

Bank Corporate Governance in the MENA Region

**Institute for International Finance
MENA CEO Summit
Dubai International Financial Centre
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**Dr. Nasser Saidi
Executive Director
Hawkamah, The Institute for Corporate Governance**

Agenda

- **Corporate Governance of Banks**
- **MENA CEO Survey on Corporate Governance**
- **Hawkamah-OECD Regional Policy Brief on Bank Corporate Governance**
- **Corporate Governance Codes in the Region**
- **Hawkamah's Regional Role in Advancing Corporate Governance**

Why Bank Corporate Governance?

*“CG for Banking Organisations is arguably of **greater importance** than for other companies, given **the crucial financial intermediation role** of banks in **economy...and...is essential** to achieving and maintaining **public trust** and **confidence** in the banking system.” (italics added)*

The Basel Committee

Key Players in the CG Framework for Banks

Internal Players

Shareholders

Board of Directors

Executive Management

Auditors

External Players

Regulators and Supervisors

Legislative and Regulatory Framework

Supervisory Authority

The Market

The Public

Depositors

Reputational Agents:

- Accountants
- Credit Rating Agencies
- Financial Media
- Research Analysts

Why Bank CG?

- Lessons from Financial Crises
- Pressure from Analysts and Investors
- Renewed emphasis on environmental, social and governance issues
- Higher return on assets and significant market premiums
- Increased access to financing & better allocation of credit
- Deepening of financial markets
- Financial system stability

Why Focus on Bank CG in MENA?

- Banks' dominant position in financial and payment systems
- Banks dominate both credit & investment process for MENA economies and majority of firms
- Government ownership and concentration of ownership in banking sector
- Strengthen prudential regulation and supervision
- Strengthen Transparency, Disclosure & Reporting
- Face challenge of external competition
- Liberalization & opening up is providing greater latitude to banks

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Private Sector is Focusing on Good Corporate Governance

Hawkamah-IFC CEO CG Survey

Scope: **Listed companies and banks**

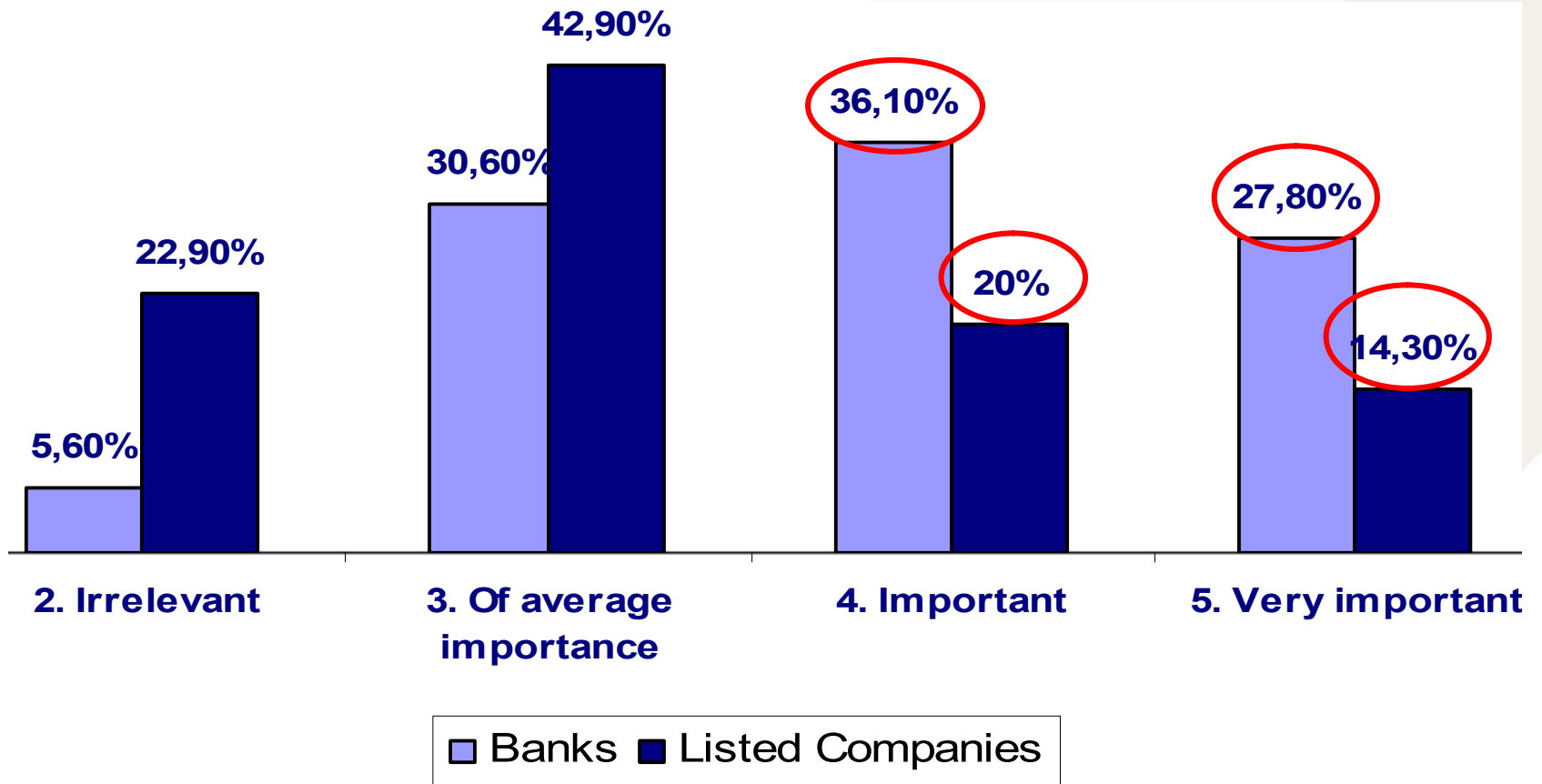
11 IFC member countries with stock exchanges:

Maghreb: **Morocco and Tunisia**

Mashrek: **Egypt, Jordan, Lebanon and West Bank**

GCC: **Bahrain, Kuwait, Oman, Saudi Arabia and the UAE**

49.3% of Respondents Cited Corporate Governance as Important or Very Important



63.9% of banks



34.3% of listed companies

Nota Bene: 59.2% of Respondents Were Unable to Define Corporate Governance

The company's internal structure that will allow it to comply with domestic laws and regulations.



It is the same thing as Corporate Social Responsibility



A commitment to contribute to sustainable economic development by working with employees, the local community and society at large to improve their lives



A set of tools to help management run the day-to-day activities of the company/bank



A system by which companies are directed and controlled

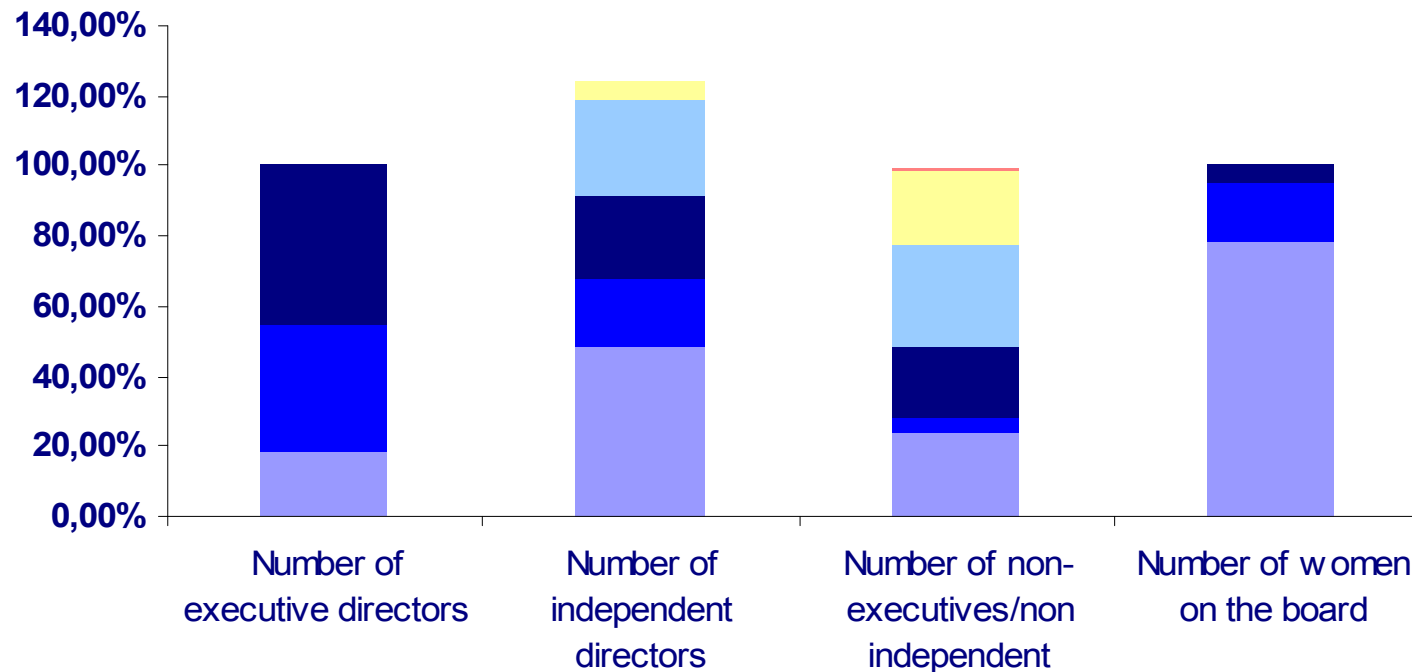


And They Are Looking for Specialists...

Top three barriers to CG cited by respondents:

- **53.6% cited** a lack of qualified specialists **to help with implementation**
- **37.7% cited** a lack of information or know-how
- **24.6% cited** lower priority **of corporate governance in relation to other tasks**

The Region Is Still Ways To Go to Building Strong Boards



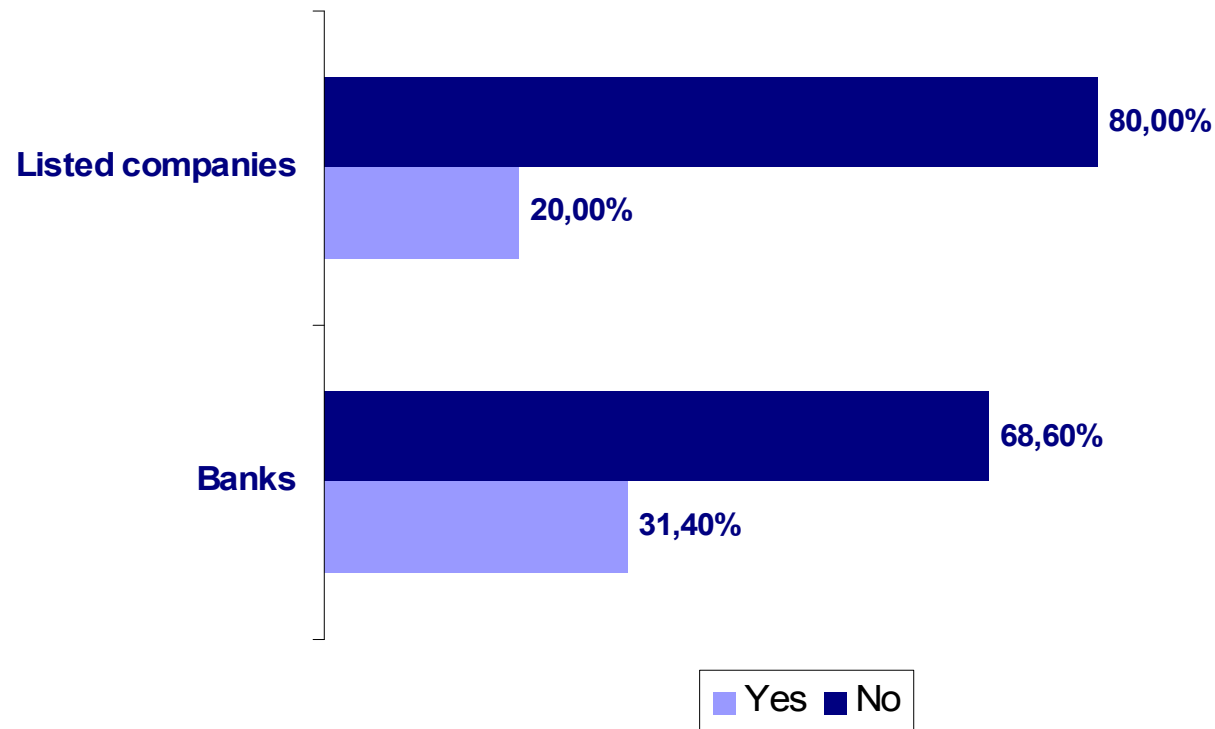
None
 1
 2 to 5
 6 to 7
 8 to 10
 More than 10

Weakness: Executive and independent elements
 68% have one or no independent directors
 54.7% have one or no executive directors

While 79.1% of Boards Have an Audit Committee, Only 22.4% are Independent

	Audit	Nomination/ CG	Remuneration	ExCom
It will be created	9,0%	14,3%	9,4%	8,5%
Exist	79,1%	14,3%	15,1%	47,5%
With majority of independent directors	22,4%	3,6%	5,7%	6,8%
With majority of non-executive and non-independent directors	35,8%	5,4%	1,9%	20,3%
With majority of executive directors	10,4%	1,8%	3,8%	11,9%
None of the above	7,5%	71,4%	75,5%	42,4%

Position of CEO and Chairman Often Combined ... Against Best Practice



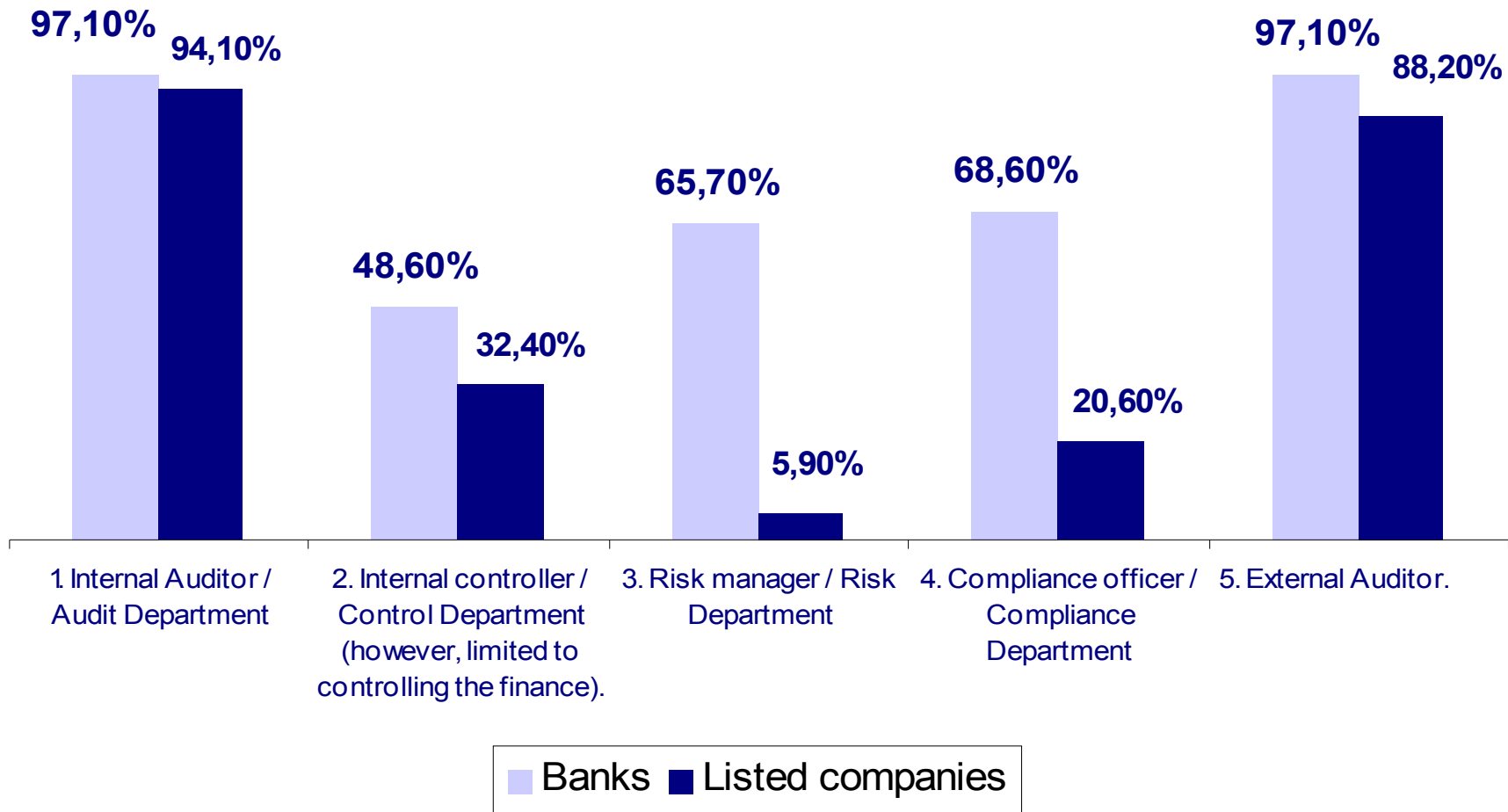
- Board is hindered in providing independent oversight
- Lack of outside perspective in terms of strategic guidance
- Role are fundamentally different:
 - CEO runs the business
 - Chairman runs the board.

“When you sweep the stairs, you always start from the top” ... German proverb

Percentage of respondents conducting board evaluations

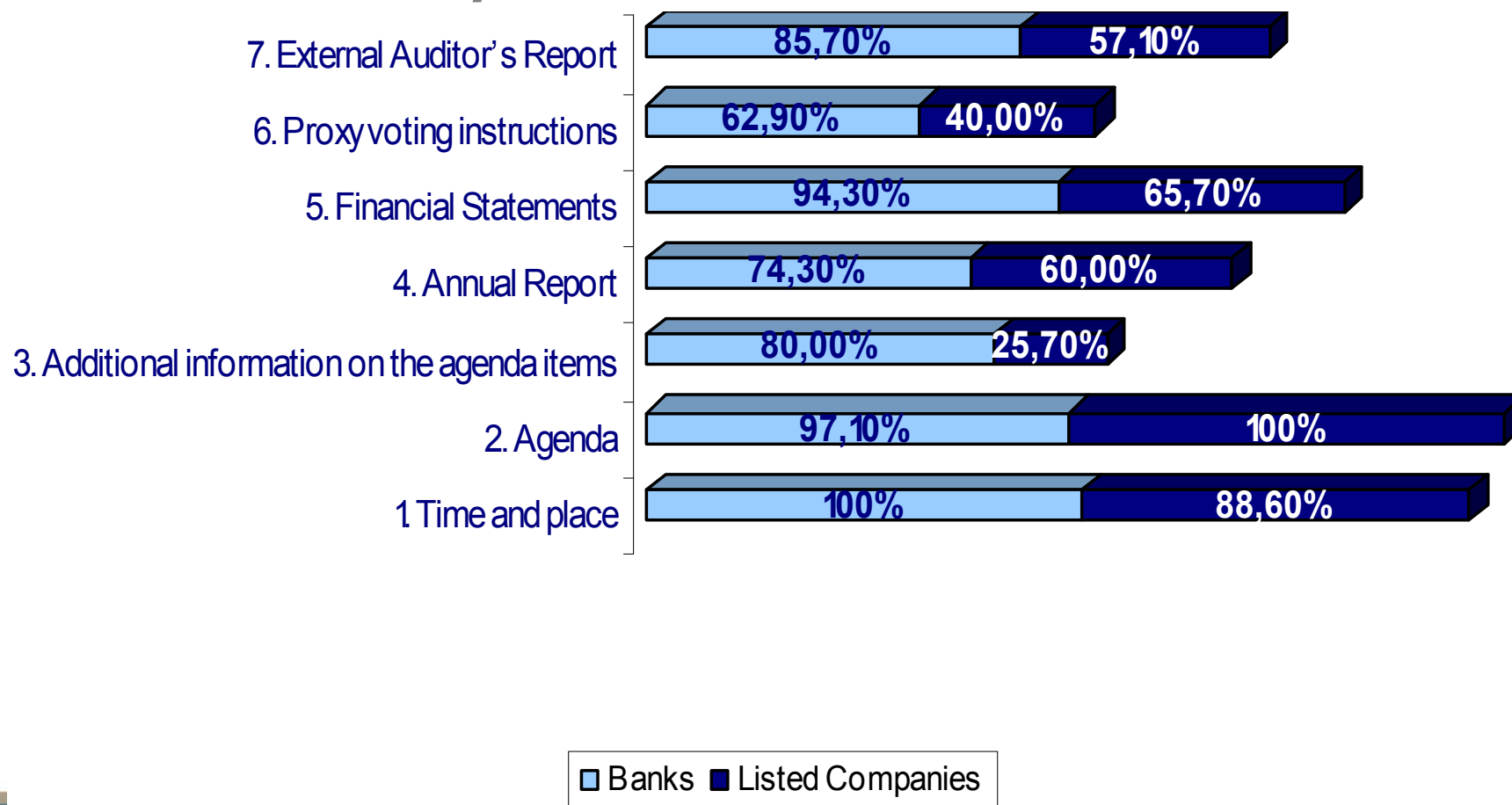


Control Environment: Companies With Passing Grade, Banks ...

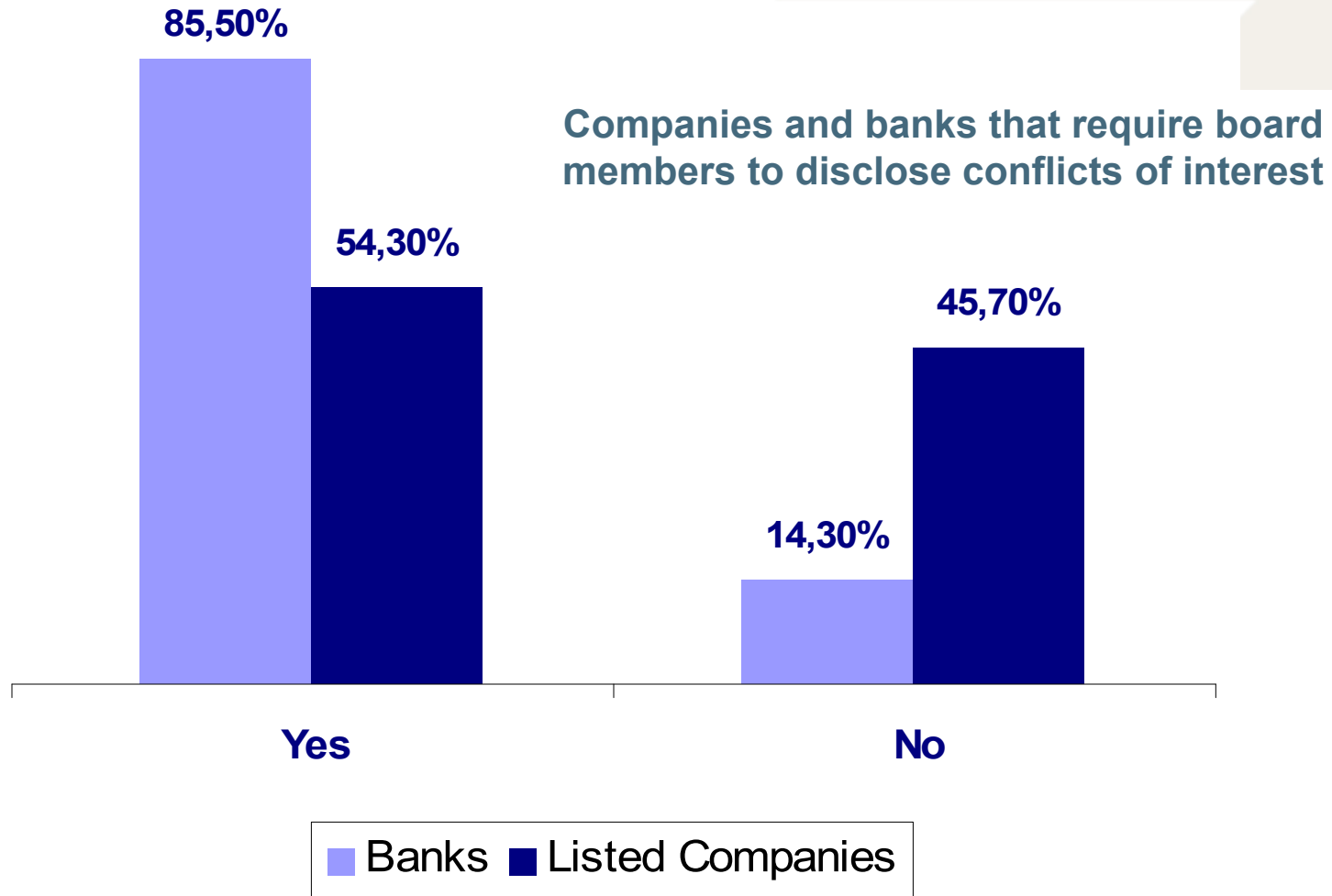


On the Other Hand, Banks Are Much Better at Informing Their Shareholders

Information provided to shareholders before the General Assembly



Many Companies do not Have Policies on Related Party Transactions – Important for the Region



Agenda

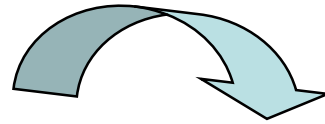
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MENA Regional Task Force on Bank Corporate Governance

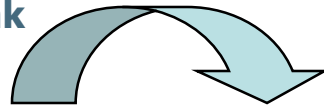
- Task Force is a joint effort by the Hawkamah Institute for Corporate Governance and the OECD, supported by the International Finance Corporation and the Union of Arab Banks
- Participants in the Task Force include representatives of Central and commercial banks, regulators, and financial sector experts and practitioners.
- Developing a Policy Brief on CG of Banks addressing the challenges faced by MENA Banks to include:
 - **The characteristics of MENA banks**
 - **Family-owned banks**
 - **State owned commercial banks**
 - **Role of the Board**
 - **Internal controls**
 - **Disclosure**
 - **Take over of banks**

Characteristics of MENA Banks

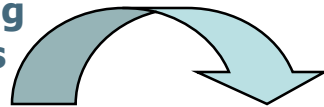
Banks dominate the Financial Systems in the MENA countries.



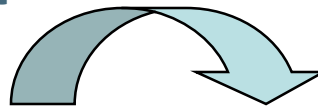
Bank loans and equity are the most important forms of external finance. Too much reliability on Bank Financing.



Commercial banks are often shareholders in non-financial listed companies, sometimes ranking among the five largest shareholders



Governance interferes in credit allocation.



Need for CG of Banks

Need to develop the capital markets

Need for particular attention to CG with special focus on related lending and sound risk management policies

Need for a sound lending strategy.

Family Owned Banks

Key Problem:



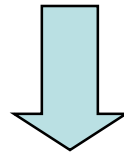
Need for special attention to regulatory frameworks and board practices:

1- Ensure that lending policies are conducted on market terms and conditions, and are consistent with sound risk management and prudential practices

2- Review of related party transactions should be undertaken by Non-Executive Board members

State Owned Commercial Banks (SOCBs)

- A significant percentage of MENA banks is owned by the state.
- State owned banks tend to extend loans on non-commercial grounds and to roll over soft credit to borrowers approaching default.
- Tendency for corruption and abuses



- Establish mechanisms that allow government agencies (in government ownership functions) to be active account holders while at the same time avoid day-to-day interference in the management of the bank.
- Recognize the importance of sound CG of SOCBs as a prerequisite for their successful privatization.
- Good Governance of privatized banks may lead to better CG of other banks.

Role of the Board

Controlling Shareholders in the MENA (especially in the FOB), often appoint all directors, which can undermine the independence and objectivity of the board.



Need for **Independent Directors:**

Independent Directors' role in:

- monitoring the management
- countering interference
- preventing abusive related party transactions

Take over of Banks

MENA Banks play a dominant role in corporate financing and often wield power over borrowing companies



Role of Banks in the CG of their clients

Sound CG through market pressure is not functioning in many MENA economies due to the fact that their capital markets are still developing



The Assessment and Monitoring function of banks deserve special attention from banks, policy makers and banking supervisors as an effective tool for improving CG in a country.

Bank CG Policy Brief Recommendations

- **Good governance is a critical element of private sector-led economic growth** in the MENA and it **needs to be recognized as a public policy concern of rapidly growing importance in the region**. Employment generation, development of technology, and ultimately the international competitiveness of the MENA economies must rest on a base of firms that do not suffer from cost of capital disadvantages, and that adapt sound management and CG practices to domestic circumstances.
- Banks in the MENA region may suffer from **uneven decision-making processes**. It is important that the **board of directors give the executive management the freedom to manage the organisation while providing clear and adequate strategic direction and monitoring the achievements of the objectives it has laid down**. Management in turn should be sensitive to the advice given by the board and not fail to bring to its attention the issues that the board has asked to be informed about. Each should be held accountable for the performance of their duties.
- Banks with dominant shareholders should be required to **ensure that minority shareholders are treated fairly** and are promptly informed of any major decision that may affect their investment.

Bank CG Policy Brief Recommendations

- **Fit and proper qualifications** for board members and management need to be established and monitored, and where necessary the appropriate refresher training organised.
- The closeness of business relationships in the MENA region means that particular attention needs to be paid to the importance of **preventing abusive related party transactions and avoiding or satisfactorily managing conflicts of interest.**
- **Risk management, audit and control procedures need to be carefully structured and rigorously enforced.** The overall control structure should be overseen by an Audit Committee or high-level supervisory Committee manned by a majority of independent directors.
- **Transparency both within and outside the organisation is key to good governance.** Staff members need to appreciate and have confidence in the management's objectives so as to have an incentive to perform. This means that adequate information must flow down to the staff and that it is possible for staff to provide feedback which is given due consideration by management. Externally, by means of supervisory reporting and public disclosure, the bank must provide sound accounts and regular information on its internal processes.

Bottom Line: Corporate Governance is a New But Growing Reality for the Region

- Corporate governance conferences across region
- OECD MENA Corporate Governance reform initiative underway
 - Policy advice to governments to improve frameworks
 - Surveys, studies, handbooks
- Corporate governance Codes/Guidelines, *with focus on banks*:
 - Finalized:** *Oman, Bahrain, Lebanon, Jordan, Saudi Arabia*
 - In process:** *Morocco, Egypt, Kuwait, Qatar, WB&G, UAE*
 - Being launched:** Tunisia
- Institution building:
 - Hawkamah Institute for Corporate Governance, DIFC
 - Mudara Institute of Directors, DIFC**
 - Institutes of Directors in Egypt and Lebanon (planned)
- Listing rules being tightened: **Egypt, UAE (ADSM), Oman**

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Hawkamah's Activities...

WHAT WE DO:

- Provide technical assistance on governmental/regulatory and company levels to develop the optimal corporate governance environment
- Conduct CG assessments and prepare CG improvement plans
- Provide advisory services
- Conduct consultations with various stakeholders
- Develop and implement training programs: Board Development Programme, Board Secretary Programme
- Serve as a knowledge centre and clearinghouse for corporate governance best practices from the region and beyond.
- Monitor & Report on the state of corporate governance

Strategic Partners

International Partners

- Organisation for Economic Co-operation and Development (OECD)
- World Bank-International Finance Corporation
- WB Global Corporate Governance Forum
- *Institute of International Finance (IIF)*
- Financial Services Volunteer Corps (FSVC)
- INSOL (Insolvency Professionals)
- Information Systems Audit and Control Association (ISACA)
- Center for International Private Enterprise
- Amsterdam Institute of Finance
- Institute for Internal Audit (IIA)
- Chartered Financial Analysts (CFA)
- Arab International Women's Forum

Other Institutions

IMD

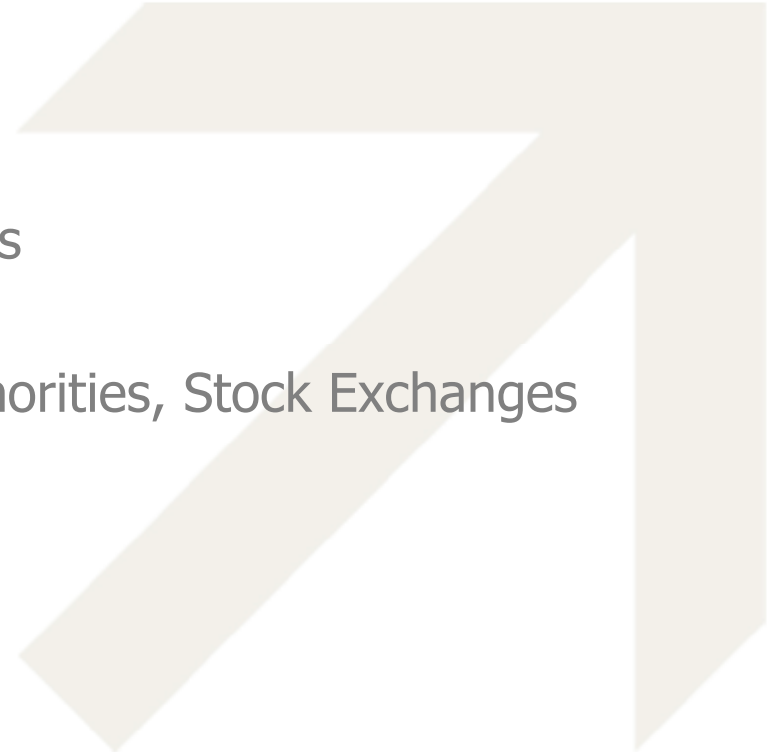
Dubai School of Government,
Young Arab Leaders
American University of Sharjah

Regional Partners

- Dubai International Financial Centre
- UAE Ministry of Economy
- Yemen Ministry of Finance
- Emirates Securities and Commodities Authority
- Oman Capital Market Authority
- Union of Arab Banks
- Abu Dhabi Chamber of Commerce and Industry
- Dubai Chamber of Commerce and Industry
- Jordanian Corporate Governance Association
- Central Bank of Jordan
- Jordan's Insurance Commission
- Arab Federation of Insurance Commissioners
- Egyptian Banking Institute/Central Bank of Egypt
- Egyptian Institute of Directors/Ministry of Investment
- Economic Research Forum
- Oman Economists Association
- Corporate Governance Association of Turkey
- Lebanese Corporate Governance Task Force

Hawkamah Serves ...

- Government Ministries and Agencies
- Central Banks and Regulatory Agencies
- Banks and Financial Institutions
- Listed Companies, Capital Market Authorities, Stock Exchanges
- Family Owned Enterprises
- State Owned Enterprises
- Media
- Academics



Regional Task Forces

Hawkamah has launched a series of regional task forces, aiming to build momentum for corporate governance reform in the region.

- **Regional Task Force on Corporate Governance of Banks (OECD, IFC, UAB)**
- **Regional Task Force on Corporate Governance of State-owned Enterprises (OECD)**
- **Regional Task Force on Insolvency and Creditor Rights (WB, INSOL, OECD)**
- **Regional Task Force on Corporate Governance of Insurance Industry (with AFIRC)**

To be launched:

Regional Task Force on Corporate Governance of Islamic Financial Institutions

A New Regional Initiative: Mudara Institute of Directors

- Complements Hawkamah's work with corporations and institutions
- Mission is to network and develop professional, effective, knowledgeable and competent directors for the MENA region
- Build independent and qualified director capacity
- Representing interests of Boards and directors
- Membership from private and public sector organisations, and aspiring directors and senior academics,
- Services offered include:
 - ✓ Training and certification programs
 - ✓ Networking activities, forums, seminars and conferences
 - ✓ Information advisory and ancillary services (Board Appointments)



➤ Hawkamah, the Institute for Corporate Governance

Hawkamah, the Institute for Corporate Governance, constitutes a groundbreaking development for institution building, corporate sector reform, good governance, financial market development, investment and growth in the region.

Hawkamah was created for the region, by the region, and of the region to advance corporate governance reform.

[What is Corporate Governance?](#)

Events

- ▶ **6 February**
Yemen Stakeholders Conference
Sanaa, Yemen
- ▶ **17-18 February**
[An Introduction to Board and Corporate Governance](#)
Abu Dhabi, UAE
- ▶ **19-20 February**
[Director Development Programme: Role of the Board in Protecting Shareholder Rights](#)
Abu Dhabi, UAE
- ▶ **27 February**
Doing Business 2008 UAE Workshop
Dubai, UAE
- ▶ **9-11 March**
[Director Development Programme for Omani Listed Companies](#)
Muscat, Oman
- ▶ **16-17 March**
[An Introduction to Board and Corporate Governance](#)
Amman, Jordan

➤ Media Centre

24 December 2007

AIG to Work with Hawkamah to Promote Corporate Governance in the MENA Region

[read more...](#)

12 December 2007

Hawkamah and World Bank supported by INSOL and OECD Launch Regional Task Force on Developing Sound Insolvency and Creditor Rights Systems

[read more...](#)

21 November 2007

Minister for Finance & Industry calls for Regional Transparency at Hawkamah Conference

[read more...](#)

07 November 2007

Abraaj Capital Supports Hawkamah in Promoting Corporate Governance in MENASA Region

[read more...](#)

Leading the way in Corporate Governance

Join us in
***BUILDING INSTITUTIONS
FOR THE REGION***

www.hawkamah.org

*Hawkamah – The Institute for Corporate Governance
DIFC, The Gate Level 14
T: +9714-362-2551 F: +9714-362-2552
E: info@hawkamah.org*