



**WORKING GROUP 5
IMPROVING CORPORATE GOVERNANCE
IN THE MIDDLE EAST AND NORTH AFRICA**

**Task Force on
Corporate Governance of
Banks**

OECD and the Middle East and North Africa (MENA)

The OECD, comprised of 30 member countries sharing a commitment to democratic government and the market economy, is dedicated to supporting economic development throughout the world, and has active relationships with some 70 other countries, NGOs and the private sector.

While its work spans a wide range of public policy concerns in Member countries, the OECD is particularly well known for its economic analysis and policy advice to non-Members. In 2004, the OECD established its MENA Investment Programme at the request of countries from the region in order to provide advice on implementing investment policy reform as driving force for economic growth and employment throughout the region. Successful implementation of the Programme is expected to make a substantive contribution to creating better conditions for economic growth and investment, helping create jobs, encouraging private initiative, promoting efficient, transparent and accountable public sectors and fostering regional co-operation. The Programme operates under a rotating chairmanship by a MENA and an OECD country. In 2006, the Programme's chairmanship was passed to the Arab Republic of Egypt and the United Kingdom.

A Steering Group composed of high level delegates from MENA and OECD countries, international organisations and the private sector, guides and monitors the Investment Programme. The Programme also relies on five Working Groups focusing on: (i) Transparent and open investment policies; (ii) Encouraging Investment Promotion Agencies and business associations to act as driving forces for economic reform; (iii) Providing a tax framework for investment and assessing incentives; (iv) Promoting policies for financial sector and enterprise development in support of economic/investment diversification; (v) Improving corporate governance.

As a part of the broader MENA-OECD Investment Programme, the Working Group aims to support the overall reform process by creating a regional network for policy dialogue on corporate governance, as well as to enhance capacity for policy reform and institution building. It is uniquely placed to do so, as it brings together a network of senior policy makers, regulators, market participants and representatives of academia from the region and OECD countries. Bahrain, Egypt, Jordan, Lebanon, Morocco, the Palestinian Authority, Saudi Arabia and the United Arab Emirates participate in the activities of the Working Group.

The Working Group builds on the initiative, which the Global Corporate Governance Forum launched in the region in 2003. Consistent with its usual policy for avoiding duplication, the OECD MENA Working Group works closely also with longstanding partners from the World Bank, the International Finance Corporation and the Centre for International Private Enterprise. The OECD ensures local ownership and relevance of its activities by closely co-operating with home-grown regional and country specific initiatives and institutions, such as the Regional Corporate Governance Institute – Hawkamah, the Egypt Institute of Directors, the Union of Arab Banks, National Country Teams, established within the OECD MENA Investment Programme, and others.

TASK FORCE ON CORPORATE GOVERNANCE OF BANKS IN THE MENA

Development of a Policy Brief on Corporate Governance of Banks

Background

The corporate governance frameworks of MENA countries are a significant factor impacting on access to capital via securities markets and bank financing. As a part of the MENA OECD Investment Programme, the Working Group on Corporate Governance seeks to help efforts to mobilise investment by contributing to the improvement of corporate governance in the region.

The MENA OECD Working Group on Corporate Governance was launched at a consultative meeting held on 14 February 2005 in Amman (Jordan)¹. The Working Group organises its activities around stock taking, development of country specific and regional policy advice and initiatives; as well as assessing progress in policy implementation. The stock taking process was initiated at the meeting in Rabat (Morocco, 14-15 September 2005), where the Working Group considered a draft survey of corporate governance frameworks in the region, outlining priority areas for policy discussion and reform.

Among these priorities is corporate governance of banks, which Working Group participants suggested as the topic for discussion at their 2006 meeting (26-27 November 2006, Dubai, UAE). The focus on regulation and corporate governance of banks is important for MENA given the prevailing role of banking institutions as a source of finance for the corporate sector. Improved board structures, administrative procedures and disclosure requirements could result in better governed banks, which are more likely to allocate capital efficiently. The output, resulting from this MENA Working Group meeting will be a Policy Brief on Corporate Governance of Banks in the MENA Region.

Composition of the Task Force

In order to establish a strong constituency and to properly deal with the policy challenges ahead, it is proposed to establish a MENA Task Force on Corporate Governance of Banks (hereinafter called “Task Force”), which will bring together experts from all MENA jurisdictions participating in the Working Group.

The Task Force will consist of approximately 20 members. It will include representatives of MENA regulators, bankers and regional institutes/associations. In addition, it will include representatives of banking regulators from OECD Member Countries (from a common law system and from a civil law system) and from an international financial institution, having broad experience in this field in the region.

The **chair** of the Task Force will be a knowledgeable person being familiar with the work of the MENA Working Group and the situation in relation to corporate governance in that region.

Additional **experts** on issues related to corporate governance of banks may be invited on an ad-hoc basis and in their personal capacity in order to assist the Task Force in its work.

The OECD Secretariat will be responsible for the communicating with the Task Force and the preparation of the Policy Brief. It will consist of Ms. Elena Miteva, Economist, and Mr. Motoyuki Yufu, Senior

¹ The OECD corporate affairs website features all the background papers for the various meetings of the MENA OECD Working Group on Corporate Governance at www.oecd.org/daf/corporate-affairs/ and www.oecd.org/mena/investment.

Outreach Advisor from the OECD Directorate of Financial and Enterprise Affairs and additional Secretariat staff, as required.

Role of the Task Force

The Task Force's work will build on experience of both banking and capital markets supervisors as well as the banking industry in participating countries and OECD Member Countries.

The Task Force will analyse the situation in relation to the corporate governance of banks (including the banks' monitoring of the corporate governance structure of its corporate borrowers) and to develop a set of recommendations and/or policy options on the most important issues in this area. The Task Force will work on a consensual basis and seek the input of a wide range of interested parties in its work. It will also provide input on process and information gathering, by suggesting and involving relevant experts from the region.

Policy Brief

The Task Force will develop a MENA Policy Brief on Corporate Governance of Banks, identifying priorities for reform and proposing concrete recommendations and/or policy options for implementation. The Policy Brief will be a consensus based document, resulting from a meeting and electronic consultations of the Task Force.

The policy brief will not aim at establishing a regional standard and will be a non-binding document. It will identify objectives and proposals for achieving them, taking into account responses to a fact-finding questionnaire on corporate governance of banks. The brief's recommendations may also be illustrated by concrete examples and case studies. As an additional source of information, an annex to the brief will provide an overview of data on the banking sector as well as the regulatory and supervisory framework in participating countries.

In its work, the Task Force will rely on the OECD Principles of Corporate Governance, the OECD Guidelines on Corporate Governance of State-Owned Enterprises, and the OECD MENA Corporate Governance Survey, as well as guidance by the Basel Committee on Banking Supervision (in particular, its Guidance on Enhancing Corporate Governance for Banking Organisations), as reference points. It will also take into account initiatives undertaken in the field of corporate governance of banks in participating countries, such as the work by the Islamic Financial Services Board, corporate governance codes, reviews and assessments. The brief will be addressed to policy-makers, banking regulators and supervisors, and, last but not least, banks.

Process and milestones

The Task Force will undertake its work mainly on a remote basis through e-mails and conference calls, with one meeting being envisaged to discuss a draft of the Policy Brief.

Fact-finding questionnaire on corporate governance of banks in the MENA

The questionnaire will be circulated among at least two entities per country, including banking and securities regulators, banking associations and banks (as to the latter, provided the bank has a good record of corporate governance). The responses to the questionnaire will provide concrete information on the most relevant issues regarding corporate governance of banks, which the Task Force should address. Responses will also include information on the banking sector in the region, as well as the regulatory and supervisory framework in participating countries.

Drafts of the policy brief

Following the establishment of the Task Force and agreement on the preliminary structure of the policy brief, a first draft of the policy brief will be prepared by the Secretariat. At a meeting of the Task Force the draft paper will be discussed. The first draft will also include specific questions requiring further information and/or discussion and comments by the Task Force.

For discussion purposes, it is proposed that the Policy Brief will focus on the following:

- The importance of the CG of banks and the characteristics of MENA banks;
- Arm's length rule of family owned banks;
- Arm's length rule of state owned commercial banks²;
- Minority shareholder protection;
- Role of the board;
- Internal Controls
- Disclosure;
- Take over of banks;
- CG of banking groups
- Encouragement of the adoption of international regulatory standards (e.g. New Basel Accord, Basel Core Principles);
- CG of the debtor companies monitored by banks.

The policy brief will be finalised by the Task Force and the Working Group after a round of public consultation. The final policy brief will be published on the OECD Website. The OECD Secretariat will ensure wide dissemination of the brief.

Public consultation

The first draft of the policy brief will be distributed to all Working Group members for comments. In addition, it will be sent to interested parties in participating countries and published on the OECD Website for comments. It is expected that members of the Task Force will disseminate the consultation paper to a wide audience in their respective countries (including by organising meetings with interested parties in their respective jurisdictions).

Follow-up

In order to increase the impact of the recommendations of the policy brief in the region, it will be presented at the 2007 meeting of Working Group. The brief can also be presented at country events. It can be also planned that implementation of the recommendations of the policy brief will be assessed, where appropriate, one or two years after publication.

Proposed timeframe

1. Establishment of Task Force and circulation of fact-finding questionnaire	January 2007
2. Deadline for responses	end of February
3. Circulation of outline of policy brief	April
4. Meeting of Task Force	May
5. Public consultation period	June – July
6. Finalisation of policy brief at Task Force level	October
7. Working Group meeting and launch of policy brief	November

² State-owned policy lending banks or development banks will not be tackled by the Policy Brief, as they fulfill specific policy objectives, which are beyond the focus of the Brief.