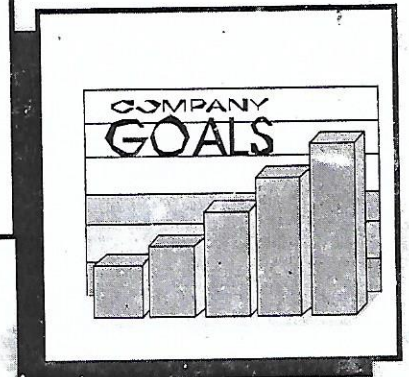
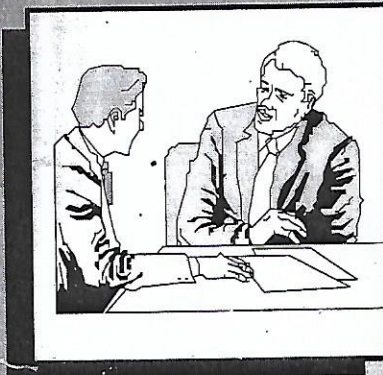


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THE GLOBAL ENDEMIC NATURE OF FINANCIAL MALPRACTICES: AN ANALYTICAL APPRAISAL

BY

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Abstract

It is increasingly becoming a commonplace knowledge that virtually every facet of the nation's economy is enmeshed in financial inadequacies. It is equally not in doubt that to an average educated Nigerian, fraud in the form of financial mismanagement has become a bedmate to our national life. The above scenario brings to question as to whether Nigeria is an island of corruption and hence making saint of the rest of the world. In an attempt to address this rather imposing question, this study examines financial malpractices on a global terrain in order to have the picture of the global occurrences and of course, the position of Nigeria in the comity of nations. To this end the study specifically examines the occurrences in Nigeria using the banking industry as a showcase. From this point, it went further to examine the bank crises at a global level using the experiences as obtainable from some selected countries. The global economic mismanagement of political leaders as depicted by the cases of some selected notorious leaders was equally brought to light. Since all these have a devastating effect on the economy by increasing the poverty index and hence reducing the standard of life, the study further revealed the comparative standard of life of some selected countries. The Nigeria placement on the corruption index was equally delved into, all in an attempt to have the position of Nigeria in the scheme of things. The study being a theoretical exposition made use of the available records of relevant agencies of government, World Bank reports and publications of The Transparency International. The mode of analysis was purely descriptive but supported with facts and figures. The study was concluded by, recommending that though fraud is endemic, curbing it would require organizational awareness of what it takes to prevent its occurrence. Once each organization leaves to expectation the nation and the entire globe will be the better for it.

INTRODUCTION

There are obvious issues that have contributed to the changes in our societal values over the last 30 years. Nigeria's economy is heavily dependent on oil exports. In the 1970s as crude oil prices climbed upwards, Nigerian economy soared, together with government expenditures. With the economy flush with foreign exchange, living standards also doubled.

Oil prices in the world markets dropped in the early 1980s and then collapsed in 1986. Nigerians exports earning fell from \$26 billion in 1980 to \$12 billion in 1985, and \$6.4 billion in 1986. The economy was devastated, and with it Nigeria's living standards, reached her low point in 1986-87. Government control over foreign exchange, pricing and agricultural marketing stifled competition and economic growth. Little of the government's oil receipts was invested in the Nigerian people, or in productive assets with high returns. Much was wasted on uneconomic projects and corruption.

After 1981, it took sometime for public spending to come down and throughout 1983 the Nigerian government spent more than it earned. The government relied on borrowing from the banking system, and money creating which generated inflation. To finance its foreign expenditure it ran down the country's international reserves, borrowed heavily, accumulated large-scale payments arrears. When oil prices collapsed further in 1986, and forced the government to adopt a comprehensive package of economic reforms, Nigeria's economy got into a deep-seated crisis".

On this premise the study further delved into other matters such as the notion and metamorphosis of the self-accounting to third party regulation, stakeholders and their global expectation, global frauds and business collapse

Objectives of the Study

The study examines financial malpractices from a global perspective. In so doing the study specifically examined the scenario of financial malpractices in the Nigeria banking industry as a stepping stone to the global crisis in the banking industry. It went further by examining the global economic mismanagement as depicted by the recklessness of some political leaders in the various selected countries. The study also dealt with the devastating effect of the financial mismanagement, which usually present itself in form of poverty and low standard of living.

The study was concluded by advancing of remedial propositions to improve the impasse through a grass root approach to fraud prevention as a step towards attaining global sanity.

Theoretical Framework

The endemic nature of fraudulent activities cannot be over emphasized as it could be likened to a virus in that has infected the entire body system. This Alatas (1990) asserted that "the problem of corruption (fraud inclusive) is trans-systematic that is, it in-here in all social systems – feudalism, capitalism, communism, and socialism. It affects all classes of society, all state organizations, monarchies and republics; all situations, in war and peace; all age groups; both sexes; and times, ancient, mediaeval and modern".

Comer (1977) as presented by Ssegawa and Dominick (1998), stated that human's disposition to criminality (of which fraud is prominent) is due to two major factors which he captioned "E" and "N" factors. The "E" factors according to him are characterized by impulsive behaviors, lack of concern for others and a strong need for stimulation. This factor impairs socialism and prevents individual from reaching social maturity. The "N" factor on the other hand is characterized by emotional instability, inconsistency and unpredictability of emotional response. In furtherance of the theory he enumerated human traits and habit to include: laziness, materialism, lateness, absenteeism, forgetfulness, alcoholism and drug abuse, bad temper, enthusiasm, intuition, focused and disciplined mind, ambition, achievement-orientation, honesty, alertness to environment assertiveness and lying. He further submitted that in all of the above, the most common trait and habits of fraudster are lying, dishonesty, high profile lifestyle desire for material things, drug and alcoholic abuse.

The theory therefore rests on the facts that even though fraudster could not be identified by demographic data a close watch of individual behaviors and way of life may provide possible insight of a fraudster. Comer (1977) however pointed out that a honest person may be a criminal the next day having overstepped the line due to social pressures, which cannot be quantified. In his own view Rose-Ackerman (1997), stated that fraud and corruption occur throughout the world but this is of special concern in developing countries. Where fraud is systemic, those who pay and receive bribes can expropriate such nation's wealth leaving little for its poorest citizens. He went further to say that a country's level of corruption depends not on its economic potentiality but rather on its political structure. Classifying corrupt nations into four categories, he gave their names as: Kleptocracy states, Bilateral-monopoly states, Mafia-dominated states and Competitive bribery states. These he presented as shown below:

Types of Corrupt States

	MULTIPLE BRIBERS	FEW BRIBERS
Few recipients concentrated at upper levels of government.	Kleptocracy (either a pure extortionary state or a weak state).	Bilateral-monopoly state.
Multiple recipients at lower levels of government.	Competitive-bribery state with a possibility of spirals	Mafia – dominated state.

Source: Rose – Ackerman (1997)

According to him kleptocracy state is that in which the head of government organizes the political system to maximize the possibilities for extracting rents which he in turn reallocates for his personal use and comfort. Since he faces a large number of potential bribers, he acts like a private monopolist. This Olson (1993) referred to as a “stationary bandit” striving for productive efficiency but restricting economic output to maximize personal gains.

Then the competitive-bribery state in which there are many corrupt officials dealing with large number of ordinary citizens and firms. This creates a sort of potential for an upward spiral corruption since the corruption of officials can encourage others to accept bribes.

Bilateral monopoly state refers to a corrupt state in which rulers faces a single major briber (crime group), which may be a corporation or firm. The corrupt rulers then form an alliance with this organized crime group that provide such services that are supposed to be provided by the state in ordinary societies. It is this alliance that leads to the rulers and crime group sharing the wealth of such nation.

In the case of mafia-dominated state, many state officials are engaged in bribery with a monopolist briber in a private sector. This briber could be a domestic mafia or a large corporation. The briber then dominates the state through the cooperation of low-level officials bought over by the briber.

It is the opinion of the researcher that the trans-systemic theory explains in clear term the inevitability of fraud in virtually all existing structural set up. Be it socio-economic, political or even religious body, it exists like a necessary part of each system. This is the more reason why it must be tackled with all seriousness.

Methodology

The study being of historic nature where previous reports and statistic were employed, the presentation was purely descriptive. This was achieved by analytical review of the available records and reports. To this end the whole presentation was based on the records obtained and fashioned in such a way that makes it amenable for analytical exposition of this nature.

Global Fraud and Business Collapse

Fraud as per the Casell Concise English Dictionary is "an act or course of deception deliberately practiced to gain unlawful or unfair advantage". We may therefore start on the premise that one who is dissatisfied with his situation or out to display his greed or avarice attitude by indulging in criminal deception commits fraud. There is diverse form of frauds such as of inflated invoices, the Advanced Free Fraud otherwise known as the 419 frauds, the credit Card Frauds. The Banking and financial Institutions fraud, the Bribery Fraud, the Contract fraud, Computer and other white collar frauds, Ghost Workers, Forged documents, Examination fraud etc. In every sphere of life, there are those unlawful acts designed to take advantages of opportunities available, all with fraudulent intent. These practices are widely accepted, and as a society we seem to consider them as the norm and as the route to success. When talking of someone who has clearly obtain wealth through fraud-the remarks commonly heard translates to " Lucky him his hands have grabbed it. Our society considers the successful execution of fraud as a clever shot and if one is caught at it, he is only blamed for carelessness handling and lack of efficiency.

The global business collapse could be typified by the occurrence in the banking sector. Here in Nigeria the collapse of several banks already witnessed signify the nature of the set back suffered by business collapse. However Nigeria is not alone in this scenario as its apparent that what is happening in Nigeria is a signal of the scenario the world over. The extent of the banking crisis in Nigeria as compared with some other selected countries is shown in the table below:

TABLE I: BANKING CRISIS IN SOME SELECTED COUNTRIES

S/N	Country	Crisis period	Non Performing Loan as a % of Total Loan	Estimated Total Losses
1	Benin	1988 – 1990	80%	17% of GDP
2	Cote D'ivoire	1988 – 1991	90%	52% of GDP
3	Ghana	1982 – 1989	Not Available	6% of GNP
4	Senegal	1988 – 1991	20-30%	17% of GNP
5	Tanzania	1987 – 1995	73%	10% of GDP
6	Mexico	1981 – 1987	Not Available	3% of GDP
7	Argentina	1981 – 1991	9.3%	12.15% of GDP
8	Venezuela	1980 – 1982	51%	55.3 of GDP
9	Spain	1994 – 1995	30%	18% of GDP
10	Malaysia	1990s	US \$469 bn	Higher than US \$100 bn
11	Philippines	1977 – 1985	Not Available	16.8% of GNP
12	Japan	1985 – 1988	7.8%	4.7 of GNP
13	USA	1981 – 1991	Not Available	3.2% of GDP
14	Nigeria	1989 – 1995	40.9%	2% of GDP (N38bn)

Source: World Bank Publication, 1996

From the above it becomes clear that the Nigerian banking sector witnesses between 1989-1995, unprecedented levels of distress. This according to Ojo and Ezeudnji (1999) was due to many factors both within and outside the control of the banking system. This point could be better illustrated by presenting the figures released by the CBN in respect of bank fraud for the five months of June to October 2002. This is presented in Table II below.

TABLE II : BANK FRAUDS IN FIVE MONTHS: JUNE - OCTOBER, 2002

MONTHS	BANKS INVOLVED	TOTAL AMOUNT INVOLVED (N)	ACTUAL LOSS (N)
JUNE	12	10.3 billion	220.42 million
JULY	26	489.94 million	186.14 million
AUGUST	30	361.92 million	188.37 million
SEPTEMBER	13	4.122 billion	30.04 million
OCTOBER	27	1.05 billion	289.353 million
TOTAL		16.3788 billion	914. million

Source: CBN/NDIC Collaborative Reports

From the above it is clear that well over N16 billion was involved within just five months while, over N914 million was the actual loss. This implied that on the average, more than N3 billion has always been messed up on monthly basis in the nations bank industry while, not less than N182 million has always been getting completely siphoned on monthly basis also, on the average. These no doubt, are enormous waste most especially in a country like Nigeria where mass unemployment, poverty and starvation of the masses reign supreme.

However the above is not peculiar to Nigeria alone as the experiences from other countries in most cases made saint of the Nigeria situation. The table below is evident of such occurrence.

The World Bank report for 1996 show that Nigeria has the 10th largest population in the World with over 100m citizens

No country in the world is immune from corruption in politics. The problem includes a wide range of acts committed by political leaders before, during and after leading office. It includes acts that are proscribed by National and international law as well as activities that though are not illegal, do have a corrupting influence on the political process, such as when private sector companies lobby for policy favours. The scale of the problems can be seen on the table of funds allegedly embezzled by some of the most notorious leaders of the last 20 years illustrates:

TABLE III: FUNDS ALLEGEDLY EMBEZZLED BY SOME NOTORIOUS LEADERS

Head Of Government		Estimates of funds allegedly embezzled	GDP Per capita (2001)
Mohammed Suharto	President of Indonesia, 1967 – 98	US \$ 15 to 35 billion	US \$ 695
Ferdinand Marcos	President of Philippines 1972 - 86	US \$ 5 to 10 billion	US \$ 912
Mobutu Sese seko	President of Zaire 1965 – 97	US \$5 to billion	US \$ 99
Sani Abacha	President of Nigeria 1993 –98	US \$ 2 to 5 billion	US \$ 319
Slobodan Milosevic	President of Serbia Yugoslavia 1989 - 2000	US 1billion	n/a
Jean-Claude Duvalier	President of Haiti 1971 – 86	US \$ 300 to 800 Million	US \$ 460
Alberto Fujimori	President of Peru, 1990-2000	US \$ 600 Million	US \$ 2051
Pavlo Lazarenko	Prime Minister of Ukraine, 1996 - 97	US \$ 114 to 200 million	US \$766
Arnoldo Aleman	President of Nicaragua, 1997 – 2002	US \$ 100 Million	US \$ 490
Joseph Estrada	President Philippines 1998- 2001	US \$ 78 to 80 Million	US \$ 912

Source: Transparency International (2004)

From the above, the fact that corruption is not peculiar to any specific region of the world is made analytically explicit as in some of the countries examined, the extent of the reported fraudulent activities of some of the other countries seems so enormous that made saint of the Nigeria situation. This is a further confirmation of the endemic and Tran-systemic nature of corruption as a global phenomenon.

Allied Global Issues

With all these global mismanagement, the entire universe is witnessing a declining trend in the quality of human life. This can be explained in relation to the general comparative standard of life as given below.

Table IV: Comparative Standard of Life

COUNTRY	POPULATION	LIFE EXPECTANCY	NO. OF CHILDREN	ILLITERACY RATE	FEMALE LABOUR
China	1.190b	69 yrs.	2.0	27%	43%
India	913m	61 yrs.	3.7	52%	25%
USA	260m	76 yrs.	2.1	*	41%
Indonesia	189m	63 yrs.	2.8	23%	31%
Brazil	159m	67 yrs.	2.8	19%	28%
Russia	148m	67 yrs.	1.5	*	n.a
Pakistan	126m	62 yrs.	6.1	65%	13%
Japan	124m	79 yrs.	1.5	*	38%
Bangladesh	117m	56 yrs.	4.3	65%	8%
Nigeria	107m	51 yrs.	6.4	49%	34%
Mexico	91m	71 yrs.	3.1	13%	27%
Germany	31m	76 yrs.	1.3	*	39%

Source: World Bank Report (2002)

* Less than 5% illiteracy rate.

The next country after these is the Philippines, which has less than 70 million population. Out of the 12 countries, Nigeria has the highest average number of children per female and lowest life expectancy for its citizens. Is there a correlation here! Its illiteracy rate is amongst the highest in the world. Its citizens are considered internationally as one of the most corrupts on the surface of the earth. All these add together to place Nigeria in the second position of the most corrupt nation in the comity of nations. The transparency International Corrupt Perception Index (CPI) rating of 2003 is instructive as presented below.

Table V: Transparency International Corruption Perception Index 2003

Country Rank	Country	CPI 2002 Score	Surveys Used	Standard deviation	High-low Range
1.	Finland	9.7	8	0.4	8.9 -10.0
2.	Denmark	9.5	8	0.3	8.9 -10.0
3.	New Zealand	9.5	8	0.2	8.9 -9.6
4.	Canada	9.0	10	0.2	8.7 - 9.3
5.	United Kingdom	8.7	11	0.5	7.8 - 9.4
6.	Australia	8.6	11	1.0	6. -9.3
7.	Hong Kong	8.2	11	0.8	6.6 - 9.4
8.	Austria	7.8	8	0.5	7.2 - 8.7
9.	USA	7.7	12	0.8	5.5 - 8.7
10.	Germany	7.3	10	1.0	5.0 - 8.1
11.	Israel	7.3	9	0.9	5.2 - 8.0
12.	Belgium	7.1	8	0.9	5.5 - 8.7
13.	Japan	7.1	12	0.9	5.5 - 8.7
14.	Spain	7.1	10	1.0	5.2 - 7.9
15.	Italy	5.2	11	1.1	3.4 - 7.2
16.	South Africa	4.8	11	0.5	3.9 - 5.5
17.	Tunisia	4.8	5	0.8	3.6 - -5.6
18.	South Korea	4.5	12	1.3	2.1 -7.1
19.	Brazil	4.0	10	0.4	3.4 -4.8
20.	Ghana	3.9	4	1.4	2.7 - 5.9
21.	Morocco	3.7	4	1.8	1.7 - 5.5
22.	Mexico	3.6	10	0.6	2.5 - 4.9
23.	China	3.5	11	1.0	2.00 -5.6
24.	Ethiopia	3.5	3	0.5	3.0 -4.0
25.	Egypt	3.4	7	1.3	1.7 - 5.3
26.	Senegal	3.1	4	1.7	1.7 - 5.5
27.	Malawi	2.9	4	0.9	2.0 - 4.0
28.	Argentina	2.8	10	0.6	1.7 - 3.8
29.	Cote d'Ivoire	2.7	4	0.8	2.0 - 3.4
30.	India	2.7	12	0.4	2.4 - 3.6
31.	Zimbabwe	2.7	6	0.5	2.0 - 3.3
32.	Philippines	2.6	11	0.6	1.7 - 3.6
33.	Cameroon	2.2	4	0.7	1.7 - 3.2
34.	Uganda	2.1	4	0.3	1.9 - 2.6
35.	Indonesia	1.9	12	0.6	0.8 - 3.0
36.	Kenya	1.9	5	0.3	1.7 -2.5
37.	Nigeria	1.6	6	0.6	0.9 - 2.5
38.	Bangladesh	1.2	5	0.7	0.3 - 2.0

Source: Transparency International (2003)

Conclusion

Corruption afflicts a society in two stages. A society transition from under developed to developing, often falls prey to corruption because of the urgent need for individual material success. There is always danger at this stage. If the morale of the society is weak, its penetration by corruption becomes much easier. Once it has taking root, uprooting corruption becomes a Herculean task.

The second stage is when a society is in decline or opportunities for competition are circumscribed by unfavourable social and economic developments. Perhaps, if the policemen at the road block was well paid, he would feel insulted by anyone offering him ten or twenty naira to induce him to forgive or forget traffic offences. Perhaps if the judge was well paid, he would uphold the oath of his office and discharge his judicial duties in strict compliance with the law and his conscience. Perhaps if the contractor was sure that his tender would be considered on merit in an atmosphere of fair competition, he would not need to grease palms and negotiate deals that gives him an unfair advantage over others. Perhaps if life itself was not so competitive, and if society had not been too materialistic, corruption would be a strange word, buried in the womb of the dictionary.

Consider this, if the public officer in Nigeria was satisfied that when he leaves the office after doing an honest job, he can live the rest of his life savouring the respect of the society, would he still see his appointment as his own opportunity to "making it". In March 1990, Yohanna Madaki, the controversial former governor of Gongola and Benue States, shouted at an interview with the African concord; "what use is it to be righteous? Those who refused to be corrupted and are poor are called fools".

Get the point ! No man wants to be called a fool. The society that frowns at corruption is the same Nigerian society that recognizes the corrupt but forgets the incorruptible. The fear of societal hostility has, for some, been the beginning of wisdom-opening the eyes to vast opportunities waiting to be tapped or exploited by bending the rules or cutting corners. When a man is done, the praise singers are there to wax records in praise of him and the same society, which marvels at this sudden wealth without a visible source, makes him the chairman or the chief launcher at social occasions and fund-raising events. Few men now forget to use their appointment as that one knock of the opportunity they had been waiting for.

Its really an interesting phenomenon. The corruptible is the man who is caught. The incorruptible is the man who does not allow himself to be caught. Even here, failure makes all the difference. We tend to look at corruption as what others do wrong even if we tread the same path.

To get out of the wood lets us start from fraud prevention, Fraud prevention measures include hiring honest people, paying them competitively, treating them fairly and providing a safe and secure work place with real time feed back on their performance (and positive reinforcement when their performance meets standards), adequate tools and training to do their jobs right, role-modeling honesty and codes of ethics. Fraud prevention means creating a work environment that values honesty. Senior managers who role model, truth and fairness in their daily interactions with their peers and subordinates create,

such an environment. Therefore, prevention strategies include tight controls, ethical codes, fair treatment, awareness training, applicant screening and honest role models. It is appreciated that these attributes require an enormous effort and a first step towards them is certainly a step in the right direction towards fraud prevention.

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