

**STATEMENT FROM THE MEETING OF
THE MIDDLE EAST AND NORTH AFRICA
TASK FORCE ON CORPORATE GOVERNANCE OF BANKS**

The Middle East and North Africa (MENA) Task Force on Corporate Governance of Banks held its first meeting on 19 February 2007, in Amman (Jordan). The Task Force is a joint effort by the OECD and the Hawkamah Institute for Corporate Governance, supported by the International Finance Corporation and the Union of Arab Banks. Participants in this meeting included representatives of central and commercial banks, regulators, and other financial sector experts and practitioners.

In his opening speech, Dr. Nasser Saidi, co-chair of the MENA OECD Working Group on Corporate Governance and executive director of Hawkamah, underlined that "in spite of important achievements, there is a long way to go in improving the knowledge, understanding, frameworks and practices of MENA banks. The establishment of this Task Force, a public-private partnership, is a tangible indication of the commitment of MENA countries to advance with concrete steps and in line with the highest international standards in up-grading corporate governance of banks, building on important reforms and advances as a result of Basel I, II, and complying with Banking Core Principles. With this work, the MENA countries are looking to improve the investment climate in light of increased cross-border banking and investment activity, as a result of increased integration in trade, tourism, labour flows, portfolio investments and FDI, as well as cross-border mergers and acquisitions in the banking sector. Additionally, financial liberalization has resulted in more countries opening up their banking and financial sector in the region (Libya, Algeria, Sudan, Syria, Iraq). The GCC states continue to be committed to improve corporate governance which will result in strong bank ratings and increased international integration. Better corporate governance in the banking sector is at a premium, in order to support growth, investment and international integration"

The senior OECD economist, Mr. Grant Kirkpatrick noted that "the Middle East and North Africa is a dynamic region promoting widespread corporate governance reforms. In addition to internal demand, a great pressure for corporate governance changes is coming from abroad, especially in the banking sector. It cannot be over emphasized, that current reforms will succeed only if individual companies and banks focus on compliance and implementation of good corporate governance at their level..."

The objective of the Task Force is to reach consensus on good practices for corporate governance of banks in the MENA region, in line with international standards. The Task Force will draft a Policy Brief on the topic in order to provide guidance to MENA governments for the up-grading of corporate governance of banks.

Some of the important messages emanating from the discussions include:

- **MENA banks are often at the front line of financial sector reforms**, responsible for the introduction of new practices and innovative approaches and instruments. By strengthening the corporate governance framework in the banking system, the banking



system can develop a cascading effect to advance corporate governance in the non-bank corporate sector by creating appropriate incentives for the rest of the corporate sector to practice good corporate governance. **The region is heterogeneous** and practices vary from country to country and one bank to another, affected by legal, regulatory, cultural, and business environment factors.

- **Excess liquidity in the region** reinforces the need for improved bank governance in order to ensure the efficient use of resources and the stability of the financial sector. **Examples of recent failures of banks, as well as the benefits of improving corporate governance at the level of individual banks** (as suggested by the experience of Burgan Bank, Kuwait) **make a strong case in favour of taking a proactive stance throughout the region.**

- **The oversight institutions in the MENA acknowledge the link between investment climate, capital market development, sound risk management practices and the need for good corporate governance.** They are progressing with their efforts to comply with the recommendations of the Basel Committee on Banking Supervision and have recently issued corporate governance circulars, manuals and guidelines, drawing attention to the issues. In some countries, central banks call for the introduction of specialised committees to oversee strategic decisions, chaired by independent directors.

- **In some MENA countries, the legal framework provides incentives for banks to comply with good corporate governance practices, especially with respect to internal control and risk management systems.** In spite of this, **the general knowledge and understanding of corporate governance in the banking sector is still insufficient throughout the region.**

- **Corporate governance arrangements requiring special attention in all countries of the region include, in particular, strengthening the functions and duties of the boards of directors.** Major shareholders and related parties often exercise the greatest resistance to strengthening the board, in spite of the benefits, which can be brought about by well-functioning bank governing bodies. Initial discussions point to: the need to allow legally the option of separating the role of the chairman of the board from that of the chief executive officer; to improve the framework regarding director qualifications and independence; and to establish specialised board committees.

- It was felt that **shareholders' rights need to be strengthened** by improving shareholder access to information, including their right to submit written questions and place items on the agendas of Assembly General Meetings.

- **Equitable treatment of shareholders**, voting rights, disclosure of ownership and control structures and improved definitions of related parties are issues requiring further attention and research by the Task Force.

- Participants were also in favour of a dialogue among stakeholders regarding the right mix between law/regulation and voluntary norms. **It was also felt that bank level corporate governance codes could be instrumental in reforming bank policies and behaviour**, and in addressing in a timely fashion some of the issues raised at the meeting.



- **Market pressure was considered as an important incentive for banks to improve their corporate governance practices.** Success stories of individual banks confirmed the role of public listing in improving their corporate governance arrangements and in reaping the value gains from better governance. **The design and implementation of awareness and education programmes, and ensuring internal buy-in of bank staff** are considered as some of the biggest challenges for success.

- **Islamic financing** continues to grow at a steady pace in the region. MENA Islamic banks need to continue improving their corporate governance systems in order to ensure their transparency, and accountability.

A special session focused on the modalities for the preparation of the Policy Brief on Corporate Governance of Banks in the MENA. A questionnaire will be sent to Task Force members and other experts after the Amman meeting for completion by 15 March 2007. Initial results will be discussed electronically and at a Task Force meeting in May, while an advanced version of the document will be released for public consultations in July. The Policy Brief is expected to be issued in November.

The results of the Amman meeting of the Task Force will be reported to the members of the MENA OECD Working Group on Corporate Governance. The Policy Brief will be submitted to this Group for endorsement at its annual meeting, to take place in November, 2007.