



Institutional governance of banks

Alaa Khalid Khalaf Alhalboosi

Research Scholar in Faculty of Law, Aligarh Muslim University, Aligarh, Uttar Pradesh, India

Abstract

The concept of corporate governance takes of importance, after bankruptcies spectacular big companies in the States In 2002 and before that in other countries. Some international organizations have established principles of governance, in order to help countries develop their frameworks legal and institutional and implement this concept. Corporate governance in banks is an essential element to improve economic efficiency, and poor governance could be disastrous for the economic and financial stability, the crisis Asian is the proof.

Keywords: corporate, governance, economic

1. Introduction

The growth of the national economy in general. Corporate governance has grown in many developed economies, emerging over the last few decades, Especially in the wake of economic collapses and financial crises in a number of East Asian countries and America Latin America and Russia in the 1990s, as well as the recent fallout of the US economy Financial collapses of a number of American corporate leaders in 2002. Due to the ever-increasing is gaining attention to this concept, has been a number of international institutions to address this concept analysis and study,

The World Bank and the Organization for Economic Co-operation and Development (IMF) Which in 1999 promulgated the principles of corporate governance, both with regard to assisting Member States and non-members To develop legal and institutional frameworks for the application of corporate governance in both public and private companies Traded or non-traded capital markets, through the introduction of a number of guidelines to strengthen corporate governance and efficiency Financial markets and the stability of the economy as a whole. This is supported by the World Organization of Securities Supervisors in May 2002, stressed the importance of pursuing corporate governance principles. This paper addresses the following key points: the concept of governance, the theoretical framework of governance, the importance of good governance Banks, the Basel Committee and Corporate Governance of Banks, the status of corporate governance of banks in some Arab countries

2. Concept of institutional governance

In 1999, governance was defined as a system through which the Organization for Economic Co-operation and Development (OECD) was guided Organization and control of business organizations, defining the Structure of responsibility distribution among participants Joint stock The Company, represents the board of directors, other stakeholders and managers. Rules are set for taking action with regard to the company. With this action, corporate governance gives an appropriate structure.

Through which the company can set its objectives, the means necessary to achieve these objectives, and work to monitor performance. Good corporate governance must provide reasonable incentives for both the board of directors and management for follow-up Achieve the objectives that are in the interest of the company (the bank) and the shareholders, and facilitate the process of effective control, and thus Encouraging companies (banks) to use their available resources efficiently (Dahmash, Isaac Abu Zer, 2003, p (27) (30) ^[5].

The organization revised and amended its corporate governance principles in 2004, becoming the Organization (Oman, Blum, includes the following six principles)

- a) Establishing an effective corporate governance system:
The corporate governance system should contribute to transparency Market efficiency, be consistent with the rule of law and clearly define the distribution of responsibilities between bodies Specialized in the field of control, regulation and application of texts;
- b) Equity and the most important functions of capital holders:
Any corporate governance system should protect and facilitate The exercise by shareholders of their rights;
- c) Fair treatment of shareholders: The corporate governance system should ensure fair treatment for all shareholders, including Minority and foreigners. All shareholders must receive real compensation when their rights are infringed;
- d) The role of different stakeholders in corporate governance:
The corporate governance system should recognize rights Various stakeholders, in accordance with applicable law or in accordance with mutual agreements, and promotes effective cooperation between companies and various stakeholders with a view to creating wealth and jobs, and ensuring the sustainability of enterprises Financial health;
- e) Transparency and dissemination of information: The corporate governance system should ensure that the correct information is disseminated Time, on all important topics related to the institution, especially the financial situation, results, shareholders Corporate governance;
- f) Board Responsibilities: Corporate governance should

provide strategic leadership and effective oversight for management by the Board of Directors, as well as the responsibility and the Secretariat of the Board of Directors towards companies and their shareholders. These global principles of governance have shown that members of the Board of Directors carry out two types of duties: when they do their work (Saba Khoury, 2005, p(38_40) ^[6].

g) (a) Duty of Care: It requires that the Board of Directors be vigilant and cautious and make the effort, care and care necessary to take and that the company has adequate and sound procedures and regulations. And that the company is committed to the laws Regulations and instructions.

(b) Duty of Sincerity in Action: This includes equal treatment of shareholders and transactions with interested parties and policy development Suitable for salaries, bonuses and so on. These principles call for the training and education of board members and to have the expertise and skills of Served as members to improve the functioning of the Council. Practices and mechanisms have been developed to ensure that the Governing Council issues separate substantive judgments. Especially as control has developed in the financial markets, and the world has witnessed several collapses resulting from failure Independent and objective decisions of the Board of Directors. One of the most important of these mechanisms is the creation of independent members Executives) on boards of directors. It is known that there are two schools for supervision and supervision of the company's management (Saba Khoury, 2005) namely: - p (38_40) ^[6]

1. First school: It calls for the formation of an independent supervisory board or (independent oversight committee) elected by Shareholders and controls independently of the company's executive management. This is next to the board of directors the team of shareholders. This school is practiced in some countries of the world such as Germany.

2. Second school: calls for the formation of a single board of directors including independent members next to members Executive Board, this mechanism is prevailing in the United States of America and Britain. There is no full agreement on the definition of an independent member of the Governing Council in different countries, Some of them know the person other than the manager or employee of the company or its subsidiary or any individual Another related (in the opinion of the Board of Directors) interferes with the practice of the non-executive member of his independent judgment Assume his responsibility as a member of the Board of Directors. It is not new that the Company's financial statements are the responsibility of the Board of Directors including the determination of remuneration and incentives. The presence of independent members of the board will contribute to the independent judgment of these However, the Governing Council should do its best to discharge its duties and responsibilities and in line with the principles of governance to create multiple committees emanating from him be independent. And to determine the number of its members

Their specifications, objectives and mode of operation, and to give them appropriate powers to carry out their work, given that giving The powers of the committees do not absolve the board of directors from liability. The most important committees are the Audit Committee and the Salaries and Remuneration Committee. The Audit Committee oversees the extent the effectiveness of the internal and external audit of the company, the relationship with the external auditor and the extent of his work, and her other duties. The Salaries and Remuneration Committee determines salaries, bonuses and incentives for members of the administration According to pre-established rules, and disclosure of payments to members in the annual report of the Board Administration.

In addition, the World Bank has proposed guidance and guidance for good governance in the sector Financial, due to the critical role of this sector as the main area of economic growth that measures. The International Monetary Fund - Effective Financial Policy (Dahmash, Ishaq Abu Zer, 2003, p (37_30) ^[5].

A Guide to Good Practice of Transparency in Financial and Monetary Policies for Corporate Governance (IMF) Demanding that central banks and financial institutions adopt clearer and more transparent policies that will lead Give them greater autonomy and make these institutions more accountable to the public. The aim was This helps governments to assess and improve the legal aspects and regulatory and institutional framework of governance In order to provide guidance and proposals to financial markets, investors and corporations And others who have a role in the process of developing good corporate governance (Dahmash, ishaqAbu-Zer, 2003, p (27_30) ^[5].

Governance is defined as a set of responsibilities and practices of the board and management with the objective of providing strategic guidance and ensuring the achievement of objectives and the verification of risk management (Appropriate, and use of the resources of the institution responsibly) Arab Society of Certified Public Accountants, 2001

The year 2002 to fight corruption Sarbanes-Oxley was also issued in the United States of America Act Which allows the Ministry of Justice to crack down on corporate managers And other officials who take advantage of their positions to get rich at the expense of other stakeholders, Which contributed, (Enron, World Com), after the financial scandals of the collapse of giant companies such as the company In the loss of public confidence in the published financial statements, and in looking more suspiciously at the accounting systems. And the contents of this law, which is the largest - the control in force (Switty, 2005, p (27_28)

Wray, Reform of Corporate Law in the United States 60 years ago (2006)

- a. Provide an honorable statement by the senior officials in the company on the validity of the financial statements and as Reflect the faithful and honest picture of the financial situation and the results of exploitation;
- b. Auditors should exercise their responsibilities by independently examining the financial statements of the institution and the certificate on their validity and reliability;
- c. Protecting workers against harassment and penalties that

may be exposed to them for revealing practices Suspicious.

3. Theoretical Framework of Governance

Researchers have attributed the emergence of the field of corporate governance research to the debate that was opened by both (1932) on the effects of the separation of property and decision-making functions that distinguished firms (G). Means and A. Berle Major stocks in the United States. This chapter results in the risk of diminishing the rights of small shareholders Managers who work to evade censorship. Which led to the intervention of lawmakers in the United States to protect (SEC) small shareholders through the establishment of the Securities Commission (SEC), then the Securities and Exchange Commission (SEC) The beginning of the debate on corporate governance has focused on the prognosis: Joffre, 1997, P.1652 The founders of the Corporation may acquire dividends at the expense of shareholders and other stakeholders Governance is concerned with proposing a set of tools for monitoring and motivating managers. (Stakeholders) Foundation which will restore balance to the various stakeholder groups (shareholders, creditors, wage earners, etc.) And access to the distribution of wealth created in a more equitable way to improve the effectiveness of institutions. (Bancel, 1997, p.7) [9] Although there are a number of previous works, the current conceptual framework of governance finds its source mainly in W.H. Nekling, C. Jensen and A. A. Chain, H. Demtez (Foundations of 1972).E.F. Fama (1976) and Acts (1980) Fiction ") that the institution is merely a" legal fiction "Demtez (1972) Alchain is considered both Each has an Acteurs function based on property rights, and has a number of economic actors (Juridique) Has a special benefit, and they have a set of contracts. The organization is a competitive market pattern Of reducing the number of costs, particularly the control and information costs associated with the exchange level (Cancel, 1997, p12. The Market)

They have made use of the framework of the previous analysis by introducing the concept of W.H. Meckling and M. Jensen Such as the relationship between shareholders as agents of the process, which is the Agency's Relation d'Alene of contracts or "legal imagination". In order to search for "noeud", it is not considered a "knot" Mainly, disputes between W.H. Meckling and M. Jensen explain the funding policy in the institution, studied Path, shareholders and creditors. They proceed from an initial situation, where the institution is a short-lived property. In the case of the opening of the capital of the institution to other shareholders arise agency relationship and conflict of interests, a source of "costs Agency. "This encourages the trader to increase his non-monetary discounts and reduce his incentive. Contributors can fight this harmful behavior by imposing control procedures (audit, control) on the budget) or incentives (reward system). Markets also play a controlling role in this area, on the basis that Loss of control over capital (Ie the majority) are subject to the control of the labor market, where new majority shareholders can employ a path Other, either directly by way of the right to vote, or indirectly by a board Management is also subject to the control of the financial market, where shareholders can waive their shares.

The use of leveraging allows the path-the landlord to evade the control of other shareholders, but leads to emergence another agency's relationship with creditors In order to protect their interests, creditors seek to include contractual terms or take collateral of the institution, and bankruptcy proceedings are also a control mechanism. He examines the particular case of E.F. Fama, V. Vamma, W.H. Meckling and C. Jensen Separation between ownership and decision. On the one hand, it argues that the concept of ownership is appropriate, where only factor ownership is recognized Production and believes that the control of decisions of managers is not the competence of shareholders. On the other hand, it distinguishes clearly distinguish between management and risk functions. Thus, there are two different production factors in the organization in the administrative capacity of the managers, and the second in the ability to bear risks which is assigned to the owners. So the ingredients the core of the corporate governance analysis framework is the following elements: (Simon, Joffre, 1997, P1655) [11].

Contracts, which contributes to its administrative abilities and makes decisions according to the "Noeud" - the path which is the center of "node for its own purposes;

- a. If the owner is not a short-term owner of the capital and, if recourse is made to other shareholders or creditors, does not bear all the risks, and in this case arises a conflict of interest which is a source of costs agency;
- b. Various external and internal oversight mechanisms have a role in reducing agency costs.

4. The Importance of Governance for Banks

- a) The importance of governance for banks can be summarized in the following this points (Dahmash, Isaac Abu Zer, 2003, p: (27_30) [5].
- b) Corporate governance is a system under which banking operations are directed and controlled;
- c) Good corporate governance is a key element in improving the economy and bad governance. On the contrary, especially banks can make it more stable economically and financially. A good example of this is what happened in the Asian financial crisis. There are key managers and senior management in banking governance (discussed below);
- d) The Central Bank has a role in promoting and encouraging corporate governance in commercial banks for reasons next:
 - 1) The enforcement of good corporate governance is part of the supervisory responsibility of the central bank
 - 2) Commercial banks are different from other shareholding companies because the nature of their business carries As well as the, the fact that these banks are responsible for the third party funds (depositors);
 - 3) As a result of the circulation of shares of banks in the securities market and exposure to the risk of banking is considered important and necessary for banks
 - 4) This does not mean that the Board of Directors has to develop plans and risk-taking policies by itself, but must It must ensure and ratify such policies;
 - 5) We must admit that it is not easy to get board members independently Real, or members who can stand in the way of controlling shareholders the bank;

- 6) There is also the risk of appointing board members called "semi-independent" to give Wrong impression of corporate governance.

5. Basel Committee and Corporate Governance of Banks

In September 1999, the Basel Committee on Banking Supervision issued a bulletin titled "Enhancing Corporate Governance for Banking "As part of the ongoing efforts to address the subjects of banking supervision, the Basel Committee has been active (Organisations For banking supervision to obtain the combined supervisory experience of its members and others, which consisted in issuing a directive Supervising in order to speed up safe and reasonable banking practices. Supervision cannot work well if it is not corporate governance works according to the planned framework. Banking supervisors therefore have a strong interest in Ensure effective corporate governance in each banking organization, as supervisory expertise emphasizes the need for appropriate levels of accountability and check balances at each bank. Acceptable corporate governance makes it work Administrators are easier. It also helps to create collaborative working relationships between the Bank's management and supervisors. (30) Dahmash, Isaac Abu Zer, 2003, p. (27_30) [5] The Basel Committee has issued several working papers on specific topics, focusing on the importance of governance (30). These institutional papers include Miley (Dahmash, Isaac Abu Zer, 2003, p (27_30) [5].

- a) Interest rate risk management principles (September 1998)
- b) Improving the Bank's transparency (September 1998)
- c) Framework for internal control systems in banking organizations (September 1998)
- d) Principles of Credit Risk Management (May 1998)

These papers have shown that strategies and technical methods are essential for sound corporate governance: Within the banking system consists of several elements, including (Bank of Alexandria, 2003

- 1) availability of a working manual and standards of appropriate conduct, and a system for measuring compliance with these standards;
- 2) The availability of a clear strategy for the institution, on the basis of which the success of the establishment as a whole and the extent of the contribution of individuals are measured This success;
- 3) Proper distribution of responsibilities and decision-making centers, including a hierarchical system of gradual accreditation authorities From individuals to the Board of Directors;
- 4) Develop a mechanism for cooperation and interaction between the Board of Directors, senior management and audit;
- 5) Strong internal control systems, including internal and external audit functions, and risk management functions;
- 6) Special control of risk centers in locations where there is a potential for conflict of interest, including Working relationships with borrowers associated with the Bank, senior shareholders, senior management and decision makers Key in the organization;
- 7) Financial and administrative incentives for senior management that achieve work in an appropriate manner,

as well as for employees Were in the form of bonuses, upgrades or any other form;

- 8) Suitable flow of information both inside and outside the bank. Corporate Governance The Basel Committee has also referred to corporate governance on the following (Hachad, 2004, p. 189_190, Governance and Oversight
- a) The approval of the board of directors of the bank or one of the competent committees as well as the senior management must be obtained All material aspects of the classification and recognition processes must be generally understood by those parties For risk classification and a detailed concept of accompanying management reports To the Board of Directors or its competent committee for any material changes or exceptions to the policies that may be materially affected On the Bank's rating system.
- b) Senior management should have a good idea of the design of the classification system and how it works, and it must agree on the physical differences between established procedures and actual practice, and the management must also be assured constantly of the safety of the system work.
- c) Internal classification should be an integral part of the reporting process of those Parties. Reports must be included the degree of risk according to degree, the change between degrees of exposure, the assessment of the relevant criteria for each degree, and compare the default rates against expectations. The frequency of reporting may vary depending on the importance and type of information and the level of the reporting entity.

The basic elements of supporting the proper implementation of governance within the banking system these papers indicated that there are a number of essential elements that must be met to support proper application for the governance of the banking system, see below (Bank of Alexandria, 2003) [3]

1. Strategic objectives are a set of principles in banks that must be known by working staff
- a) IT is difficult to manage banking activities without the presence of strategic objectives or principles of management can be guided Therefore, the Board of Directors should develop strategies that enable it to direct and manage activities As well as to develop the principles of the institution, whether those related to the Council Himself, the senior management or the rest of the staff, and these principles must emphasize the importance of the discussion Explicit and timely problems facing the institution, especially these principles should be able to prevent Corruption and bribery in activities related to the institution, whether for internal transactions or transactions Foreign Affairs;
- b) The Board of Directors must ensure that senior management implements policies that prevent or restrict practices And relationships that weaken the efficiency of governance implementation such as:
 - 1) Granting preferential treatment to certain parties that have special status with the Bank as loan grants

- on terms or coverage of losses associated with transactions, or waiver of commission;
- 2) Staff lending and other forms of internal transaction without regard to the conditions that must be met When granting loans (for example, internal lending to employees should be granted to the institution on terms Market, and be limited to specific types of loans, with special reports of lending process to the Board Management to be reviewed by internal and external auditors.
2. Develop and implement clear corporate responsibility policies: An efficient board of directors must identify the primary powers and responsibilities of the board as well as senior management. And prepare Senior management is responsible for determining the different responsibilities of staff according to their career progression taking into consideration they are ultimately accountable to the board of directors for their performance.
 3. Ensuring the efficiency of Board members and their awareness of their role in the governance process and not being subjected to any Effects both external and internal.
 - a. The Board of Directors is fully responsible for the Bank's operations and the financial strength of the Bank the Board of Directors must have sufficient instantaneous information to enable it to judge management performance, even Identify deficiencies and thus be able to take appropriate action.
 - b. A sufficient number of members of the Council shall have the power to render judgments independently of Management vision, senior shareholders or even governance. Independence and objectivity can be strengthened Through the use of non-executive members, an observer board or a board of auditors other than a board Administration.
 - c. These members can benefit from the experience of other institutions in the administration that will Development of corporate management strategies;
 - d. In some countries, the Board of Directors of the Bank prefer to establish some specialized committees such as:
 - 1) Risk Management Committee: which oversees senior management activities in relation to risk management Related to credit, market, liquidity and other types of risks. This requires that you receive The Committee periodically reviews information from senior management on risk management activities.
 - 2) Audit Committee: It supervises the Bank's internal and external auditors The authority to approve their appointment or dispense with them, and to approve the scope and periodicity of the review, as well Receive reports from them, and also verify that the bank's management is taking corrective action Timely compliance with poor oversight and violations of policies, laws, regulations and others Of the problems identified by observers. To enhance the independence of this Committee, it should include members from outside the bank to have banking or financial experience.
 - 3) Remuneration Committee: supervises the

remuneration of senior management and other administrative responsibilities, and ensure that these rewards are consistent with the Bank's systems, objectives, strategy and environment.

- 4) Nomination Committee: Nominates members of the Board of Directors and directs the process of replacement of Board members.

6. Ensuring Adequate Monitoring by Senior Management

Senior management is an essential element of governance, while the Board of Directors exercises a supervisory role vis-a-vis members of management senior management, senior management should exercise their role in supervising the executives present at Throughout the Bank. The senior management consists of a core group of bank officials and this group must including individuals such as Finance Manager, Section Chiefs and Audit Director.

Making effective use of the work done by internal and external auditors in recognizing the importance of the function Control. The role played by auditors is vital to the governance process. So the board of directors and senior management Recognize the importance of the review process and work to raise awareness of this importance to all employees of the Bank, and take action In order to support the independence and status of the auditors by reporting directly to the Board of Directors, the Audit Committee, And to make effective use of the findings of reviewers, while working to address the problems identified by them Auditors, as well as make use of the work of reviewers in conducting an independent review of the information they receive from Management of the Bank's activities and performance.

Ensure that incentive systems comply with the Bank's regulations, objectives, strategy and environment. The Board of Directors shall approve the remuneration of senior management members and other officials, and ensure That these rewards are commensurate with the Bank's systems, objectives, strategy and the surrounding environment, thereby stimulating senior management And other responsible figures to do their utmost in favor of the bank, and wage systems should be placed in The policy scope of the bank so as not to depend on the performance of the bank in the short term in order to avoid linking incentives in size The risks borne by the bank.

7. Transparency in the Implementation of Governance

The performance of the Board and senior management cannot be accurately assessed in the case of lack of transparency and this occurs when it cannot Stakeholders, market participants and the general public have access to adequate information about the structure and objectives So that market participants can assess the integrity of their transactions with banks where they are able to Know and understand the adequacy of capital in banks at the right times, and therefore will go to the banks Which apply good governance practices and have the necessary financial efficiency, while they will depart from those banks which are making large risks without adequate allocations, and may turn away from those banks that do not will bear enough risk to maintain its competitiveness. Transparency is therefore required to support the proper application of governance, and disclosure should therefore

include the structure of the Board (Number, membership, qualifications, committees), senior management structure (responsibilities, qualifications, experience), and structure (Legal structure, functional structure), information on the Bank's incentive system, and the nature of activities carried out by subsidiaries.

8. Role of Regulatory Authorities

- a) Supervisory authorities should be fully aware of the importance of governance and its impact on the performance of the institution. You should expect banks to create regulatory structures with appropriate levels of control, as they should. The supervisory authorities shall ensure that the board of directors and senior management in the banking institutions are able to do their duties and responsibilities as they should.
- b) The Board of Directors of the Bank and the senior management of the Bank are primarily responsible for the performance of the Bank. The regulatory authorities review to ensure that the bank is managed in an appropriate manner, and draw the management's attention to any problems that may arise during the control process, and the regulatory authorities should set up a board. The administration shall take account of the claim and demand for corrective action in a timely manner. The Bank is exposed to risks that cannot be measured or controlled. Regulatory authorities should also be alert to any early warning signs of deterioration in the management of the Bank's activities, they should consider issuing directives to banks on the proper application of governance.
- c) It is necessary for the regulatory authorities to ensure that banks conduct their business in a manner that does not detract from the interests of depositors. From the foregoing it is clear that the primary responsibility for the proper application of governance in the banking system lies with the Board of Directors. However, the Basel Committee stresses the need for an appropriate environment to support the proper application of governance. The banking system, such as the laws and legislations that the government issues and which will protect shareholders' rights, ensuring that the Bank is active in an environment free from corruption and bribery, setting standards for auditing, etc.

9. The reality of bank governance in some Arab countries

Governance in some Arab countries because of their importance in the economic stability of countries and lead to their development and prosperity and at the present time increased interest in and especially in the Arab countries.

Banks Governance in Egypt

Egypt was considered the first Arab country to conduct an assessment of its corporate governance practice by the World Bank and the International Monetary Fund in 2001. The results of this evaluation indicated that the rules governing corporate governance and applied in Egypt are in line with international principles in the context of 40 principles of a total of 48 principles (Bank(Alexandria, 2003) [3]. Studies indicate that the implementation of the rules of governance in Egypt has witnessed a remarkable development in the period

from 2000 to March 2003, where Egypt's assessment of compliance with the principles of governance rose to 80% in March 2003, by 62% in 2000, resulting in an improvement in the overall assessment of the level of these rules as the number of standards that are fully or substantially consistent with international standards increased from 40 standards in the September 2001 evaluation to 45. In March 2003

Some believe that the government's method has been applied in all Egyptian banks, led by major public banks. During inspection and audit departments, the necessary mechanisms are updated and developed to achieve optimal method. To apply transparency in banking, the banking market has seen the start of the implementation of the banking system modernization program which was launched by the government in cooperation with the Central Bank of Egypt during the last quarter of 2002, where the program started. Wide changes in the heads and members of the boards of directors of public banks to be occupied by qualified people and international expertise which is capable of activating the overall development movement in the banking system, which leads to raising the level of performance in the banks (Bank(Alexandria, 2003) [3].

Banks Governance in Algeria

Since 1990, the public authorities have begun to make structural adjustments to the banking sector in order to prepare for the work in accordance with the mechanisms of market economy and quality of banking services and create competition between banks, and among the most important banks but the most important characteristic of these. BCIA emerged after this period we find the bank successor and the Algerian Industrial and Commercial Bank. The stage of the Bank of Algeria's control of these banks before and after the start of its activity, which led these banks to fall into financial crises rocked the Algerian banking sector.

The problem of these two financial banks is the result of many reasons, most important of which is the opening of investment in the financial sector to non-people. This was the case of Al Khalifa Bank, which was founded in 2000 (Guernaout, 2004, p (40) 1998 by the owner of Mr. Al-Khalifa to Aroussi, who is even a pharmacist and if he is on the basis of adventure, has presented this bank banking services and products that Algerian depositors did not receive such as high interest rates on time deposits, (Cartes d'achats) Bank cards, hard currency accounts, loan facilities, purchase cards, Customer's salary, etc., all in order to attract the largest number of customers. This bank has also offered special and attractive offers on deposits of public institutions, public bodies and social security. Which characterized the monitoring function of the Bank of Algeria at the beginning of the activity of Mauvaise Gouvernance that poor governance is one of the most important causes of the financial crises faced by the two banks, as noted by the banking committee BCIA Khalifa (Guernaout, 2004, p (43). In one of its memoranda relating to censorship and inspection activity) Poor governance has emerged through the shortcomings identified in the above note regarding Al Khalifa Bank as follows.

- a) Failure to respect the accounting procedures of the institution;
- b) Delays in reporting to Bank of Algeria;

- c) irregular review of settlement files;
- d) Lack of follow-up and control;
- e) Lack of respect for the rules of caution.

Al Khalifa Bank has faced a difficult situation with regard to the movement of deposits and accounting position and thus inability to repay Customer receivables. Therefore, after the decision to liquidate the bank, the authorities took several measures to guarantee rights (Société de Garantie des Dépôts) depositors, where the deposit insurance company 600, 000 dirhams for all depositors, which was not enough, forcing the bank's liquidator to carry out a second action which is clearance Accounts and sale of bank assets. Which was adopted in September 1998 by B C I A the same thing happened with the Industrial and Commercial Bank of Algeria Contrôle Intégral Bank of Algeria. Within the framework of the monitoring program, the Bank of Algeria stakeholders have carried out comprehensive monitoring Where B C I A at the level of Controlee Sur Place in 2001 with a number of on-site inspections

Inspectors found many violations of the legal and regulatory rules for banking activity, including:

- a. Lack of respect for the good management of the profession (banking management), especially with regard to the handling of non-checks Paid;
- b. insufficient current account of the Bank with the Bank of Algeria;
- c. Absence of compulsory reserve.
- d. Excessions of exchange laws.

The ease with which these banks have access to resources and the absence of supervision by the Bank of Algeria has prompted them to carry out non-performing returns as funding for sports clubs, managers and shareholders in the bank have been granted loans that often go beyond risk The limits stipulated by the laws (such as the loan does not exceed 20% of the private funds and others) add to that absence Experience in the field of banking management and the absence of control within the bank as well as the control of the Bank of Algeria, where total loans increased of private banks from 39.7 billion dirhams in 2001 to 181.3 billion dirhams in 2002, which is a rise By 356.6%. In addition, there are other factors such as poor portfolio risk exposure and investment financing Through short-term loans and inappropriate interest rates, which was one of the main causes of the financial crisis This is why the authorities liquidated these two banks after declaring their inability to do so (Guernaout, 2004, p 40 Payment. The troubles of the private banking sector are continuing as the banking committee, one of the bank's agencies, Algeria, together with the Board of the Loan and Cash Committee, decided on 27 December 2005 to withdraw the accreditation granted to "99 dated 28 October 1999 issued by the Governor of the Bank / the Algerian Company of the Bank "under Decision No. 02 Algeria and put the bank under liquidation and appointing liquidators to carry out liquidation operations The bank's insolvent nature, which was exacerbated by the Bank's shareholders' recognition of their inability to form the required capital, The Committee also examined the continuity of the bank's liquidity situation and thus proved that the bank had ceased to pay. The bank's new

decision is the fifth of its kind to affect a private bank after each bank Khalifa, Algeria's Industrial and Commercial Bank, Union Bank and Algeria's World Bank Private banks have Algerian capital to two main banks, Arco Bank and Mona Bank (Al Khobar, 2005). As the tracker For the performance of public banks in Algeria, they find that they are not at their best, as they suffer continuously from the problem of non-performing loans Which exceeded 1200 billion and granted to public economic institutions also suffer from weak internal control Foreign Affairs. And what we have learned from the newspapers of the suspicious operations in these banks for the best proof of this (the issue of papers Which exceeded the 1000 billion BADR commercial "courtesy" deducted by the Bank of Agriculture and Rural Development(Al-Khobar, 2005) [7, 8]. Some also point out that the problem of banks in Algeria is due to the environment and policies applied in Algeria The banking and financial field, they do not apply the full rules of caution adopted including "Cook ratio" and that there are banks public that has reached the limit of bankruptcy in accordance with the rules in force internationally, making it subject to Article 715 bis 20 of Algerian commercial law, which stipulates that the institution becomes bankrupt if its net assets become less than a quarter of a head (Malha, Khobar, 2005) [7, 8].

10. Conclusion

Practical experiences in the United States, Russia and South East Asia have shown the importance of commitment serious approach to good corporate governance. It also showed that the availability of a sound and healthy financial system requires availability and understanding and knowledge of good corporate governance systems and risk management in corporate departments, especially banks, which contributes In supporting corporate policies and helping to enhance investor confidence and provide a more stable investment structure. For the government in banks, it requires developing countries, including Arab countries:

1. Developing its legislation in accordance with international best practices and preparing the necessary legal and regulatory frameworks for its implementation, Relating to the relevant Basel Committee guidance;
2. Appointment of independent non-executive members of the Board of Directors with sufficient number to ensure balance within the Board Are not subject to the authority of the Bank or its principal shareholders. They must also preserve the rights of the minority shareholders And foreigners;
3. The formation of committees emanating from the (Board of Directors) to be constituted Of non-executive members;
4. Provide financial reports on the financial position and results of business to shareholders and investors on a semi-annual basis and reports Annual;
5. The need to inform the financial market of any significant recent developments, as well as its publication in newspapers and on its website;
6. The role of central banks by focusing on encouraging banks to disclose the extent to which they apply the principles of good governance issued by the banks Basel Committee;
7. Preparation and implementation of training and training

programs for individuals in governance, at the level of banks and central banks;

8. Governments are not competent to pass laws on corporate governance, but attention should be given to creating a political environment And the appropriate economic framework for its application, that is, the environment that guarantees the rule of transparency and the rule of law

11. References

1. Al-Swaiti Salameh Musa. Rebuilding Confidence in Published Financial Statements, Journal of the Auditor, Jordan Accountants Association. 2005; 22; 27-21.
2. Arab Society of Certified Public Accountants, monthly electronic bulletin, 2004, 53.
3. Bank of Alexandria, Supporting Governance in the Banking System, Economic Bulletin. 2003; 35:11-1.
4. Habad Nabil, Guide to Basel II, Encyclopedia of Basel, Part One, Union of Arab Banks, Beirut, 2004, 190-189.
5. Dahmash Naim, Isaac Abu-ZerAfaf. Improvement and Development of Institutional Governance in Banks, Journal of Banks in Jordan. 2003; 10(22):27.
6. Saba Khoury Naim. Corporate Governance and the Role of Independen Directors in the Company, Journal of the Auditor, Association - Jordanian Accountants. 2005; 40(22):38-27.
7. Al-Khobaraluwam Algeria newspaper, 2005.
8. Al-Khobaraluwam Algeria newspaper, 2005.
9. Bancel Franck. La gouvernance des entreprises, Economica, Paris, 1997.
10. Ghernaout M. Crisesfinancières et faillites des banquesal gériennes, Edition GAL, Alger, 2004.
11. Simon Yves. Joffre Patrick (sous la dir.), Encyclopédie de gestion, 2ème éd, Economica Paris, 1997.
12. Wray Christopher, La répression de la délinquance financière des sociétés,
13. www.usinfo.state.gov./journals/ites/0205/,consultable 07/01/2006.