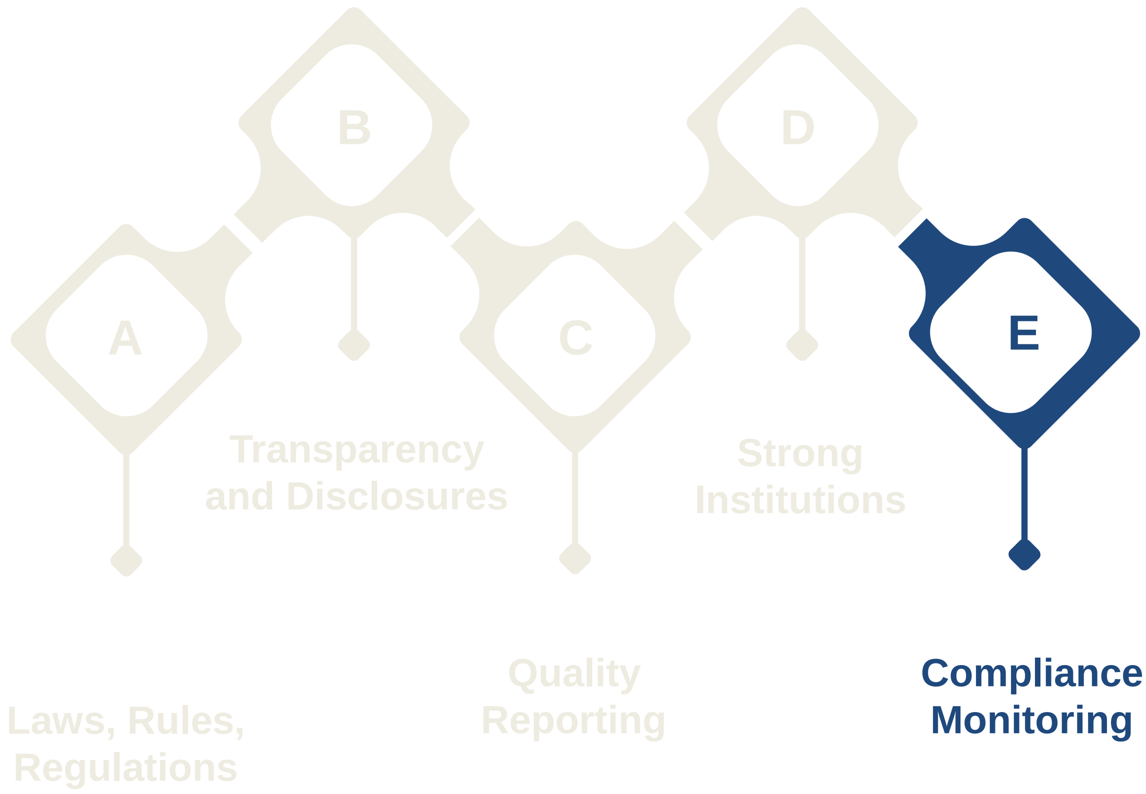
Oversight

- Ensure the compliance with internal policies, laws and regulatory requirements.
- Periodically review reports submitted by the Management.
- Review the performance of Management.

Accountability



- Ensure the integrity of annual reports and accounts and all material information provided to shareholders and other stakeholders.
- Ensure full and timely disclosure of information to shareholders.
- Ensure equal treatment of all shareholders.



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Quality Reporting
Laws, Rules, Regulations

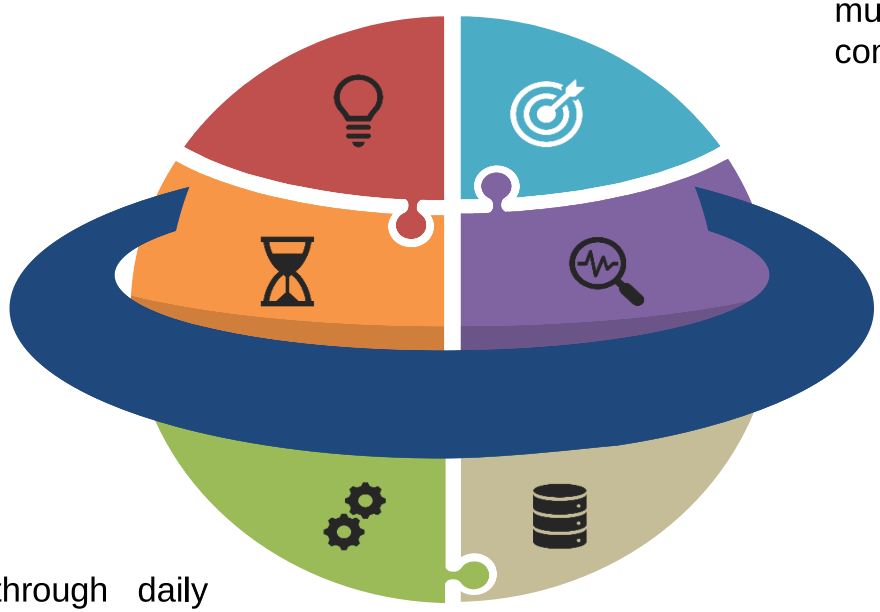
Compliance Monitoring

Implementing a Compliance Culture

Tone at the Top
Emphasis on the importance of ethical conducts and compliance should flow from the leadership of an entity.

Management's Adoption
Leading by example (Walk the Talk). Management must be seen to show commitment to compliance

Responsbility
Organizations should show a sense of responsibility to all its stakeholders by fulfilling its obligations including promises made.

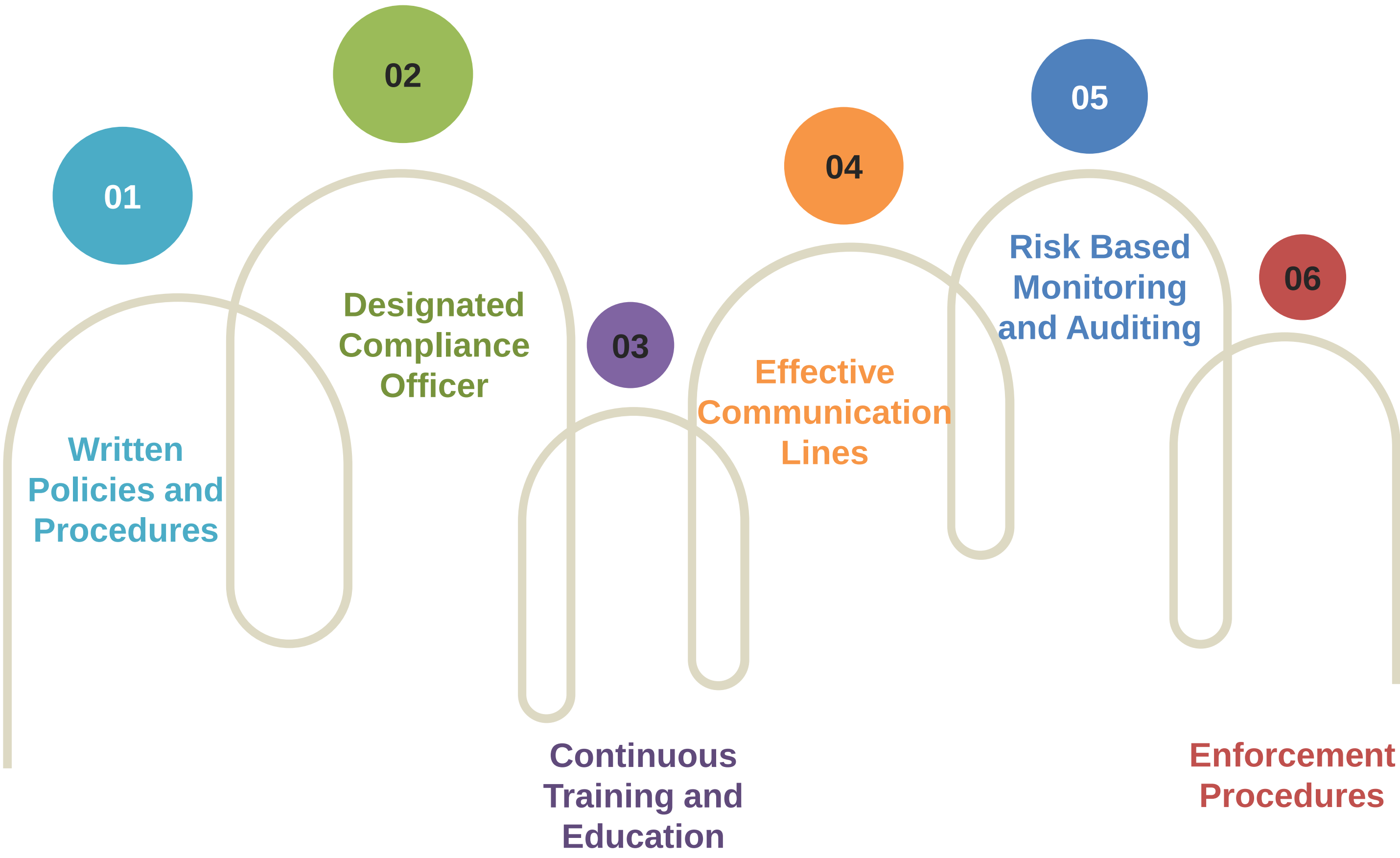


Defined Ethics and Values
Clear definition of organization's values must be communicated. Employees should be encouraged to speak up when there are deviations from such values.

Habitual Practice
Inculcation of values through daily application of relevant regulations in business conducts

Training
Periodic trainings covering relevant policies and regulations should be conducted for the board, top management, employees and key stakeholders.

Developing Effective Compliance Programme



Collective Responsibility

ACHIEVING SOUND CORPORATE GOVERNANCE

Key Issues in Corporate Governance

Role and Responsibilities of Board of Directors

Clarity in the board's roles and responsibilities as well as provision of suitable leadership to the company.

Financial Reporting, narrative reporting and auditing

Accountability to shareholders as well as openness and transparency with investors generally.

Risk Management and Internal Control

Operating within acceptable levels of risk, and establishment of an effective system of internal control that safeguards the company's assets

Composition and Balance of the Board of Directors

The board should be composed of individuals with high level of integrity and diverse background for suitable balance, avoiding dominance of a powerful CEO and/or chairman.

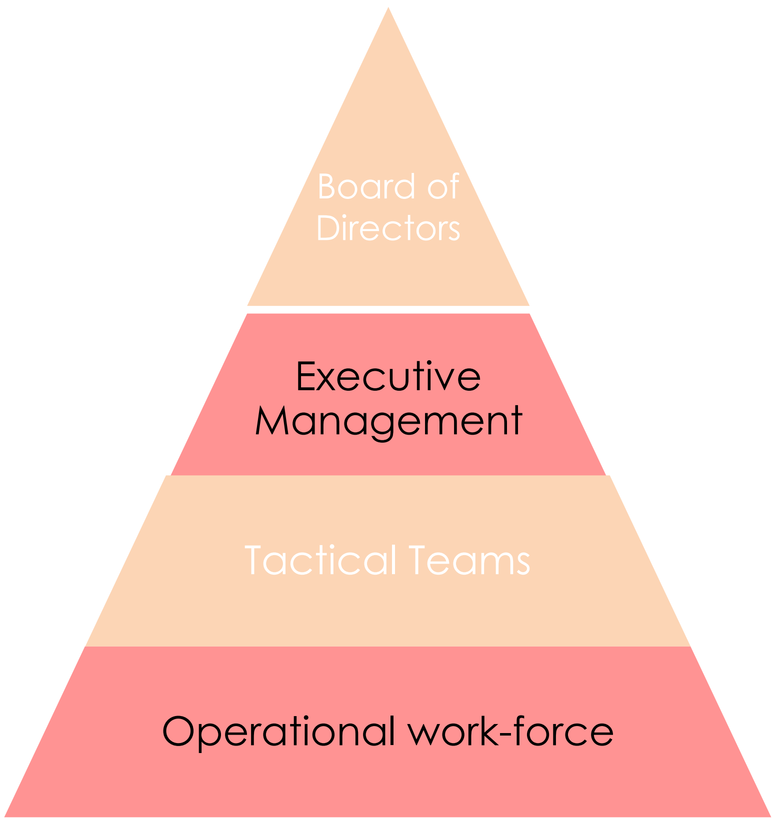
Directors' remuneration

Suitable incentives that links remuneration to performance to motivate directors for their commitment to achieving the objectives of their company.

Shareholders' rights

Shareholders' involvement in the company's affairs through dialogue with the directors and greater use of shareholder voting powers at general meetings.

Steps to Building a Sound Corporate Governance Environment



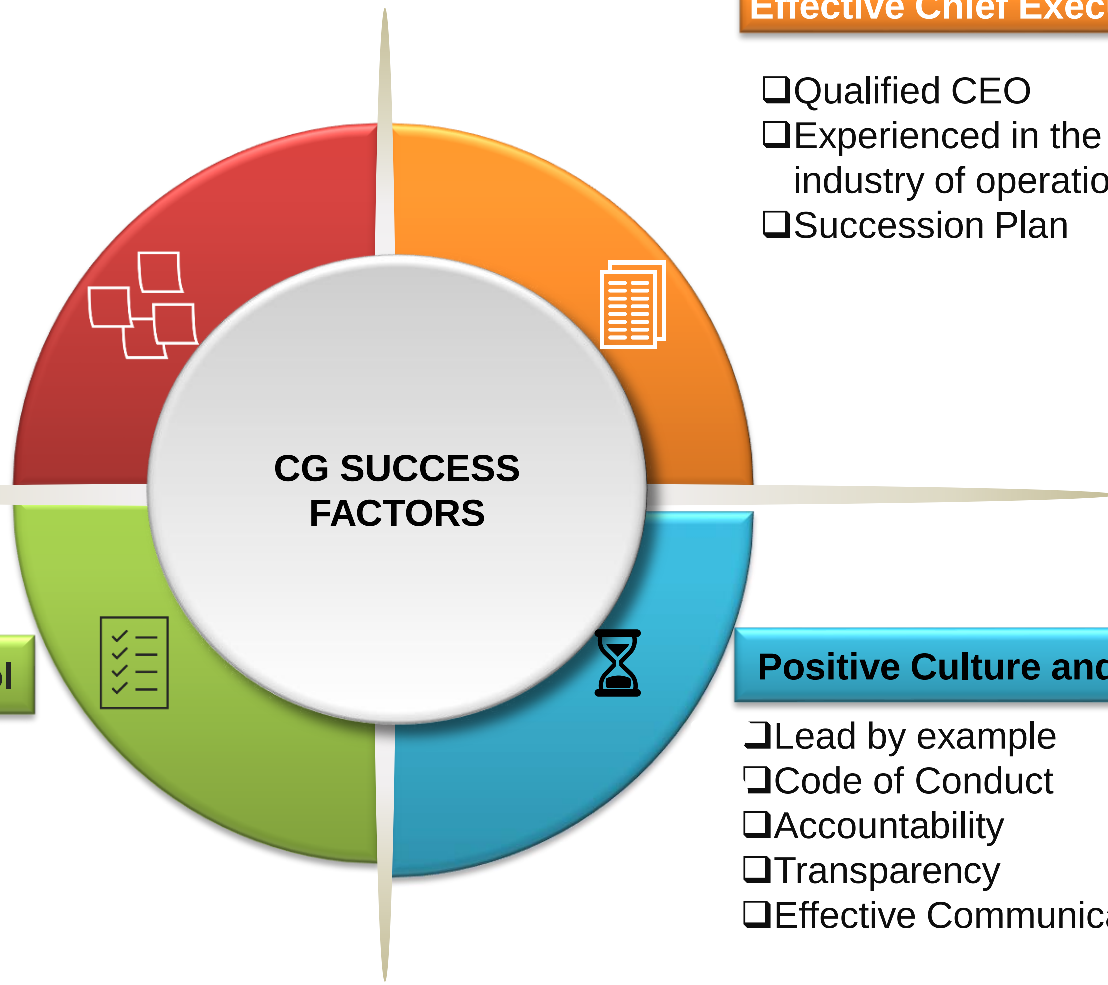
Key Success Factors for Corporate Governance

Effective Board

- Independent
- Competent
- Continuous Education
- Term of Reference
- Power and Authority
- Performance Evaluation
- Remuneration and Indemnification
- Fit for Purpose Committees

Effective Chief Executive

- Qualified CEO
- Experienced in the industry of operation
- Succession Plan



Effective Internal Control

- Strong Internal Control Mechanism
- Risk Assessment
- Active Audit Committee

Positive Culture and Tone

- Lead by example
- Code of Conduct
- Accountability
- Transparency
- Effective Communication

OTHER CORPORATE GOVERNANCE IMPERATIVES

Highlights of Corporate Governance in CAMA, 2020

Independent Directors

Public Companies must have at least 3 Independent Directors.

Multiple Directorship

A person cannot be a director in more than 5 public companies

Disqualification of Directors

A director removed before expiration of his tenure, is disqualified from becoming a director of another company

Directors Liability

Directors / controlling members are liable to members for loss or damage suffered where company acquires property from such directors / controlling members

Chairman/CEO position

Chairman of a Public Company cannot act as CEO

Company Secretary

Public companies and their Directors are liable to a fine to be determined by CAC where they fail to appoint a Company Secretary

Statutory Meetings

Small companies and private companies are exempt from holding statutory and AGMs.

CAC Entitlement to Notices

CAC is entitled to receive notice of meetings of Public Companies

Managers Remuneration

The remuneration of Managers of a Company is required to be disclosed as an ordinary business at the AGM.

Virtual Meetings

Private companies can conduct meetings electronically in accordance with their Articles.

Highlights of CBN Code of Corporate Governance for MfBs in Nigeria, 2019

Independent Directors

MFBs must have at least 1 Independent Directors.

Appointment of Directors

By shareholders and approved by CBN

Qualification of Directors

A director shall not be an employee of a bank or other financial institution. At least two(2) members of the BODs shall be required to have banking or related financial industry experience

Tenure of Independent Directors

Four(4) years for a single term and a maximum of eight (8) years of two (2) consecutive terms if re-elected

Chairman/CEO position

Chairman of a MFB cannot act as CEO

Composition of Directors

MFBs shall have a mimimum of five (5) and maximum of seven (7) directors on a Board.

Tenure of Non-Executive Directors

A maximum of three (3) terms of four (4) years each.

CAC Entitlement to Notices

CAC is entitled to receive notice of meetings of Public Companies

Composition of Directors

Not more than two (2) members of a family shall be on the Board of an MFB at the same time.

Virtual Meetings

MFBs can conduct meetings in accordance with the provisions of CAMA 2020.

Overview of the NCCG, 2018

PART	DESCRIPTION	KEY HIGHLIGHTS
A	Board of Directors (16 Principles)	A successful Company is headed by an effective Board which is responsible for providing entrepreneurial and strategic leadership as well as promoting ethical culture and responsible corporate citizenship. As a link between stakeholders and the Company, the Board is to exercise oversight and control to ensure that management acts in the best interest of the shareholders and other stakeholders while sustaining the prosperity of the Company.
B	Assurance (4 Principles)	A sound framework for managing risk and ensuring an effective internal control system is essential for achieving the strategic objectives of the Company.
C	Relationship with Shareholders (3 Principles)	General Meetings are important platforms for the Board to engage shareholders to facilitate greater understanding of the Company's business, governance and performance. They provide shareholders with an opportunity to exercise their ownership rights and express their views to the Board on any areas of ix Part Principle Number Definition of Principle interest.
D	Business Conduct and Ethics (2 Principles)	The establishment of professional business and ethical standards underscores the values for the protection and enhancement of the reputation of the Company while promoting good conduct and investor confidence.
E	Sustainability (1 Principle)	Paying adequate attention to sustainability issues including environment, social, occupational and community health and safety ensures successful long term business performance and projects the Company as a responsible corporate citizen contributing to economic development. The Board should monitor the implementation of sustainability policies and report on the extent of compliance with the policies.
F	Transparency (2 Principles)	Communicating and interacting with stakeholders keeps them conversant with the activities of the Company and assists them in making informed decisions
G	Definitions	Definition of key terms used in the Code.

FINAL WORDS

“

Good corporate governance is about 'intellectual honesty' and not just sticking to rules and regulations…

…capital flowed towards companies that practiced this type of good governance.“ - Mervyn King (Chairman: King Report)

Questions and Answers

For further questions, please contact:

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08086195754