



***CORPORATE GOVERNANCE
SURVEY OF THE
ARAB BANKING SECTOR***



EXECUTIVE SUMMARY

- **The Union of Arab Banks (UAB) has been devoting a great deal of its time, attention and efforts, over the past years, to the compliance of Arab banks and financial institutions with international standards and practices in the field of banking and finance.**
- **The issue of corporate governance is one of the major issues on the agenda of UAB.**
- **The UAB has been working with central and commercial banks regionally to introduce international corporate governance standards and practices to Arab banking.**



- UAB has been working in this direction via its research and training activities. In addition, UAB has participated in many leading regional and international meetings, conferences and forums. Today, UAB has strategic cooperation with key organizations such as the OECD, UNDP, and Global Corporate Governance Task Force, and Arab Monetary Fund.
- The main purpose of the survey is to assess Arab banking sector's compliance with International Corporate Governance best practices: the role of stakeholders, disclosure and transparency, and the responsibilities of the board will be studied.
- The final output of the survey will be in the form of a forum to communicate the findings of the survey, analyze the results and identify areas for reform that will ultimately lead to economic efficiency and growth through attracting both foreign and local investment. This output will be later raised to the MENA Regional Corporate Governance Forum.



STATEMENT OF NEEDS

- Market economies cannot function properly without an efficient banking system, which intermediates between public savings and investments and provides other essential financial services to the state and the public. Because, safe and sound banking systems are indispensable for sustainable economic growth, banks are subject to special licensing, regulation and supervision rules. Although bank supervision addresses the safety and soundness of individual banks, the most compelling reason for banking regulation is concern for the safety and soundness of the banking system as a whole—and ultimately the national economy. This is especially true in the case of emerging and developing markets.

STATEMENT OF NEEDS...cont'd

- Furthermore, when assessing the efficiency of banks it is important to assess the compliance of banks with Basle II relating to the corporate governance. Basel II embraces a comprehensive approach to risk management and bank supervision; it enhances banks' safety and soundness, strengthens the stability of the financial system as a whole, and improves the financial sector's ability to serve as a source for sustainable growth for the broader economy, through the rules and regulations that specifically encompass pillar three which stipulates transparency & disclosure rules that conforms to corporate governance principles



PROJECT GOALS

- The UAB aims at fostering cooperation between Arab banks, developing Arab financial institutions, and enhancing the financing role of Arab banks both in the region and abroad.
- Accordingly, and despite the partial domestic endeavors that any Arab country may individually undertake to comply with the CG principles & rules, we do believe that it is necessary to conduct a field survey among Arab banks to reach the generic reasons that might hinder or delay the sound and proper implementation of CG in said banks which needs to be enhanced with international standards.



PROJECT OBJECTIVES

- **The primary objective of this project is to survey the Arab banking sector and assess the status of its adherence to the corporate governance principles and compliance to Basel II in this respect.**
- **The scope of the survey will encompass the following:**
 - 1. Family owned banks**
 - 2. Publicly traded banks**
 - 3. Central Banks as supervisory bodies.**



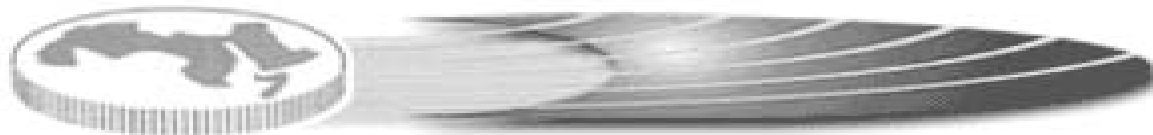
OBJECTIVES....cont'd

- **The survey will assess and quantify through a country based and cross-country comparative analysis:**
 1. **The specific provisions which offer protection to shareholders, particularly minorities;**
 2. **The role of stakeholders in relation to corporate governance;**
 3. **The easy accessibility of material financial and non-financial disclosures relevant to corporate governance;**
 4. **The functions and responsibilities of the governing body of the corporation;**
 5. **Compliance of Arab Banks to Basel II in respect to corporate governance as stated in the accord either explicitly or implicitly specially disclosure and transparency;**



OBJECTIVES....cont'd

- **Ultimately, the survey will help formulate steps and recommendations that can be drawn on for strengthening the corporate governance of banks in the Arab region & remedial action for compliance with Basel II. The final phase of the project, will focus on raising the said recommendations to the corporate governance MENA forum, to have them adopted at the regional level. Yet the exercise offers a significant number of advantages:**
 - 1. Raise awareness and promote capacity building by identifying the institutions' specific weaknesses and priority areas for reforms**
 - 2. Foster learning through the collaboration between experts and local counterparts.**
 - 3. creating a benchmark for future monitoring assessments**



PROJECT PLANNING

The project is divided into four phases

Phase I: Survey Template Design

Phase I aims at adopting a template that would allow to interpret the surveys results in terms of international practices and that is still adaptable to the region's specific requirements and features, including a pilot test for the template.

Phase II: Coalition Building Survey filling

Organizers will contact MENA Central Banks Governors to introduce the survey's requirements and objectives. Meetings are intended to be informative and to help gain the support of the central banks. Subsequently one day seminars would be conducted in each country and would precede the survey completion exercise. It is important to explain the survey's goals and objectives as well to simplify the process of completing the survey to ensure higher rates of response among participants.



PROJECT PLANNING....cont'd

Phase III: Results Analysis

The study of the results would be commissioned to independent economic analysts. The analysis will underline areas of strength and weaknesses. The analysis will be conducted both at the local and regional level through cross-country comparisons.

Phase IV: Results sharing & Action Plan development

The fourth phase entails sharing the results of the survey with the different regional players with the participation of representatives from international organizations such as the IFC, OECD, CIPE, WB group and others. The results of the survey and the agreed upon set of recommendations of the conference would be compiled into one publication that should serve as an action plan to reform and enhance the MENA banking sector.



DELIVERABLES

- 1. The questionnaire template**
- 2. The quantitative data of the survey questionnaire.**
- 3. Quantitative and Qualitative analysis of compiled data on a country and cross-country basis.**
- 4. Recommendations for sound and effective corporate governance practices in the Arab banks & remedial action for compliance to Basel II accords.**
- 5. Conference Agenda, program and proceedings**
- 6. Website development to serve during and after the survey constituting an information gateway and providing assistance.**
- 7. Publication listing the survey's findings and communicating the recommendations and proceedings of the conference. The publication would provide guidelines of an action plan to reform and standardize the banking sector in the region.**
- 8. Provide Country assessment reports to be incorporated into various MENA country level Corporate Governance survey reports.**